

Highland Council

Financial year ending 31 March 2021

External Audit Planning Considerations (Draft)

Audit and Scrutiny Committee

31 March 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Plan overview

This audit plan for the financial year ending 31 March 2021 sets out our risk based audit approach. This plan is reported to those charged with governance (Audit and Scrutiny Committee). Planning is a continuous process and we will continue to review our risk assessment and planned approach throughout the year.

01

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Through our audit planning procedures we consider Highland Council as the only component to be “individually financially significant” to the Highland Council Group, with High Life Highland and Inverness Common Good Fund considered to be “not significant but material”. We therefore plan a full scope audit of the Council using a component specific materiality, and apply group materiality when performing specific audit procedures over material balances recognised held by High Life Highland and Inverness Common Good Fund. Analytical procedures will be performed using group materiality on all other consolidated balances.

02

Materiality

We have calculated planning materiality using gross expenditure as per the 2019/20 financial statements of £818.5 million resulting in the following:

- Group planning materiality of £9.8 million and Council only planning materiality of £9.5 million, capped at £8.8 million for group reporting purposes. Group performance materiality of £5.8 million is based on 60% of planning materiality (Council only performance materiality of £5.7 million has been capped at £5.2 million for group reporting purposes).
- We have capped our trivial threshold at £250,000 in line with Audit Scotland guidance.
- Lower materiality of £5,000 will be used on the Remuneration Report.
- We will revisit our materiality throughout our audit including updating to reflect the unaudited financial statements.

03

Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240);
- Risk of fraud in expenditure recognition (FRC PN10) (cut-off);
- Valuation of property, plant and equipment (valuation of land, buildings and dwellings); and
- Valuation of defined benefit pension scheme.

We have rebutted the presumed risk of fraud in revenue recognition (ISA UK 240) however we recognise the accounting treatment of COVID-19 grant income as an area of audit focus.

We will continue to assess the appropriateness of our rebuttal, particularly in relation to COVID-19 related income, during the course of our audit.

Plan overview (continued)

04

Wider Scope Audit

In accordance with the Code we have identified wider scope risks, at the planning stage and will conclude on these during the audit.

Risks have been identified in relation to the following areas:

- Financial sustainability. We will focus on in-year financial performance, consider the medium to long term financial sustainability of Highland Council and understand additional monies received by the Council relating to the Covid-19 pandemic and how they have been utilised in year;
- Governance and transparency. We will consider how Highland Council has maintained good governance throughout the year, focusing on any new governance arrangements introduced, the openness and transparency of decision making and how governance has evolved during the Covid-19 pandemic; and
- Demonstrating best value. We will consider Lead Agency and Partnership Working arrangements and undertake a full follow up of recommendations raised in the Best Value Assurance Report (issued in January 2020).

05

Other audit matters

We summarise other audit matters for the Audit and Scrutiny Committee's awareness. This includes:

- The revised ISA 540 standard relating to accounting estimates and the additional considerations required at planning in relation to this standard. For Highland Council we anticipate this to relate to valuation of property, plant and equipment, depreciation, valuation of investment property (Common Good), valuation of heritage assets, impairment of debtors (comprising long term debtors, non-taxation debtors and taxation debtors), fair value of financial instruments, holiday pay accrual, non-pay expenditure accruals and accrued income in 2020/21. We will review this assessment again on receipt of the unaudited accounts.
- Consideration of going concern in accordance with the revisions to Practice Note 10.
- In accordance with the Code and planning guidance we also complete and submit a number of deliverables in year including sharing intelligence with Audit Scotland.

06

Our Audit Fee

Audit fees were shared by Audit Scotland with Highland Council in December 2020.

- Our fee agreed with [the Head of Corporate Finance] is [£X]. This includes [£X] of pooled costs and a contribution of [£X] to Audit Scotland costs.
- Audit fees are paid to Audit Scotland who in turn pay Grant Thornton.
- We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Highland Council for those charged with governance.

We are appointed by the Auditor General as the external auditors of Highland Council for the 6 year period (2016/17 until 2021/22).

Respective responsibilities

Audit Scotland has issued a document entitled Code of Audit Practice ('the Code') dated 2016 covering this audit appointment period. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of Highland Council are summarised in Appendix 1 of this plan. We draw your attention to this and the Code.

