Item 6

9th December 2022

West of Scotland Archaeology Service

Annual Audit Plan 2021/22



AUDIT SCOTLAND

Prepared for West of Scotland Archaeology Service

May 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of West of Scotland Archaeology Service. The main elements of our work include:

- an audit of the financial statements and provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the annual accounts including the Management Commentary and Annual Governance Statement. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report
- consideration of arrangements in relation to financial sustainability and the annual governance statement
- consideration of Best Value arrangements.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to West of Scotland Archaeology Service through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help West of Scotland Archaeology Service promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend committee meetings and actively participate in discussions.

Respective responsibilities of the auditor and West of Scotland Archaeology Service

5. The Code of Audit Practice (2016) sets out in detail the respective responsibilities of the auditor and West of Scotland Archaeology Service. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

West of Scotland Archaeology Service responsibilities

8. West of Scotland Archaeology Service is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, West of Scotland Archaeology Service has 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 deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

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

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in Exhibit 1. The materiality values for West of Scotland Archaeology Service are set out in Exhibit 1.

Exhibit 1

2021/22 Materiality levels for West of Scotland Archaeology Service

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. We have set it at 2% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£3,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£2,250
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. Using our professional judgement, we have assessed this as 5% of planning materiality.	£150

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of West of Scotland Archaeology Service, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. Significant risks are risks which have the greatest impact on our planned audit procedures. Exhibit 2 summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by the management override of controls As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Owing to the nature of this risk, assurances from management are not applicable in this instance	• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240*: The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for West of Scotland Archaeology Service because the body receives income in the form of contributions from participating member authorities. The simplicity and predictability of these transactions limits the opportunity for manipulation.

16. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for West of Scotland Archaeology Service because expenditure is primarily related to employee costs. The controls in place around the payroll system and the relative simplicity of transactions limit the opportunity for manipulation.

17. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Audit risk assessment process

18. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions

Introduction

19. The Code of Audit Practice sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

20. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and transparency, and value for money.

21. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the Annual Governance Statement and the financial sustainability of the body and its services. In light of the nature of operations and arrangements for processing transactions, we plan to apply the small body provisions of the Code of Audit Practice to the 2021/22 audit of West of Scotland Archaeology Service.

Financial sustainability

22. As auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

Annual Governance Statement

23. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information. We will review, conclude and report on the appropriateness of disclosures in the Annual Governance Statement.

Audit dimension risks

24. We have identified audit risks in the areas set out in Exhibit 3. This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3
2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
1. Strategic Documents A number of key strategic documents have not been kept up to date. These include: - Minute of Agreement - Business Plan - Service level Agreement - ICT Service Level Agreement Without a current and clearly documented strategy, business model and service level agreements there is a risk that the strategic objectives of the Service are not delivered.	Where the preparation and updating of key documents has been interrupted during the Covid pandemic response period, the Manager and Officer Steering Group will review the member councils' needs and aspirations towards building greater resilience into the Service and take this forward in revisions to the relevant documents during the next Financial Year.	Review of updates to Service Members. Ongoing dialogue with officers. Review of related disclosures. Comment and, where appropriate, recommendations in 2021/22 Annual Audit Report.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in Exhibit 4, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

26. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

27. We will provide an independent auditor's report to West of Scotland Archaeology Service and the Accounts Commission setting out our opinions on the annual accounts. We will provide the West of Scotland Archaeology Service and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

28. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

29. Exhibit 4 outlines the target dates for our audit outputs. Due to pressures associated with the Covid-19 pandemic we have agreed an audit timetable consistent with the prior year. This means that we will not meet the Audit Planning Guidance deadline of 31 October 2022.

Exhibit 4
2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2022	Issued May 2022 for circulation to next scheduled committee
Independent Auditor's Report	31 October 2022	November 2022 (TBC)
Annual Audit Report	31 October 2022	November 2022 (TBC)

Source: Audit Scotland

Audit fee

30. The proposed audit fee for the 2021/22 audit of West of Scotland Archaeology Service is £2,120 (2020/21: £2,060). In determining the audit fee, we have taken account of the risk exposure of the West of Scotland Archaeology Service, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

31. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

32. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of Internal Audit work undertaken during the year.

Independence and objectivity

33. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

34. The engagement lead (i.e., appointed auditor) for West of Scotland Archaeology Service is Stephen O'Hagan, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of West of Scotland Archaeology Service.

Quality control

35. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

36. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

37. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision.

We welcome feedback at any time, and this may be directed to the engagement lead.

West of Scotland Archaeology Service

Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

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