Audit Strategy Memorandum

Argyll and Bute Council

Year ending 31 March 2023

Contents

Audit and Scrutiny Committee
Argyll and Bute Council
Kilmory
Lochgilphead Argyll
PA31 8RT

Mazars LLP
100 Queen Street
Glasgow
G1 3DN

April 2023

Dear Audit and Scrutiny Committee Members

Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for Argyll and Bute Council for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Argyll and Bute Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit, and explains the implications of the introduction of the new auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07813 752 053 or via cameron.waddell@mazars.co.uk.

Yours faithfully

Signed: CWaddell

Cameron Waddell (Partner)

Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Argyll and Bute Council (the Council) for the year to 31 March 2023. The scope of our engagement is set out in the Code of Audit Practice, issued by the Auditor General and the Accounts Commission available from the Audit Scotland website: [Code of Audit Practice 2021 | Audit Scotland (audit-scotland.gov.uk)](). Our responsibilities are principally derived from the Local Government (Scotland) Act 1973 (the 1973 Act) and the Code of Audit Practice, as outlined below.

Audit opinion

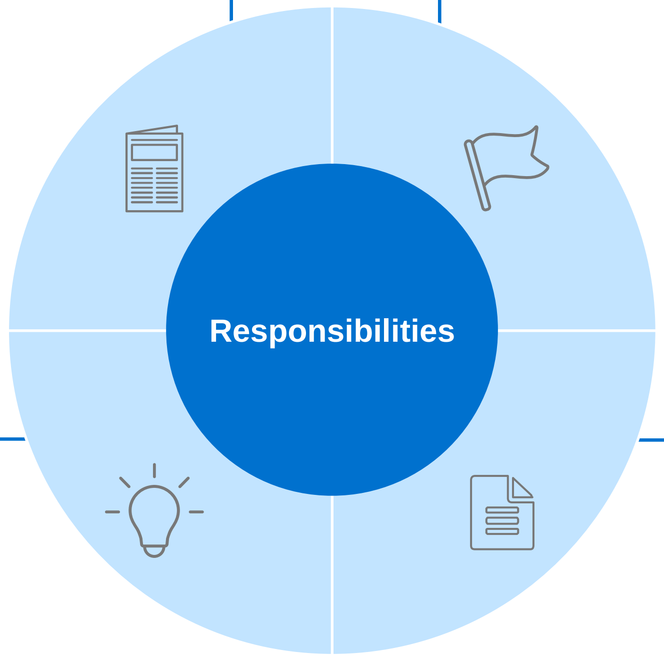
We are responsible for forming and expressing an independent opinion on whether the financial statements are prepared, in all material respects, in accordance with all applicable statutory requirements. Our audit does not relieve management or the Audit and Scrutiny Committee, as Those Charged With Governance, of their responsibilities.

The Section 95 Officer is responsible for the assessment of whether is it appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Section 95 Officer's use of the going concern basis of accounting in the preparation of the financial statements.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of Those Charged With Governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.



Wider scope and Best Value

We are also responsible for reviewing and reporting on the wider scope arrangements that the Council has in place and its arrangements to secure Best Value. We discuss our approach to wider scope and Best Value work further in [section 5] of this report.

Wider reporting

We report to the National Audit Office on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. The level of auditor assurance required depends on monetary thresholds set by HM Treasury.

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Below is your audit engagement team and their contact details.

Cameron Waddell

Engagement Partner

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Team Leader

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03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