Scope of our audit

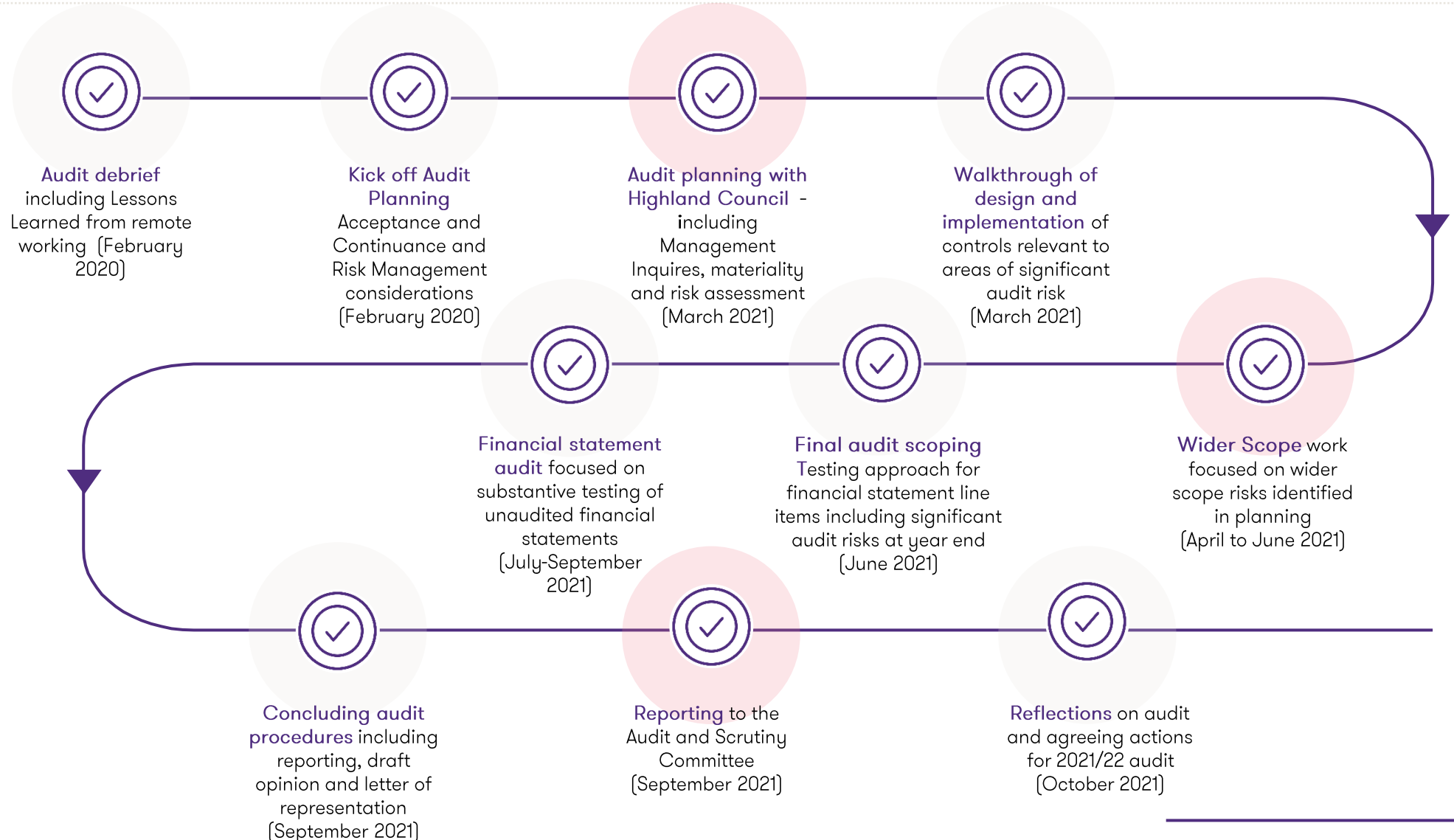
The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Highland Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Scrutiny Committee).

The audit of the financial statements does not relieve management or the Audit and Scrutiny Committee of your responsibilities. It is the responsibility of Highland Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how Highland Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of Highland Council and is risk based.



Audit approach



Group audit scope and risk assessment

In accordance with ISA (UK) 600, as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Highland Council Group consists of the following bodies:

Subsidiaries

- High Life Highland
- Inverness Common Good Fund
- Nairn Common Good Fund

Associates

- Highland and Western Isles Valuation Joint Board (80% interest)
- Highlands and Islands Transport Partnership (37.5% interest)

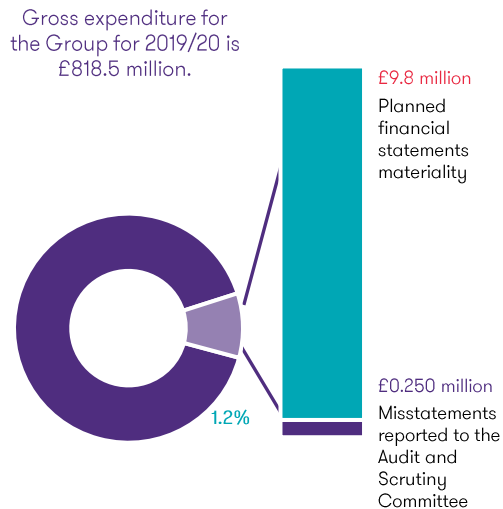
Through our audit planning procedures we consider Highland Council as the only component to be “individually financially significant” to the Highland Council Group, with High Life Highland and Inverness Common Good Fund considered to be “not significant but material”. We therefore plan a full scope audit of the Council using Council only materiality, and apply group materiality when performing specific audit procedures over material balances recognised and held by High Life Highland and Inverness Common Good Fund. Analytical procedures will be performed using group materiality on all other consolidated balances.

