Item 5

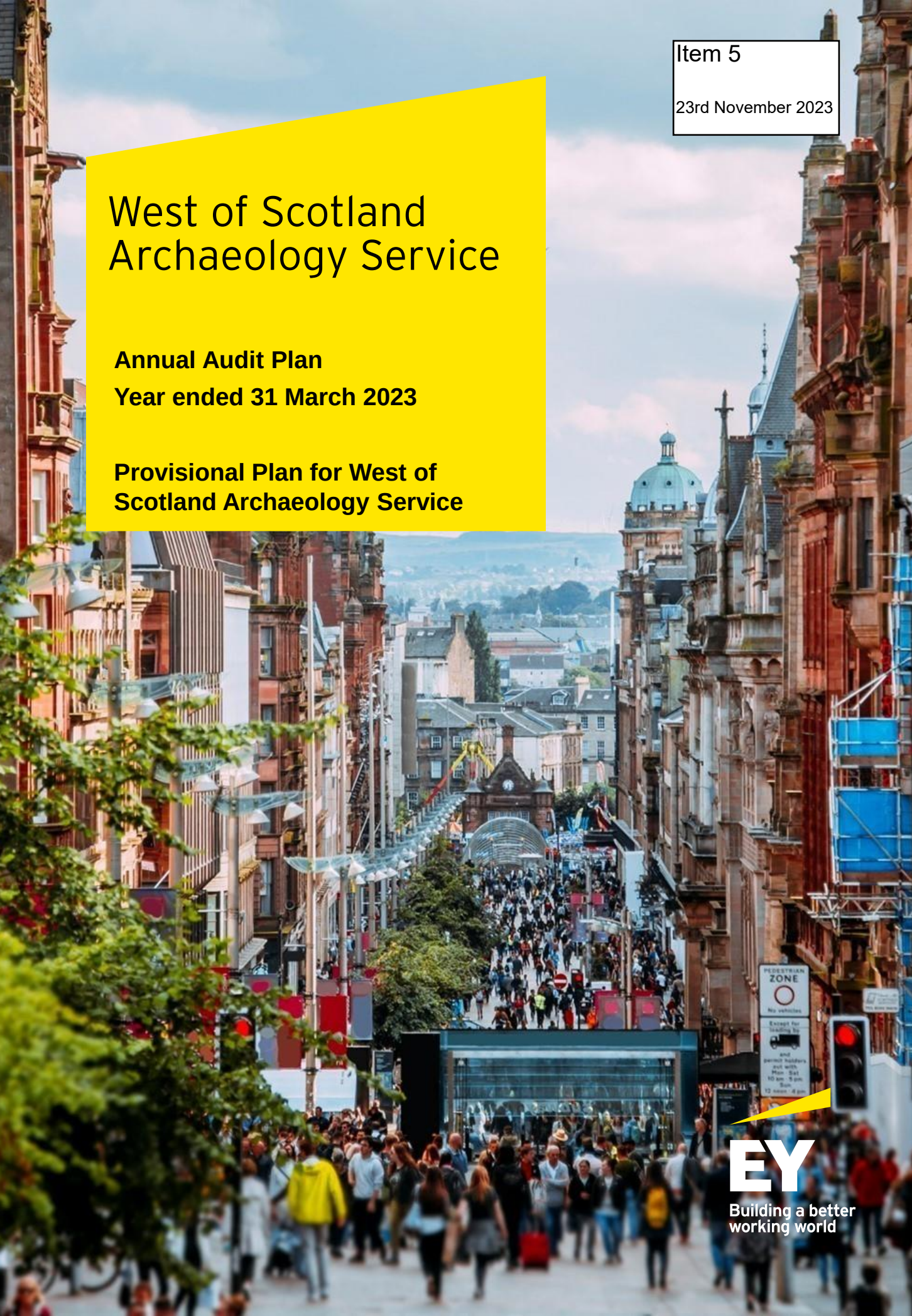
23rd November 2023

West of Scotland Archaeology Service

Annual Audit Plan

Year ended 31 March 2023

Provisional Plan for West of Scotland Archaeology Service



EY

Building a better working world

This report

This report has been prepared in accordance with Terms of Appointment Letter, through which Audit Scotland and the Accounts Commission have appointed us as external auditor for West of Scotland Archaeology Service for financial years 2022/23 to 2026/27.