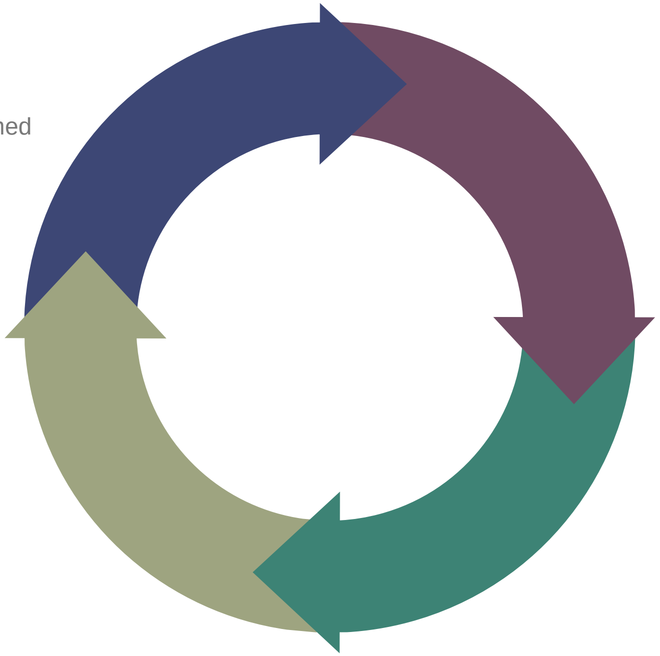
3. Audit scope, approach and timeline

Planning and Risk Assessment (January to April 2023)

- Planning visit and developing our understanding of the Council
- Initial opinion and wider scope risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Interim (March to June 2023)

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary



Completion (November 2023)

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit and Scrutiny Committee
- Reviewing subsequent events
- Signing the independent auditor's report

Fieldwork (July to October 2023)

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Reliance on internal audit

We are planning to undertake a fully substantive approach to our audit. Therefore, we do not intend to rely on the work of internal audit. However, we will review their work and it to inform our assessment of the control environment and we will modify the nature, extent and timing of our audit procedures.

We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the [Council] that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have not identified any relevant service organisations.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson *(Strathclyde Pension Fund)*	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries.
Property, plant and equipment valuation	Council's in-house valuer	We will review the analysis of property valuation movements available from third parties and consider the outcome of the Council's valuations in comparison with these, challenging conclusions as appropriate. We have also engaged the Mazars Real Estates Valuation team to assist with the above. Our in-house valuation team will review the Council's valuation methodology.
Financial instrument disclosures	Link Asset Services (formerly Capita)	No expert required.

3. Audit scope, approach and timeline

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Council has considered its material interests in other entities and determined that group accounts are required which will consolidate its interests. This section sets out the planned work in respect of those entities which we refer to here as components.

Group materiality

Our assessment of group materiality is set out in section 8.

Assessment of components

We assess the significance of the components as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether a component exceeds a minimum of 15% of key benchmarks (income, expenditure, assets and liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the first table in this section overleaf.

Nature and scope of planned work

The second table in this section sets out the estimated proportion of each component, relative to the overall group, as well as the nature and scope of planned work. Note that these are estimates and we will update our assessment for any significant changes. This work is in addition to our review of group-wide controls and the consolidation process.

Planned procedures are split into the following categories:

- full scope audit;
- limited or specific review; and
- other audit procedures, including group analytical procedures.

Components being treated as 'significant' and subject to a full scope audit or specific audit procedures are:

- the Council; and
- Live Argyll.

Analytical procedures at Group level will be carried out for the remaining components; the objective of the analytical procedures is to critically corroborate the group engagement team's conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components.

3. Audit scope, approach and timeline

Group audit approach (continued)