With the exception of High Life Highland, we are the external auditor for the rest of the Highland Council Group. Please note an independent audit opinion is not required or issued in relation to Common Good Funds as separate financial statements are not prepared. These funds are instead disclosed within the Highland Council financial statements and audited to group materiality as part of our audit procedures in relation to the Highland Council Group consolidation.

During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach in relation to the Group audit scope.

Materiality

Financial statement materiality is determined based on a proportion of Highland Council's gross expenditure. We have determined **planning materiality** to be £9.8 million for the Group (£9.5 million for Council only) which equates to approximately 1.2% of gross expenditure as per the 2019/20 financial statements.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 60% of planning materiality (£5.8 million for Group, £5.7 million for Council only) which is a decrease on the prior year rate of 65%. This is based on our understanding of Highland Council, recognising the number of corrected and uncorrected misstatements identified during the prior year audit and reflecting the perceived increased risk of material misstatement due to error within the financial statements as a result of COVID-19 and its impact on Highland Council.

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. As such, we are required to audit the Council to component specific materiality which we have determined to be Council only materiality of £9.5 million as part of our audit planning procedures (see further details on page 7).

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. On this basis we apply a separate **lower materiality level** (£5,000) to the Remuneration Report. This is set at a lower level in order to ensure greater precision in this area of the financial statements.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are '**clearly trivial**' to those charged with governance. We have determined this threshold to be £250,000 being the maximum threshold prescribed by Audit Scotland.

We will update our materiality based upon receipt of the unaudited 2020/21 financial statements in June 2021. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Management Override of Controls (as required within Auditing Standards – ISA 240)

Our risk focuses on the areas of the financial statements where there is potential for management (Senior Officers) to use their judgement to influence the financial statements alongside the potential to override Highland Council's internal controls, related to individual transactions.

Our work focuses on estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (of expenditure and income journals) and the use of manual journals during the year and in creating the financial statements where controls may be overridden by Senior Officers.

Risk of Fraud in Expenditure (as recommended in FRC Practice Note 10 for Public Sector entities)

Highland Council's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as the result of fraud to occur in this area.

Highland Council's non-pay expenditure includes finance costs which primarily relate to interest payments and finance charges which are deemed to be well forecast and relatively consistent year on year. There is limited opportunity for manipulation of this expenditure and as such there is no perceived risk of material misstatement due to fraud in relation to this expenditure.

We therefore focus our risk on expenditure excluding payroll and finance costs. Our testing includes a specific focus on year end cut-off arrangements, including consideration of the existence and completeness of expenditure accruals, where it may be advantageous for management to show a more favourable financial position in the context of reporting and the need to achieve financial in-year forecasts, particularly given the significant external pressure to restrain budget overspends.

Significant audit risks (continued)

Valuation of property, plant and equipment

The Council values its land, buildings and dwellings on a rolling five-year basis by the Council's internal valuer. This valuation represents a significant estimate by management (Senior Officers) in the financial statements due to the size of the numbers involved (land, buildings and dwellings held at 31 March 2020 were £2.2 billion) and the sensitivity of this estimate to changes in key assumptions.

Given the value of PPE held by Highland Council and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of land, buildings and dwellings. The risk is less prevalent in the Council's remaining classes of assets (vehicles, plant and equipment, infrastructure assets, community assets and surplus assets) as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be misstated. The District Valuer undertakes a rolling programme of valuations across the assets base, valuing land and buildings at a minimum of once every five years. Our testing in relation to this identified risk will include review of revaluations made during the year, confirming valuations have been input correctly into the asset register, obtaining an understanding of the underlying data provided to the valuer to undertake the valuation and testing of this underlying data to ensure it is complete and accurate. We will discuss with Highland Council's valuer the basis on which the valuation was carried out and challenge the information and assumptions used in the valuation process. We will engage our own valuations expert to assess the instructions issued by Highland Council to their valuer, the final valuer's report and the assumptions used that underpin the valuation.

Defined benefit pension scheme

The Council participates in the Highland Council Pension Fund, a local government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Highland Council is required to recognise its share of the scheme assets and liabilities on the statement of financial position. As at 31 March 2020 the Council had pension fund liabilities of £230.2 million.

Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of Highland Council's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme could be materially misstated within the financial statements. We will consider the suitability and reasonableness of the underlying assumptions adopted by the actuary and suitability of these for the Council.

Significant audit risks (continued)

Auditing standards require us to consider the **risk of fraud in Revenue**. This is considered a presumed risk in all entities. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Highland Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited. We will however recognise the accounting treatment of COVID-19 grant income as an area of audit focus and we will continue to assess the appropriateness of our rebuttal, particularly in relation to COVID-19 related income, during the course of our audit.

We have considered the overall **impact of Covid-19 on the Financial Statements**, in particular whether there is a financial statement level significant risk, whether there is a significant risk relevant to specific balances or line items e.g. valuation of property, plant and equipment, valuation of investment properties, valuation of debtors, whether any risk factors should be considered when determining the audit strategy and designing audit tests and whether there are any audit risks due to the impact of the pandemic on the financial statements. We have concluded that there is no additional significant risk, in addition to those already captured, in relation to the impact of COVID-19 on the financial statement as a result of our consideration.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Report to those Charged with Governance and the Controller of Audit in concluding our audit in September 2021.

Wider scope risks identified in planning

As set out in the Code we are required to consider significant wider scope risks that impact on Highland Council. Where we identify risks, similar to financial statement audit risks, we are required to devise a suitable programme of testing to allow us to conclude on Highland Council's arrangements. There are four wider scope dimensions we consider: financial management, financial sustainability, governance and transparency and value for money (including Best Value for Local Government bodies). Wider scope risks are a matter of auditor judgement, and what we judge to be significant, considered on a risk basis. In addition to wider scope risks there may be other areas that Audit Scotland require us to consider. These requirements are set out in the planning guidance (2020/21). Where relevant we refer to them here, or within our wider audit plan.

Our previous Annual Reports have highlighted some of the challenges facing Highland Council. Our wider knowledge and experience of Highland Council has shaped our assessment of risk, as related to our 2020/21 external audit and we have identified the following wider scope risks:

Financial Sustainability

Consideration of the medium to long term financial sustainability of Highland Council. We will consider how Covid-19 has impacted on Highland Council's financial strategy and understand particular areas of cost pressures identified during the year. We will review the extent to which savings delivered during 2020/21 represent sustainable recurring savings and consider the levels of reserves used by Highland Council during the year.

We will focus on in-year financial performance as well as the impact on the Council's medium term financial framework, in particular the 3 year budget outlook.

Lastly we will understand the additional monies received by the Council relating to the Covid-19 pandemic and how they have been utilised in year. In particular we will focus on where local decisions have been made. We will seek to understand future plans, on recovery and re-mobilisation beyond the pandemic, and options to ensure future financial stability.

Wider scope risks identified in planning (continued)

Governance and Transparency

We will, as set out in the planning guidance, consider how Highland Council has maintained **good governance** throughout the year, focused on any new governance arrangements introduced, the openness and transparency of decision making and how governance has evolved during the Covid-19 pandemic. This was considered in 2019/20 and for this year we will focus on governance changes, in light of the 2nd wave and the planned governance on recovery and future plans beyond Covid. We will also review Officer and Member engagement and participation throughout the governance process and the general behaviours exhibited and consider the ways in which these behaviours ensure openness and transparency across the Council.

Value for Money – Lead Agency and Partnership Working

Highland Council is the lead agency for Children's Services and NHS Highland is the lead agent for the delivery of adult services across Health and Social Care. The arrangements are managed through the Highland Health and Social Care Partnership (HHSCP). Both Highland Council and NHS Highland have previously highlighted the unsustainable financial position of the current financial arrangements in place in relation to the delivery of Adult Social Care services. The Integration Scheme and Partnership Agreement was due for renewal at the end of June 2020 with agreement to be reached as to how the financial gap would be funded and an appropriate level of funding to be agreed for Adult Social Care going forward. We will review the agreements made in relation to this matter as well as the impact on the 2020/21 financial position and the planned future impact upon Highland Council.

Wider scope risks identified in planning (continued)

Value for Money – Best Value

A Best Value review was undertaken by Audit Scotland and Grant Thornton during 2019 and the Best Value Assurance Report (BVAR) was issued in January 2020. The review found that the Council's pace of change had been inconsistent and slower in areas such as improving performance management and ensuring longer term financial sustainability. There was however recognition that the pace of change had significantly increased with the appointment of the Chief Executive in October 2018. The BVAR highlighted the persistent challenge faced by the Council in demonstrating that it is financially sustainable, as well as its ability to build its level of reserves to meet unplanned costs. The report also reflected on the management restructure of the Council and the need for a period of stability to deliver the Council's change and improvement strategy.