This report is for the benefit of the Joint Committee and is made available to the Audit Scotland and the Accounts Commission (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Accessibility

Our Annual Audit Plan will be available on Audit Scotland's website and we have therefore sought to comply with the Public Sector Bodies Accessibility Regulations 2018.

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1. Executive summary

Purpose of our plan

The Accounts Commission for Scotland appointed EY as the external auditor of West of Scotland Archaeology Service ("the Service") for the five year period to 2026/27.

This provisional Annual Audit Plan, prepared for the benefit of senior management and the Joint Committee, sets out our proposed audit approach for the audit of the financial for the year ended 31 March 2023. In preparing this plan, we have developed our understanding of the organisation through:

- Introductory planning discussions with management,
- Handover discussions with your predecessor auditors, Audit Scotland;
- Review of key documentation and committee reports; and
- Our understanding of the environment in which the Archaeology Service is currently operating.

[We will complete the following additional procedures prior to finalising our planning and undertaking our substantive audit work]:

- *Review of predecessor auditor working papers; and*
- *Detailed planning meeting with management of the Archaeology Service.]*

Our audit quality ambition is to consistently deliver high-quality audits that serve the public interest. A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, including observations around where the Archaeology Service employs best practice and where processes can be improved. We use data insights to form our audit recommendations to support the Archaeology Service in improving its practices around financial management and control, and in aspects of the wider scope dimensions of audit. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements.

After consideration by the Joint Committee, the finalised plan will be provided to Audit Scotland and published on their website.

Scope and Responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Archaeology Service and the auditor, more details of which are provided in *Appendix A*.

Independence

We confirm that we have undertaken client and engagement acceptance procedures, including our assessment of our independence to act as your external auditor. Further information is available in *Appendix B*.

Our key contacts:

Rob Jones, Engagement Lead
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Melanie McAdam, Manager
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Financial Statements audit

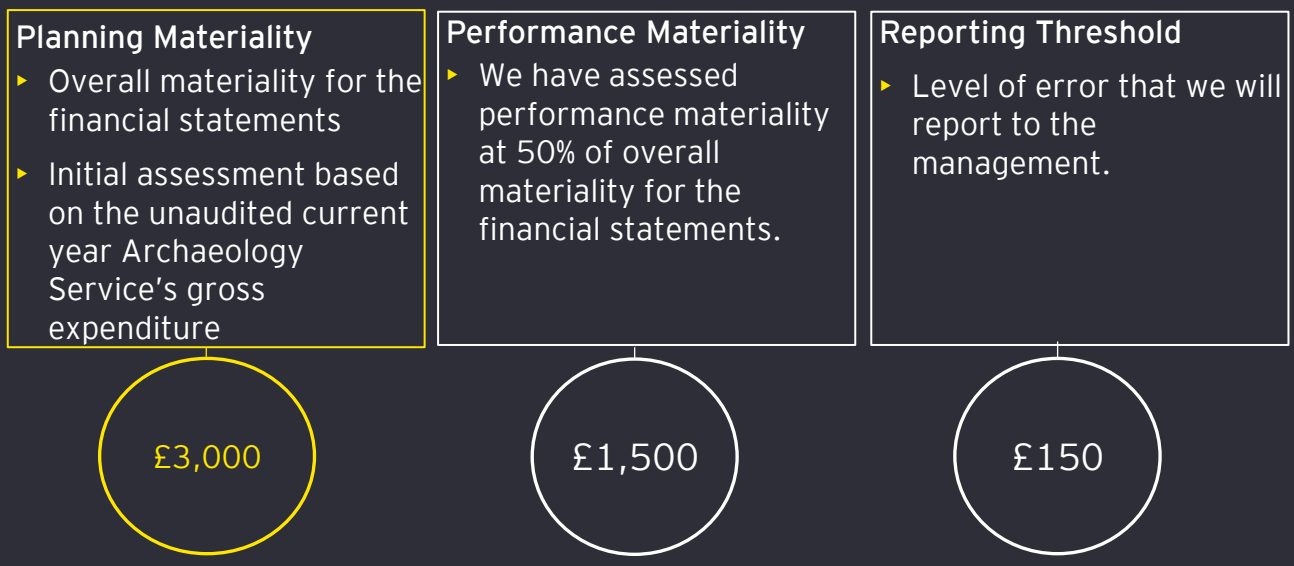
We are responsible for conducting an audit of the Service's financial statements. We provide an opinion as to:

- whether they give a true and fair view, in accordance with applicable law and the 2022/23 Code of Accounting Practice, of the income and expenditure of the Archaeology Service for the year ended 31 March 2023 and;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2022/23 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. Our key considerations and materiality values are set out in Exhibit 1, below.

Exhibit 1: Materiality Assessment in 2022/23



Based on our understanding of the expectations of financial statement users, we apply a lower materiality level to remuneration disclosures. We also apply professional judgement to consider the materiality of related party transactions to both involved parties.

Wider Scope Dimensions and Best Value

As public sector auditors, our responsibilities extend beyond the audit of the financial statements. The Code of Audit Practice (2021) requires auditors to consider the arrangements put in place by the Service to meet their Best Value obligations as part of our proportionate and risk-based wider-scope audit work.

Wider scope audit requires consideration of:

- The regard shown to financial sustainability;
- clarity of plans to implement the vision, strategy and priorities of the Service, and the effectiveness of governance arrangements for delivery.

Annual Best Value audit work will be integrated with our wider scope annual audit work. We will report on how the Archaeology Service demonstrates and reports that it has Best Value arrangements in place, to secure continuous improvement.

| Exhibit 2: Summary of significant and wider scope risks identified for the audit of West of Scotland Archaeology Service

One significant risk impacting the audit of financial statement has been identified in Section 3:

1. Risk of fraud in revenue and expenditure, including through management override	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

One wider scope risks have been identified in Section 4:

1. Wider scope dimension – Vision, Leadership and Governance	The 2021/22 annual audit report by the predecessor auditor highlighted that a number of key strategic documents are overdue for review. These include the Business Plan, Minute of Agreement and Archaeology Service Level Agreement. In addition to the standard expectations around good governance, without a clear strategic plan for the Archaeology Service, there is a risk that its longer term goals will not be achieved.

2. Sector developments

Introduction

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Service operates to inform our audit approach.

West of Scotland Archaeology Service

The primary purpose of the Service is to provide planning related archaeological advice to its member councils to allow them to discharge their duties in respect of Scottish Government planning guidance for the treatment of archaeological remains in the planning process.

During the report period, the service dealt with 1,935 new casework items, a 7.2% increase on the total of the previous reporting year. The new casework items comprised consultation on 973 planning applications, monitoring 621 Weekly Lists of Planning Applications, and 341 other casework items.

Local Government Finances 2021/22

In January 2023, the Accounts Commission published it's annual report on Local Government finances in Scotland. The report notes that even with additional Covid-19 funding during 2021-22, councils had to make significant savings last year to balance their budgets.

An increasing amount of council funding is either formally ringfenced or provided on the expectation it will be spent on specific services and national policy objectives.

Audit Scotland calculated ringfenced money to represent 23% of total revenue funding in 2021/22. A large amount of this was to support elements of education and social care service provision. While this supports the delivery of key Scottish Government policies, it removes local discretion and flexibility over how these funds can be used by councils.