Entity	Nature of component / ownership	Auditor	Significant in terms of benchmarks?	Significant risk of material misstatement?	Commentary
Argyll and Bute Council (parent)	Parent – local authority.	Mazars LLP	Yes	Yes	Full audit of ultimate parent.
Argyll and Bute Integration Joint Board	Joint venture between the Council and NHS Highland with responsibility for health and social care functions.	Mazars LLP	No	No	Not a significant or material component. No assurance required from the component auditor.
Dunbartonshire and Argyll & Bute Valuation Joint Board	Joint Board responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils.	Mazars LLP	No	No	Not a significant or material component. No assurance required from the component auditor.
Strathclyde Partnership for Transport	Joint Committee to promote joint working, setting the policy framework for the effective management, development and integration of transport through the Joint Transport Strategy.	Audit Scotland	No	No	Not a significant or material component. No assurance required from the component auditor.
Strathclyde Concessionary Travel Scheme Joint Committee	Joint Committee of Councils that oversees the operations of the concessionary fares scheme for public transport within its area.	Audit Scotland	No	No	Not a significant or material component. No assurance required from the component auditor.
Live Argyll	100% owned subsidiary of the Council, which provides a wide range of services within the area including libraries, leisure facilities, halls, sports development and community centres.	Mazars LLP	No	Yes	Significant risk of material misstatement linked to gross pensions assets and liabilities.
Common Good Accounts	The Council administers the Common Good Accounts for several former Burghs.	-	No	No	Not a significant or material component. Testing undertaken in relation to material balances via disclosures in Council's accounts..

3. Audit scope, approach and timeline

Group audit approach (continued) – using 2021/22 financial statements balances and transactions

Component	% of Group Assets	% of Group Net Assets	% of Group Revenues	% of Group Expenditure	Nature and scope of work
Argyll and Bute Council	96.6%	95.2%	92.7%	97.5%	**Full scope audit**
Argyll and Bute Integration Joint Board	1.2%	2.0%	4.1%	0.0%	Analytical procedures at group level
Dunbartonshire and Argyll & Bute Valuation Joint Board	0.1%	0.2%	0.8%	0.4%	Analytical procedures at group level
Strathclyde Partnership for Transport	0.7%	1.1%	0.5%	0.2%	Analytical procedures at group level
Strathclyde Concessionary Travel Scheme Joint Committee	0.0%	0.0%	0.1%	0.0%	Analytical procedures at group level
Live Argyll	0.3%	(0.3%)	1.8%	1.9%	Audit of one or more account balances, classes of transactions or disclosures. i.e. pensions related transactions, balances and disclosures.
Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilphead, Inveraray, Cove and Kilcreggan	1.1%	1.8%	0.0%	0.0%	Analytical procedures at group level
Total	**100%**	**100%**	**100%**	**100%**	

3. Audit scope, approach and timeline

Audit of trusts registered as Scottish charities

The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The 2006 Regulations require charities to prepare annual accounts and an auditor to prepare a report to the charity trustees where any legislation requires an audit.

The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a Council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees.

Members of the Council are the sole trustees for 7 trust funds registered as Scottish charities, with total assets of circa £800,000. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The Council is proposing to prepare one set of consolidated accounts for all 7 trust funds this year.

We have not identified any significant risks, other than the risk of management override of controls which we have also identified as a risk for the Council's annual accounts, for the financial statements of the Council's charitable trusts.

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

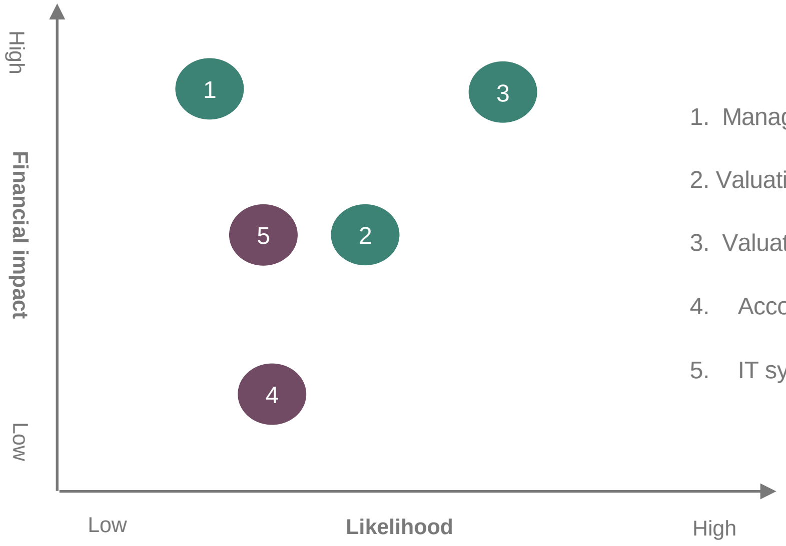
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