A BVAR Improvement Plan was created and presented to the Council for approval in March 2020. Given the Council's focus on its response to COVID-19 during 2019/20 it was agreed that we would undertake our full BVAR follow up in 2020/21. As such we will undertake a full follow up of the BVAR recommendations and report on the status of the improvement plan in our Annual Report.

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and planning guidance:

- We audit parts of your Remuneration Report in your Annual Report and check whether these sections of your Annual Report have been properly prepared (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in Delivering Good Governance in Local Government: Framework (2016) (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We consider our other duties under the Code and planning guidance (2020/21), as and when required, including:
 - Supporting Audit Scotland’s reporting to the Accounts Commission;
 - Contributing to Audit Scotland Performance Reports;
 - Providing regular updates to Audit Scotland to share awareness of current issues across our audit clients;
 - Notify the Controller of the Audit when circumstances indicate a statutory report may be required;
 - Contribute to the National Fraud Initiative (NFI) report;
 - Notify Audit Scotland of any cases of money laundering or fraud; and
 - Contribute to Audit Scotland technical guidance.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform walkthrough procedures on key controls around identified risk and significant risk areas including revenue, grant funding, payroll, non-payroll expenditure, the valuation of property, plant and equipment and defined benefit pension schemes.
- Our focus is design and implementation of controls only. We do not place reliance on controls when it comes to our year end financial statement audit work.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the significant risks identified in this report.

Other matters (continued)

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important.

In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. In considering going concern we will refer to Audit Scotland's Going Concern publication (December 2020).

Within our wider scope work we will conclude on Highland Council's arrangements to ensure financial sustainability.

Shared Risk Assessment and Joint Scrutiny Planning

The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group (SSG). The SSG is made up of scrutiny bodies from across the public sector to make their work on local government more co-ordinated, better targeted and more proportionate to identified risks. The scrutiny bodies involved include the Care Inspectorate, Education Scotland and the Scottish Housing Regulator. More information is available from the Scrutiny Improvement page on the Audit Scotland website.

The Shared Risk Assessment (SRA) process was established by the SSG as the vehicle for scrutiny bodies to share intelligence and agree scrutiny risks at each council. The National Scrutiny Plan (NSP) summarises all planned and announced strategic scrutiny activity in each of Scotland's 32 councils and is updated every six months to ensure it is up-to-date and comprehensive.

At a local level, as the local authority external auditor, we are LAN Leads for Highland Council, co-ordinating scrutiny at a local level. We are in the process of agreeing a date for a Local Area Network (LAN) meeting in 2021 for Highland Council however we can confirm the LAN meeting will involve discussions of risks and scrutiny arrangements from scrutiny providers and the results of discussions between the LAN and Highland Council will feed into the NSP. The discussions will also be informed by our Highland Council external audit plan and we will continue to assess the appropriateness of our planned audit approach in light of information shared and scrutiny risks identified during the 2021 LAN meeting.

Other matters (continued)

Highland Charities Trust and Highland Council's Charitable Trusts

Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR).

Auditors, appointed under the Accounts Commission are eligible under the charities regulations to audit a charity's statement of accounts. As part of our audit work in the current year we will provide an opinion over the Council's registered charities; Highland Charities Trust and the Highland Council's Charitable Trusts. As part of our audit planning we have not identified any further audit risks in relation to these audits.

We will provide an independent audit opinion on the financial statements of the Highland Charities Trust and Highland Council's Charitable Trusts for the year ended 31 March 2021. Please see details of our fee in relation to these audits on page 24.

CIPFA/LAASAC Code for 2020/21 – Key Changes

The CIPFA/LAASAC Code for 2020/21 introduces a small number of amendments relating both to context and an understanding of requirements. Changes include:

- Implementation and emphasis of IFRS amendments relating to the application of materiality, and the requirement to avoid obscuring material information.
- Implementation of Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement, with guidance on initial proxy assessment of quantitative materiality.
- Legislative amendments for Scotland, England and Wales.
- Amendments to reporting by pension funds to align with presentation practices under the Pensions SORP.
- Amendments relating to financial instruments.

The 2020/21 Code includes a new appendix which sets out the agreed reporting text for the implementation of the deferred IFRS 16 Leases standard. This appendix will apply from 1 April 2021 and it will allow local authority accounts preparers to make effective preparations for the implementation of the standard in the 2021/22 financial year. Note that early adoption of IFRS 16 is not permitted, with the exception of Transport for London.

We do not currently consider the above would result in a material impact to Highland Council. We will assess management's assessment of this guidance and its implementation as part of the 2020/21 external audit.

Other matters (continued)

Significant Trading Operation

The Council has one trading operation which operates in a commercial environment; Fishery, Piers and Harbours. In accordance with the Local Government (Scotland) Act 2003, STOs are required to break even over a rolling three year period.