Looking ahead, the Accounts Commission note that Councils face the most difficult budget-setting context seen for many years with the ongoing impacts of Covid-19, inflation and the cost of living crisis. They will need to continue to make recurring savings and also make increasingly difficult choices with their spending priorities, including, in some cases, potential service reductions.

3. Financial statements: Our approach and assessment of significant risks

Introduction

The publication of the annual financial statements allow the Service to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2022/23 Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

Our responsibilities

We are responsible for conducting an audit of the Service's financial statements. We provide an opinion as to:

- whether they give a true and fair view in accordance with applicable law and the 2022/23 Code of the state of affairs of the Archaeology Service as at 31 March 2023 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2022/23 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the Service along with its financial statements.

Other Statutory Information

The management commentary and narrative reporting within the financial statements continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including continuing interest by the Financial Reporting Council.

We will work with the finance team to share our views on the 2021/22 financial statements and unaudited 2022/23 financial statements.

ISA (UK) 315

Our objective is to form an opinion on the financial statements under International Standards on Auditing (ISA) (UK). There have been significant changes to ISA (UK) 315 and some changes to ISA (UK) 240 that will impact our 2022/23 audit approach and the procedures we need to perform.

ISA 315 is effective from 2022/23 onwards and will drive our approach to:

- Risk assessment
- Understanding the Service's internal control arrangement
- Identification of significant risk; and
- How we address significant risk (in combination with ISA 330).

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional and involves deception or is unintentional.

The revision to the standard aims to clarify the obligations of auditors to identify and assess the risk of material misstatement due to fraud, as well as including supplemental requirements and guidance to enhance the auditors' procedures. Auditor objectives have been revised to emphasise the requirement to obtain reasonable assurance about whether the financial statements are free from material misstatement due to fraud.

As a result of the changes we will make enhanced inquiries of management, or others within the Archaeology Service who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties.

We will report on the impact of ISA (UK) 315 within our annual audit report.

Audit Approach

For 2022/23 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

During our planning procedures, we determine which accounts, disclosures and relevant assertions could contain risks of material misstatement.

Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Archaeology Service's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting. Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence to express an opinion on the financial statements.
- Reading other information contained in the financial statements to form assessment, including that the annual report is fair, balanced and understandable.
- Ensuring that reporting to the Joint Committee appropriately addresses matters communicated by us and whether it is materially inconsistent with our understanding and the financial statements.
- We rigorously maintain auditor independence (refer to Appendix B).

Materiality

For provisional planning purposes, materiality for 2022/23 has been set at £3,000 (*2021/22: £3,000*). This represents approximately 2% of the Service's gross expenditure. Our materiality level is influenced by the nature of the company.

Materiality will be reassessed throughout the audit process and will be communicated to the Joint Committee within our annual audit report.

Our assessment concluded that gross operating expenditure is the most appropriate basis for determining planning materiality for the Service.

We consider misstatements greater than 2% of the gross expenditure to be material. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. We have provided supplemental information about audit materiality in Appendix F.

Specific Materiality

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- **Remuneration report** - given the sensitivity around the disclosure of senior staff remuneration we apply a lower materiality threshold to our audit consideration around the remuneration report and related disclosures.
- **Related party transactions** – which are considered material when they are material to either party in the transaction. We do not apply a specific materiality but consider each transaction individually.

Exhibit 3: Materiality Assessment in 2022/23

Element	Explanation	Value
Planning materiality	The amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. This represents 2% (PY: 2%) of the Service's Gross Expenditure	£3,000
Performance materiality	Materiality at an individual account balance, which is set to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds Planning Materiality to an acceptably low level. We have set it at 50% (PY: 75%) of planning materiality. This level reflects our risk assessment for an initial audit.	£1,500
Reporting Level	The amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements.	£150

Our response to significant risks

Introduction

Auditing standards require us to make communications to those charged with governance throughout the audit. At the Archaeology Service, we have agreed that these communications will be to management. The financial statements and our annual audit report will also be reported to the management.