1. Management override of controls
2. Valuation of the net defined benefit liability
3. Valuation of property, plant and equipment
4. Accounting for PFI and PPP contracts
5. IT system change

Key: Significant risk   Enhanced risk / significant management judgement

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Scrutiny Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. We will address the risk through performing audit procedures, covering a range of areas including (but not limited to): • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit liability/surplus valuation** As at 31 March 2022, the net defined benefit surplus was £4.6 million. The valuation of the Council's net liabilities includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data. Due to the high degree of estimation uncertainty associated with the valuations, we have determined there is a significant risk in this area.	○	●	●	We will address this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary by the fund administrators (Strathclyde Pension Fund). We will also: • assess the skill, competence and experience of the Fund's actuary; • challenge the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; • carry out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	**Other land and buildings valuation** As at 31 March 2022, the Council owned £415 million of other land and buildings which are subject to revaluation. The Code requires that the carrying value should reflect the appropriate fair value as at the year end. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value. Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.	○	●	●	We will evaluate the design and implementation of any controls which mitigate the risk. This includes liaising with management to update our understanding on the approach taken by the Council in its valuation of land and buildings. We will: • assess the scope and terms of engagement with the Valuer; • assess the competence, skills and objectivity of the Valuer; • assess how management use the Valuer's report to value land and buildings included in the financial statements; • test the accuracy of the data used in valuations; • challenge the Council and Valuer's assumptions and judgements applied in the valuations; • review valuation methodology used, including the appropriateness of the valuation basis; and • consider the reasonableness of the valuation by comparing the valuation output with market intelligence. We have also engaged the Mazars Real Estates Valuation team to assist with the above.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
4	**Accounting for PFI and PPP contracts** The Council currently operates three Private Finance Initiative (PFI), or similar, contracts which are accounted for as Service Concession arrangements under IFRIC12 – Service Concession Arrangements. The Council has determined that in the case of the Schools NPDO contract and the new Schools DBFM contract, the Council has control over the services provided through use of the schools and that a qualifying asset has been created. Therefore, the assets are included on the Council's Balance Sheet along with a finance lease liability. The Council also operates a Waste Management PPP contract. In this case the Council determined that a "qualifying asset" has not been created and that the Council does not have significant control over the services being provided. Therefore, the asset has not been included on the Council's Balance Sheet and payments to the contractor are charged to the appropriate service line within the Comprehensive Income and Expenditure Account. The method of accounting for PFI and PP assets can be complex and involves management judgement as set out in Note 3 to the financial statements. Therefore, there is a potential risk of material misstatement if the Council fails to appropriately account for these assets.	○	●	●	We will review the Council's adopted approach for accounting for its PFI and PPP schemes.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
4	**IT system change** During the year, the Council changed its core financial accounting system to Fusion. At the time of implementation the Council undertook detailed mapping and matching exercises to ensure that 2021/22 balances and 2022/23 transactions were accurately and completely transferred from the old to the new system.	○	●	○	We will undertake a high-level assessment of the data migration governance to address the completeness and accuracy of the system implementation. As part of our work we will undertake sample testing of balances being transferred between the systems to ensure its completeness and accuracy.

05

Section 05:

Wider scope and Best Value

5. Wider scope and Best Value

The framework for wider scope work

The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. We are required to form a view on the adequacy of the Council's arrangements in four areas:

1. **Financial management**
2. **Financial sustainability**
3. **Vision, leadership, and governance**
4. **Use of resources to improve outcomes.**

Our approach

Our planned audit work against the four wider scope areas is risk based and proportionate. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses. We will carry out more detailed work where we identify significant risks. Where significant weaknesses are identified we will report these to the Council and make recommendations for improvement. In addition to local risks, we consider challenges that are impacting the public sector as a whole.

