Grant Thornton

# External audit update

## November 2018

**The Highland Council**

# External audit overview

Our audit work is undertaken in accordance with International Standards on Auditing UK (ISAs) and the Audit Scotland Code of Audit Practice 2016. These outline our requirements in relation to planning, delivery and reporting of our audit work.

| Oct 18 – Feb 19 | Feb – April 19 | May – June 19 | July – Sept 19 | Sept 19 |
|---|---|---|---|---|
| | Best value assurance work – Expected reporting November 2019 | | | |
| **Planning and risk assessment** | **Interim review** | **Wider scope evaluation** | **Year end fieldwork** | **Concluding and reporting to officers and those charged with governance** |

### Planning and risk assessment

- Continuous process
- Audit Scotland Planning Guidance (October 2018)
- Risk based audit approach: identifying risk of material misstatement
- Build on our understanding of the Council and challenges and opportunities

### Interim review

- Updating our understanding of your key financial processes and controls
- Early substantive testing of transactions through the year
- Early consideration of emerging issues

### Wider scope evaluation

- Detailed review over areas of wider scope identified through audit planning
- Risk based approach considering Audit Scotland planning guidance.
- Working with Audit Scotland PABV to support BVAR

### Year end fieldwork

- Substantive test of detail
- Using data analytics tools to maximising our testing efficiency
- Focused on significant risks areas, accounts and transactions.

### Concluding and reporting to officers and those charged with governance

- Clear and concise reporting and conclusions
- Providing assurance to those charged with governance

# Wider scope audit

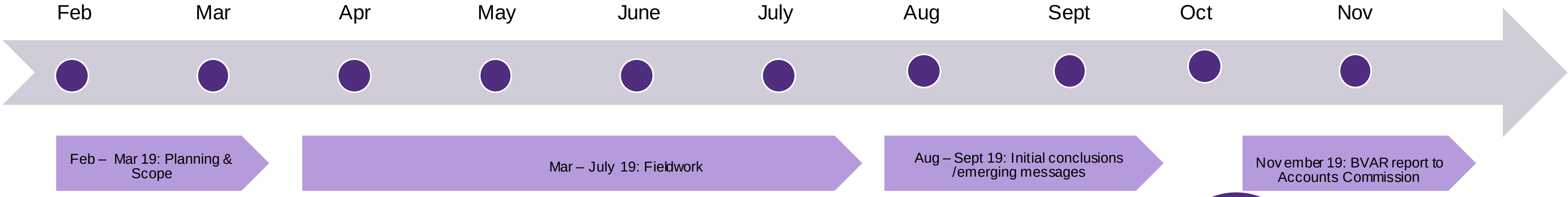
Under the Audit Scotland Code of Audit Practice and Audit Planning Guidance, we are required to consider and conclude on wider audit dimensions beyond the core audit of the financial statements. Over the course of our five year appointment, we consider those wider scope areas using a **risk based** approach.


Once in the five year auditors appointment period, authorities will be subject to a BVAR review. For Highland Council the BVAR review is due in 2018/19. This review will consider the wider audit dimensions as well as the Accounts Commission's key strategic priorities.

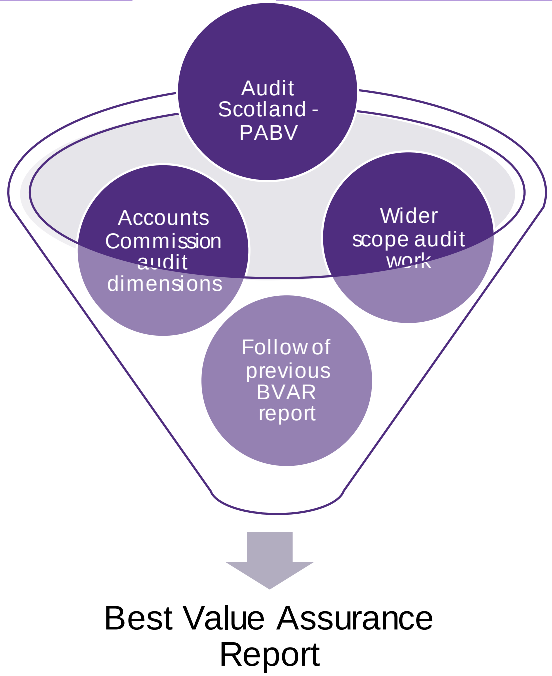
# Accounts Commission Best Value Assurance Report (BVAR)

We will work with Audit Scotland's Performance Audit and Best Value team to undertake the BVAR work culminating in the BVAR report from the Controller of Audit (expected November 2019).