One of the key purposes of our annual audit plan is to communicate our assessment of the risk of material misstatement in the financial statements.

We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

We set out in the following sections the significant risks (including fraud risks denoted by *) that we have identified for the current year audit, along with the rationale and expected audit approach. In 2022/23 we have identified one significant risk:

- Risk of fraud in revenue and expenditure recognition, including through management override of control*

Other than revenue and expenditure recognition, we have not identified any specific areas where management override will manifest as a significant fraud risk, however we will continue to consider this across the financial statements throughout the audit.

The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit. We will provide an update to the management if our assessment changes significantly during the audit process.

1. Risk of fraud in revenue and expenditure recognition, including through management override of control

Financial Statement Impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the expenditure accounts.

These 2021/22 account balance in the audited financial statements was cost of services, amounting to approximately £150,000.

What is the risk?

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have identified a risk around income and expenditure recognition, specifically the accounting for contributions from participating authorities and subsequent expenditure in the correct accounting period and in line with the terms and conditions of those transactions.

What work will we perform?

We will:

- Inquire of management about risks of fraud and the controls to address those risks;
- Consider the effectiveness of management's controls designed to address the risk of fraud;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Examine conditions (restrictions, performance conditions) attached to the grants and confirm correct accounting treatment against existing accounting policies and CIPFA code; and
- Perform additional testing on income and expenditure incurred closer to the financial yearend.

In addition, we will perform mandatory procedures regardless of specifically identified fraud risks, including:

- Substantively test income and expenditure transactions as appropriate and material;
- We will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assess accounting estimates for evidence of management bias; and
- Evaluate the business rationale for significant unusual transactions.

Having evaluated this risk we will consider whether we need to perform any other specific audit procedures not referred to above.

4. Best Value and Wider Scope Audit

Introduction

In June 2021, Audit Scotland and the Accounts Commission published a revised Code of Audit Practice. This establishes the expectations for public sector auditors in Scotland for the term of the current appointment.

Risk assessment and approach

The Code sets out the four areas that comprise the wider scope audit for public sector in Scotland:

- Financial management;
- Financial sustainability;
- Vision, Leadership and Governance; and
- The use of resources to improve outcomes.

The Code also includes provisions relating to the audit of less complex public bodies (owing to its size and its limited financial activity). The wider scope in an audited body which meets the definition of a less complex body under the Code may be limited to consideration of:

- Financial sustainability
- Vision, Leadership and Governance (including Annual Governance Statement review).

We have assessed that the audited body meets the definition of a less complex public body based on the nature of its operations and the size and we will therefore apply Code`s provision in relation to our wider scope work.

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. This section sets out our areas of focus, along with any specific significant risks relating to each dimension.

While we undertake work across the dimensions of public audit on an annual basis, any areas highlighted as significant risks will represent the issues where we expect to direct most of our audit effort. Any changes in this assessment will be communicated to the management.

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment of and assurance over the achievement of Best Value.

Financial Sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

We recognise that the Covid-19 pandemic has continued to have a significant impact on the Service's financial planning, although casework activity has largely returned to pre-pandemic levels.

Historically, the Archaeology Service has run a surplus which has resulted in a reserves balance in excess of the level recommended in the Reserves Policy. A small £16,000 deficit was budgeted in 2022/23, with reserves at 31 March 2023 forecasted to be £140,000. Despite budgeting a deficit position in the 2023/24 Financial Plan, the Archaeology Service's reserves at 31 March 2024 are estimated to represent 138% of the figure proposed as an appropriate financial reserve in the most recent review of the Archaeology Service's Reserves Policy, and at a level which is likely to require further reduction in the future.