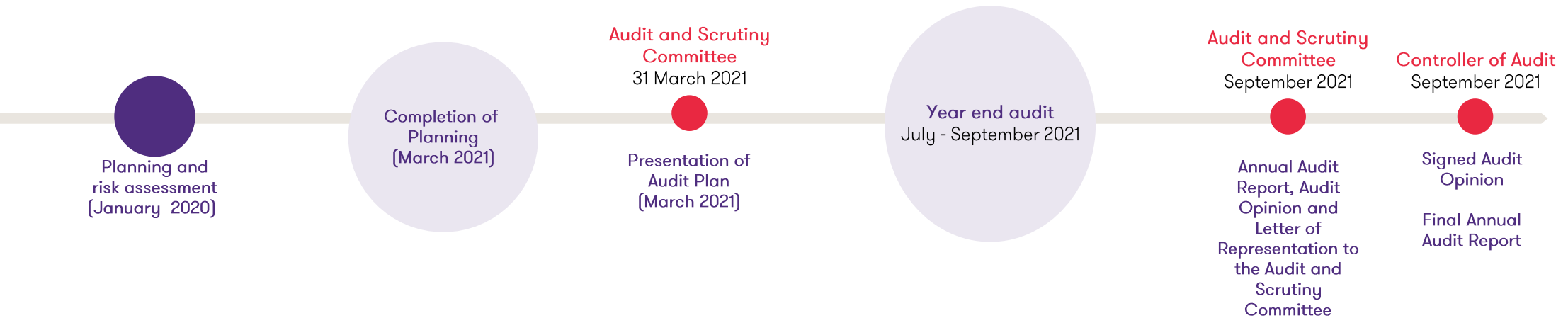
We will review Senior Officers' evaluation of Highland Council's STO to ensure that it continues to meet the requirements to be classified as an STO. We will assess the STO's financial performance to determine whether it continues to meet the statutory financial targets.

Whole of government accounts (WGA) and grant claims

The Code of Audit Practice requires appointed external auditors to review and report on WGA returns prepared by audited bodies. External auditors of local authorities, NDPBs and the Scottish Government are required to provide an assurance statement on 2020/21 WGA returns for bodies over a prescribed threshold determined by NAO. While we are not informed of the threshold until July 2021, we anticipate that we will be required to provide an assurance statement for the Council for 2020/21. Local government auditors are required to review and report on approved grant claims prepared by local authorities. This includes certification of Housing Benefit claim.

We will work with officers to ensure the timely completion and audit inspection of the WGA return and Housing Benefit returns.

Audit timeline



Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate staff are available (or as otherwise agreed) over the planned period of the audit; and
- respond promptly and adequately to audit queries.

Quality and adding value through the audit

Our overall approach for the audit is clear and upfront communication, founded on our public sector credentials and a methodology to ensure delivery of a quality audit.

The diagram opposite summarises our key approach to adding value to you throughout our audit.

Our methodology is risk based. We comply with Auditing standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest as a Firm through our audit investment plan. The audit investment plan is supported by a specific national Public Sector audit plan.

We comply with Audit Scotland's quality arrangements including submitting an annual quality report over our Audit Scotland portfolio. As part of Audit Scotland's quality arrangements, ICAS review our work on a rotational basis. Audit Scotland's quality report can be found at www.audit-scotland.gov.uk

Our wider quality arrangements are set out in our annual transparency reports which are available on our website (www.grantthornton.co.uk).

Project management

- Use of Inflo to track progress and deliverables throughout the audit
- Clear roles and ownership of responsibilities within our team
- Clarity over expectations and timetable
- Track record delivering public sector audits on behalf of Audit Scotland

Clear reporting

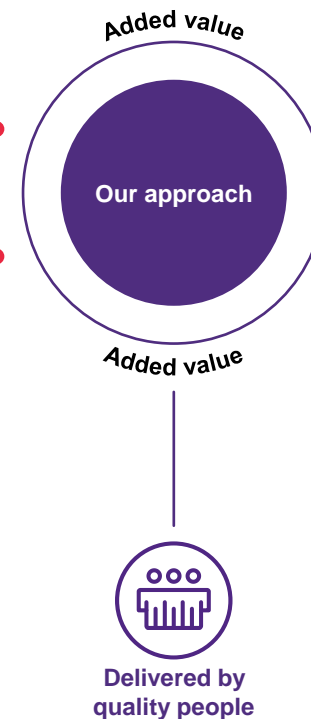
- Clear audit outputs at planning and within our final Annual Report
- Practical, risk based, recommendations for you to take forward
- Our judgements and conclusions set out transparently and in clear language
- Senior presence at Audit and Scrutiny Committee to present our findings and support wider dialogue

Pragmatism and early attention of issues

- Accessible and proactive engagement team
- Working with you to reach the right solution – flexing the workplan, recognising Covid-19 restrictions
- Audit partner takes ultimate decision on technical matters, consulting with our technical experts