Best Value

Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work. Best Value at the Council will be assessed over the period of the audit appointment. We will also follow up previously reported Best Value findings to assess the pace and depth of improvement. This work will be integrated into our audit approach, including our work on the wider scope areas.

We will also conduct thematic reviews as directed by the Accounts Commission. In 2022/23 this will be on the effectiveness of council leadership in developing new strategic priorities following the elections in May 2022. We will prepare a separate management report to document the findings of this work.

At least once every five years, the Controller of Audit will report to the Accounts Commission on the Council's performance in meeting its Best Value duties. The Council is not included in the first year of the programme which runs from October 2023 to August 2024.

Financial management	Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Auditors consider whether the body has effective arrangements to secure sound financial management.
Financial sustainability	Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. Auditors consider the extent to which audited bodies have shown regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so that it can continue to deliver services.
Vision, leadership and governance	Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation. Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. They also consider the effectiveness of governance arrangements for delivery.
Use of resources to improve outcomes	Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. Auditors consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.

5. Wider scope and Best Value

Wider scope risks

The Code of Audit Practice requires us to consider the significant audit risks in areas defined in the Code as the wider scope audit.

Although we have not fully completed our planning and risk assessment work, the table below outlines the wider scope audit risk that we have identified to date. We will report any further identified risks to the Audit and scrutiny Committee on completion of our planning and risk identification work.

We will also follow up the Council’s progress in addressing recommendations from previous years.

	Description	Financial management	Financial sustainability	Vision, leadership and governance	Use of resources to improve outcomes	Planned procedures
1	**Financial Sustainability** Councils continue to face significant financial challenges with pressures on funding and increasing demand for services. As per the *Revenue Budget Overview 2023-24 to 2027-28* report presented to Full Council in February 2023 the Council anticipates delivering a balanced position for 2023/24. However, budget estimates anticipate an in-year budget gap of £7.9 million for 2024/25, rising to a cumulative budget gap of £28.4 million by the end of 2027/28 based upon a ‘mid-range’ scenario. The Council’s ‘worst case’ scenario highlights a potential £65.4 million cumulative budget gap by the end of 2027/28. This represents a risk in relation to financial sustainability, impacting on the future provision of services in the Council’s area.	○	●	○	○	As part of our audit we will review the Council’s: • medium to long term financial strategy; • financial position and track record in delivering planned recurrent and non-recurrent savings in 2022/23; • financial performance in 2023/24 and updates to its financial planning during the year, including the implications for general reserves balances; • regular reporting to Members on financial performance, savings plans and financial risks; and • progress in developing plans to address future years budget gaps.

5. Wider scope and Best Value

National risk areas under scope of audit in 2022/23

Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change. There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets. All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support. Audit Practice requires us to consider the significant audit risks in areas defined in the Code as the wider scope audit.

Public audit has an important and clear role to play in helping drive change and improvement in this uncertain and evolving area of work; supporting public accountability and scrutinising performance; and helping identify and share good practice. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For 2022/23 audits, we are required to provide answers to the questions set out in the following table which are intended to gather basic information on the arrangements for responding to climate change in each body:

- What targets has the Council set for reducing emissions in its own organisation or in its local area?
- Does the Council have a climate change strategy or action plan which sets out how the body intends to achieve its targets?
- How does the Council monitor and report progress towards meeting its emission targets internally and publicly?
- Has the Council considered the impact of climate change on its financial statements?
- What are the areas of the financial statements where climate change has, or is expected to have, a material impact?
- Does the Council include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

National risk areas under scope of audit in 2022/23 (continued)

Cyber security

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyberattack can have on both the finances and operation of an organisation.

For 2022/23 audits, auditors are advised to consider risks related to cyber security at audited bodies. However, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission consider that meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

At this stage of the audit we are planning a divergence from the expected fees set by Audit Scotland due to the need to undertake additional testing associated with the transition to a new financial ledger system during 2022/23. The breakdown of the fee is set out in the table below.