Our work in 2022/23 will focus on:

- Consideration of robustness of the budget setting and monitoring process;
- Discussions with Finance manager / Section 95 officer.
- Review of financial reporting to the management, including management accounts and budgets / medium term financial planning and financial strategy going forward.

Vision, leadership and governance

Vision, leadership and governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Management's review of the Archaeology Service's key strategic documents were out of date and require updating. These include:

- Minute of Agreement
- Business Plan
- Service level Agreements

In additional to standard expectations of good governance, without a clear strategic plan for the Archaeology Service, there is a risk that its longer term goals will not be achieved. In addition, a lack of clarity over future member authority contributions presents challenges for future financial planning. We recognise that this has been previously raised as requiring management attention by the Archaeology Service's previous auditor.

The Service is covered by the internal audit arrangements in place at the lead authority, Glasgow City Council (GCC). In 2021/22, one significant governance issue was reported by the GCC Internal Audit team. As part of the Internal Audit plan for Glasgow City Council, one unsatisfactory audit opinion has been issued in relation to the ICT arrangements within the Council. We note that the improvements required do not specifically relate to the Archaeology Service and are currently being progressed within Glasgow City Council. We are aware that challenges continue to be faced by the council and this may impact on the quality of financial information which can be presented to the Joint Committee for scrutiny.

Our work in 2022/23 will focus on:

- Consideration of the disclosures within the Governance Statement;
- Review of the coverage of internal audit arrangements during 2022/23, including any significant findings identified and the work done to address issues identified; and
- Consideration of the quality of reporting and information provided to key decision makers, and evidence of effective challenge and scrutiny.

Appendices

A – Code of Audit Practice Responsibilities

B – Independence report

C – Required communications with management

D – Timing of communications and deliverables of the audit

E – Audit fees

F – Additional audit information

Appendix A: Code of Audit Practice Responsibilities

Audited Body Responsibilities

Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

Corporate governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial statements and related reports

Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements
- ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Maintaining a sound financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and their future use;
- how they plan to deal with uncertainty in the medium and longer term; and
- the impact of planned future policies and foreseeable developments on their financial position.

Responsibilities for Best Value, community planning and performance

Local government bodies have a duty to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:

- the quality of its performance of its functions
- the cost to the body of that performance
- the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, the local government body shall have regard to:

- efficiency
- effectiveness
- economy
- the need to meet the equal opportunity requirements.

The local government body shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.

In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.

The Scottish Government's Statutory Guidance on Best Value (2020) requires

bodies to demonstrate that they are delivering Best Value in respect of seven themes:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality.

The Community Empowerment (Scotland) Act 2015 is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services.

Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.

Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards and, other than local government, requirements set out in the Scottish Public Finance Manual.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.

Appointed Auditors' Responsibilities

Appointed auditors' statutory duties for local government bodies are contained within Part VII of the Local Government (Scotland) Act 1973, as amended.

These are to:

- audit the accounts and place a certificate (i.e. an independent auditor's report) on the accounts stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves, by examination of the accounts and otherwise, that:
  - the accounts have been prepared in accordance with all applicable statutory requirements
  - proper accounting practices have been observed in the preparation of the accounts
- the body has made proper arrangements for securing Best Value and is complying with its community planning duties
- hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also be familiar with the statutory reporting responsibilities in section 102 of the Local Government (Scotland) Act 1973, including those relating to the audit of the accounts of a local government body.

Appendix B: Independence Report

Introduction

The FRC Ethical Standard and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

During the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY charged to you for the provision of services during the period, analysed in appropriate categories, are disclosed.

Required Communications

Planning Stage

- The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your directors and us;
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence.

Final Stage

- To allow you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- Details of non-audit/additional services provided and the fees charged in relation thereto;
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence;
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and
- An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our independence to act as your external auditor.