Public sector understanding

- Using our public sector insight to inform our audit and identify improvements you could make
- Regular meetings throughout the year sharing our observations and wider sector knowledge
- Wider scope conclusions to support you in considering key risks and the improvement actions to take



Audit Scotland deliverables

As set out in the Code of Audit Practice, as appointed auditors we have a number of wider reporting responsibilities beyond the audit of the financial statements. Below we summarise the key areas of work during our 2020/21 audit, including expected reporting under Audit Scotland's Code of Audit Practice and audit planning guidance:

Requirement	How we will report our findings
Annual Accounts Perform an audit of the annual accounts and express an audit opinion.	<ul style="list-style-type: none"> • External audit plan • External auditor's opinion on the financial statements • Annual external audit report detailing findings from our audit work on the financial statements.
Wider scope audit dimensions Conclude and report on our assessment of the wider scope audit dimensions.	<ul style="list-style-type: none"> • Annual external audit report
National Fraud Initiative (NFI) Evaluate Highland Council's participation in NFI.	<ul style="list-style-type: none"> • Annual external audit report • Reporting participation to Audit Scotland including completion of NFI questionnaire
Performance, impact and overview reports Contribute to performance audits (including overview reports, performance audit reports and impact reports).	<ul style="list-style-type: none"> • Submission of data sets to Audit Scotland of key financial and non-financial data of the body • Providing information returns to Audit Scotland
Local Area Network (LAN) Coordinated approach to local scrutiny.	<ul style="list-style-type: none"> • As appointed auditors we lead LAN discussions on local scrutiny arrangements with local scrutiny bodies including Care Inspectorate Housing Regulator and Education Scotland
Emerging issues Communication of emerging issues to Audit Scotland and highlight any issues for potential statutory reports.	<ul style="list-style-type: none"> • Communicating throughout our audit emerging issues throughout the year

Audit Scotland deliverables (continued)

Requirement	How we will report our findings
<p>Correspondence queries Carry out preliminary enquiries into any correspondence relevant to Highland Council that is referred to Audit Scotland.</p>	<ul style="list-style-type: none"> • Providing responses to any correspondence received based on our audit knowledge and understanding and the results of any review as agreed with Audit Scotland
<p>Whole of Government Accounts (WGA) Provide assurance over Highland Council's WGA returns.</p>	<ul style="list-style-type: none"> • Providing assurance of the Council's WGA return
<p>Money laundering and fraud Provide information on cases of money laundering or fraud.</p>	<ul style="list-style-type: none"> • Reporting cases to the National Crime Agency of any instances of money laundering at the Authority and identified frauds
<p>Technical Guidance Contribute to Technical Guidance Notes</p>	<ul style="list-style-type: none"> • Providing responses to Audit Scotland consultations on draft Technical Guidance Notes for Auditors
<p>Audit Scotland area of focus – risk of fraud and corruption in the procurement function Guidance on planning 2019/20 audits advised auditors to assess the risk of fraud and corruption in the procurement function. Where a significant risk was identified auditors were advised to reflect that in their Annual Audit Plans for either 2019/20 or 2020/21. In recognition of the new risk landscape, where appropriate auditors may defer consideration of this risk until 2021/22.</p>	<ul style="list-style-type: none"> • Our audit work will consider the arrangements for the prevention and detection of fraud and corruption. Specifically, we will consider the extent to which the Council follows the principles of CIPFA's Code of Practice on Fraud. We will defer our consideration of this risk until 2021/22 and our conclusions will be reported in our 2021/22 Annual External Audit Report.
<p>Housing Benefits Subsidiary Claim Independent certification on housing benefit subsidy claim to DWP</p>	<ul style="list-style-type: none"> • Providing independent assessment of Housing Benefit Subsidiary Claim (November 2021)
<p>Best Value Assurance Report – Follow Up Follow up of the Council's progress in implementing the recommendations raised in the Accounts Commissions' BVAR</p>	<ul style="list-style-type: none"> • Our conclusions on the Council's progress in implementing the recommendations made in the BVAR report will be included in our annual external audit report (September 2021)
<p>Education Maintenance Allowance Certification of EMA claim</p>	<ul style="list-style-type: none"> • Providing independent audit certification of the Council's EMA return (July 2021)

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This includes the revised ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures. As a firm, we are absolutely committed to meeting the expectations of the FRC over audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the ICAS quality framework.

To meet the standards set we have engaged an auditor expert to enhance professional scepticism and assurance over the significant audit risk identified for valuations. This has been reflected as an increase above the baseline fee as not included in Audit Scotland fee assumptions, as has additional work over ISA 540. Our fee as set out has been agreed with the [\[Head of Corporate Finance\]](#).