	2022/23 Proposed Fee	2021/22 Actual Fee
Auditor remuneration	237,440	172,150
Pooled costs	0	17,940
Contribution to PABV costs	57,770	72,830
Audit support costs	9,000	9,190
Sectoral cap adjustment	2,030	0
Total expected fee	**306,240**	**272,110**
Additional testing required to reflect the transition to a new ledger in 202/23	**4,225**	**-**

We have taken account of the risk exposure of the Council and the management assurances in place. We have assumed that the Council has effective governance arrangements and will prepare comprehensive and accurate accounts and working papers for audit in line with the agreed timetable for the audit. We reserve the right to charge a supplementary fee where our audit cannot proceed as planned. An additional fee will be required for any other significant exercises not within our planned audit activity.

Fees for audit of Charitable Trusts

The audit fee in table above does not include the cost of auditing the Council's 7 charitable trusts. We propose setting a fee for the audit of these of £6,500.

Services provided to other entities within the Council's group

In addition, to auditing the Council's 7 charitable trusts, we are providing audit services to the following entities in the Council's group:

- Argyll and Bute Integration Joint Board (total fee of £31,470)
- Dunbartonshire and Argyll & Bute Valuation Joint Board (total fee of £8,790).
- Live Argyll (estimated total fee for 2022/23 of £16,000).

07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Annual Audit Report.

08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Council Initial threshold £'000s	Group Initial threshold £'000s
Overall materiality	8,907	8,997
Performance materiality	5,344	5,398
Specific materiality: Remuneration Report	£1 for senior councillors and senior employees' remuneration and pensions benefits 1 banding for Employees' remuneration 1 banding for exit packages	
Trivial threshold for errors to be reported to the Audit and scrutiny Committee	267	269

Charitable trust	Overall materiality	Performance materiality	Trivial threshold
Based upon audited 2021/22 accounts	£15,500	£9,300	£465

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

8. Materiality and misstatements

Materiality (continued)

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure at surplus/deficit level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Scrutiny Committee.

We consider that Gross Revenue Expenditure at surplus/deficit level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross revenue expenditure at surplus/deficit level. Based on the audited 2021/22 financial statements, we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £8.907 million (Council) and £8.997 million (Group).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. For a first-year audit, our initial assessment of performance materiality, based on low inherent risk, means that we have applied 60% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Scrutiny Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.267 million (Council) and £0.269 million (Group) based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit and Scrutiny Committee

The following three types of audit differences above the trivial threshold will be presented to the Audit and Scrutiny Committee

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

A

Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum; and
- Annual Audit Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements.
- The planned scope and timing of the audit.
- Significant audit risks and areas of management judgement.
- Our commitment to independence.
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Annual Audit Report

- Significant deficiencies in internal control.
- Significant findings from the audit.
- Significant matters discussed with management.
- Significant difficulties, if any, encountered during the audit.
- Qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Our conclusions on the significant audit risks and areas of management judgement.
- Summary of misstatements.
- Management representation letter.
- Our proposed draft audit report.
- Independence.

Appendix A: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant.	Annual Audit Report
With respect to fraud communications: • enquiries of the Audit and Scrutiny Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud.	Annual Audit Report and discussion at Audit and Scrutiny Committee, Audit planning and clearance meetings

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity.	Annual Audit Report
Significant findings from the audit including: • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Scrutiny Committee in the context of fulfilling their responsibilities.	Annual Audit Report
Significant deficiencies in internal controls identified during the audit.	Annual Audit Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Annual Audit Report

Appendix A: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Audit and Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Scrutiny Committee may be aware of.	Annual Audit Report and Audit and Scrutiny Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements.	Annual Audit Report
Reporting on the valuation methods applied to the various items in the annual Council and Group financial statements including any impact of changes of such methods	Annual Audit Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Annual Audit Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Annual Audit Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Annual Audit Report

Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Council's 2022/23 audit.

The most significant changes relevant to the Council's audit are outlined below.

Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on inherent risk factors which include:

- subjectivity;
- complexity;
- uncertainty and change; and
- susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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