Appendix C: Required Communications

We have detailed below the communications that we must provide to the Joint Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Joint Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	This audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	This audit planning report
Significant findings from the audit	▸ 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 ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process ▸ Findings and issues regarding the opening balance on initial audits	Audit results report – TBD 2024

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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.	Audit results report – TBD 2024
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▸ The effect of uncorrected misstatements related to prior periods; ▸ A request that any uncorrected misstatement be corrected; ▸ Corrected misstatements that are significant; and, ▸ Material misstatements corrected by management.	Audit results report – TBD 2024
Fraud	▸ Enquiries of the audit committee to determine whether they have 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 a fraud may exist; and, ▸ A discussion of any other matters related to fraud.	Audit results report – TBD 2024
Internal controls	Significant deficiencies in internal controls identified during the audit.	Audit results report – TBD 2024

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	▸ 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.	Audit results report – TBD 2024
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards; and, ▸ Information about the general policies and process within the firm to maintain objectivity and independence.	Audit results report – TBD 2024
External confirmations	▸ Management's refusal for us to request confirmations. ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report – TBD 2024
Representations	Written representations we are requesting from management and/or those charged with governance.	Audit results report – TBD 2024

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. ▸ Enquiry of the management into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the management may be aware of.	Audit results report – TBD 2024
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit results report – TBD 2024
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit results report – TBD 2024
Best Value and Wider Scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider-scope audit.	Audit results report – TBD 2024
Key audit matters	The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.	Audit results report – TBD 2024

Appendix D: Timeline of communication and deliverables

	Audit Activity	Deliverable	Timing
November 2023	Risk assessment for Financial Statements and wider scope audit dimensions	Annual Audit Plan	Nov 2023
December	Update meeting with Finance Team	Submission of quarterly fraud return	
January 2024	Walkthrough of key systems and processes. Year end audit fieldwork		
February	Audit completion procedures	Annual Audit Report 2024 Annual Audit Plan - provisional	TBD 2024
March		Submission of quarterly fraud return	
June			
July			
August			
September			

Appendix E: Audit Fees

2022/23 Fees

The Archaeology Service's audit fee is determined in line with Audit Scotland's fee setting arrangements. Audit Scotland will notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

	2022/23	2021/22
Component of fee:		
Auditor remuneration – expected fee	**£9,600**	
Additional audit procedures (note 1)	-	
Audit Scotland fixed charges:		
Audit support costs	£500	
Sectoral price cap	(£11,200)	
Total fee	**£2,390**	**£2,120**

The expected fee, set by Audit Scotland, assumes that the Archaeology Service has well-functioning controls, an effective internal audit service, and an average risk profile.

Note 1

Where auditors identify that additional work is required because of local risks and circumstances in a body, the auditor may negotiate an increase to auditor remuneration by up to 20% of auditor remuneration, or more than that in agreement with and with approval from Audit Scotland.

Should additional audit requirements arise we will raise these with management through the course of the audit and agree variations as appropriate, and report the final position to the management within our Annual Audit Report.

In particular, at this stage of our planning work we would highlight the importance of the following matters to minimise additional audit time and associated costs:

- A detailed timetable for the provision of audit information
- Financial statements updated for audit comments and required adjustments
- Appropriate internal arrangements to consider the completeness of disclosures in the financial statements in line with the requirements of the Local government Code, and other disclosure lessons learned from similar bodies.
- Timely addressing of management actions from the 2021/22 audit.

Appendix E: Additional Audit Information

Introduction

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities under auditing standards

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Archaeology Service's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Read other information contained in the financial statements, the management reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Purpose and evaluation of materiality

- For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.
- Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.
- The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Audit Quality Framework / Annual Audit Quality Report

- Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.
- We support reporting on audit quality by proving additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122
- EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: https://www.ey.com/en_uk/about-us/transparency-report

This report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland through which the Auditor General has appointed us as external auditor of the Archaeology Service for financial years 2022/23 to 2026/27.

This report is for the benefit of the Archaeology Service and is made available to the Accounts Commission and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

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