## Indicative timelines




The BVAR review builds upon our wider scope work performed over the last three years of our audit as well as focusing on the Accounts Commission's key strategic priorities. This report seeks to provide the Commission with assurance on the council's statutory duty to deliver Best Value, including follow up of the Council's previous report in 2010.



# Local Government – Accounting update for the financial year ending 31 March 2019

# Technical updates 2018/19

## Purpose

This report provides a brief update on changes in accounting standards and interpretations from the 2018/19 Code of Practice on Local Authority Accounting ('the Code') that may be relevant to the Council. We also highlight forthcoming changes that the Council should ensure they have arrangements in place to ensure readiness for the new standards.

### *IFRS 9: Financial Instruments*

The introduction of IFRS 9 produces a more principles based approach to the accounting of financial instruments, including their classification and measurement. The main features of the new standard are summarised in the table.

| IFRS 9 | Impact |
|---|---|
| Criteria for classification of financial assets | IFRS 9 applies a single classification and measurement approach to all types of financial assets based on:<br>- The body's business model for managing financial assets;<br>- The contractual cash flow characteristics of the financial asset.<br>This represent a departure from IAS 39's reliance on the terms of an instrument (traded or not). |
| Measurement categories for financial assets | The new measurement categories for financial assets are as follows:<br>- Financial assets measured at amortised cost<br>- Financial assets measured at fair value through other comprehensive income<br>- Financial assets measured at fair vale through profit or loss |
| Impairment | IFRS 9 contains a forward looking expected loss impairment model and requires the same measurement basis for impairment for all items subject to its impairment requirements. |
| Application of International Public Sector Accounting Standards | None of the of the IPSAS have been updated for the introduction of IFRS 9 therefore ISPAS 29: *Financial Instruments Recognition and Measurement* and IPSAS 30: *Financial Instruments Disclosures*, should only be followed where they remain consistent with IFRS 9. This is with the exception of where IPSAS 29 is used for the basis of the provisions in relation to soft loans received and receivable. |

Section 7: *Financial Instruments* of the 2018/19 Code has been amended to reflect the changes through the introduction of IFRS 9. The 2018/19 Code has introduced the incurred loss model for the impairment of non-contractual debts including relevant disclosure requirements as a consequence of the expected credit loss model for impairment being introduced by the adoption of IFRS 9 (with the exception of non-contractual debts). It will be important that officers review the requirements of the new standard, particularly around disclosure requirements in the preparation of the 2018/19 financial statements.

# Technical updates 2018/19

### IFRS 15: *Revenue from Contracts with Customers*

The core principle of IFRS 15 is that a body should recognise revenue for the transfer of goods or services to customers at an amount that reflects the expected price. A body recognises revenue in accordance with that core principle by applying the following five steps:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The impact of the introduction of IFRS 15 will vary across organisations. The Code provides steps by which authorities should consider their revenue streams to determine revenue to be recognised.

The Code includes an adaptation covering revenue relating to such things as council tax, rates etc to be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transaction and there can be no difference between the delivery and payment dates. Consequently we do not anticipate any change in revenue recognised through these streams.

**Audit action**

We will continue to work with officers to understand the impact of the introduction of IFRS 9 and IFRS 15 on the Council's financial statements and any potential changes in accounting policy that arise from these. We do not anticipate that IFRS 9 will have a material impact on the Council's financial statements. However, further assessment is required around the impact of IFRS 15, particularly over contact arrangements. We will provide an early review of the proposed year end accounting treatment, providing relevant technical insight and challenge to provide assurance that the year end financial statements have been prepared in accordance with the Code and applicable accounting standards.

### IFRS 16: *Leases*

The effective date of IFRS 16 is 1 January 2019, therefore will apply to public bodies until 2019/20, subject to both EU and HM Treasury adoption and adoption within the Code of Practice on Local Authority Accounting.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 Leases for lessees. It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. It is important that officers consider lease arrangements held to ensure readiness for adoption of the new standard.

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