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified. We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards. We believe the revisions to the baseline fee allow us to meet the required standard.

Additional external audit fee, above baseline

The baseline fee has been amended as set out below:

Additional fee requirements for 2020/21 audit	Fees £
Revisions to ISA 540 and additional work required by Auditors at planning and year end of judgements and significant estimates. This will be a 2020/21 additional cost only.	[£X]
Property, plant and equipment valuations including the need for an auditors expert (valuations) and increased audit work over valuation. We are proposing to pass on 25% of the increased costs to you, with GT meeting the remaining 75% cost. (Note 1)	[£X]
Additional fee above baseline (representing a 4% increase compared to the maximum 10% allowable)	[£]

Note 1: At this stage there are some unknowns on property valuation. Should the costs be lower than forecast we will not pass this additional cost on to Highland Council.

Audit Fees

Audit fees for 2020/21

Service	Fees £
External Auditor Remuneration	[£X]
Pooled Costs	[£X]
Contribution to Audit Scotland costs	[£X]
Contribution to Performance Audit and Best Value	[£X]
Audit of Highland Council Charitable Trusts	£1,000
Audit of Highland Charities Trust	£1,000
2020/21 Fee	[£X]

Additional Fees (Non-Audit Services)

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Fee assumptions

In setting the fee for 2020/21 we have assumed that Highland Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit;
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made in preparing the financial statements; and
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Independence

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence.

We encourage you to contact us to discuss these or any other independence issues with us.

We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Our team complete annual fit and proper declarations including independence confirmations on a client by client basis as well as completing timesheets. The work of our Ethics team is overseen by the Ethics partner and all staff undergo ethics training in year.



Appendices

Appendix 1 - Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

Highland Council

Responsibilities include:

- Preparing financial statements that give a true and fair view;
- Maintaining accounting records;
- Establishing and maintaining systems of internal control;
- Effective internal controls including controls to achieve objectives and secure value for money;
- Establish arrangements for proper conduct of affairs including legality of transactions;
- Arrangements for prevention and detection of fraud, error, irregularity, bribery and corruption; and
- Appropriate corporate governance arrangements and arrangements to monitor the effectiveness of governance.

External Audit

Responsibilities include:

- Comply with professional engagement and ethical standards;
- Provide an ISA compliant audit and opinion on the financial statements including regularity of transactions;
- Demonstrate compliance with the wider scope public audit as detailed in the Code and applicable guidance;
- Liaise with and notify Audit Scotland when circumstances indicate a statutory report may be required. This includes sharing awareness of current and/or sector issues;
- Notify Audit Scotland of any known or suspected frauds greater than £5,000;
- Contribute to Audit Scotland technical guidance; and
- Contribute to relevant performance studies (as set out in the planning guidance for the year).



Appendix 2 - Communication

ISA (UK) 260 as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (we assume this to be the Audit and Scrutiny Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to Senior Officers and/or the Audit and Scrutiny Committee.

	Audit Plan	Annual Report (considered our ISA 260 Report)
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance.	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks.	•	
Confirmation of independence and objectivity.	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence.	•	•
Significant matters in relation to going concern.	•	•
Views about the qualitative aspects of Highland Council's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures.		•
Significant findings from the audit.		•
Significant matters and issues arising during the audit and written representations that have been sought.		•
Significant difficulties encountered during the audit.		•
Significant deficiencies in internal control identified during the audit.		•
Significant matters arising in connection with related parties.		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements.		•
Non-compliance with laws and regulations.		•
Unadjusted misstatements and material disclosure omissions.		•
Expected modifications to the auditor's report or emphasis of matter.		•

Appendix 3 - Fraud responsibilities

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Highland Council.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls;
- leading a discussion with those charged of governance (for Highland Council this is assumed to be the Audit and Scrutiny Committee) on their view of fraud. Typically we do this when presenting our Audit Plan and in the form of management and those charged with governance questionnaires;
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud; and
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We also make inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Highland Council we will report to the Auditor General and/or Controller of Audit as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is Highland Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with Highland Council to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Appendix 4 - Auditing Accounting Estimates and Related Disclosures (ISA 540 revised)

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do [Audit and Scrutiny Committee](#) members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021. Based on our knowledge of Highland Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuation of Property, Plant and Equipment;
- Depreciation of Property, Plant and Equipment;
- Valuation of Investment Property (Common Good);
- Valuation of Heritage Assets;
- Impairment of debtors (comprising long term debtors, non-taxation debtors and taxation debtors);
- fair value of financial instruments;
- holiday pay accrual;
- non-pay expenditure accruals; and
- accrued income.

Highland Council's Information systems

In respect of Highland Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations. When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

Appendix 4 - Auditing Accounting Estimates and Related Disclosures (continued)

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made formal enquires of management. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

