KPMG

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

West Dunbartonshire Council

Audit plan overview
Audit: Year ending 31 March 2011

Draft 14 February 2011

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

This audit plan overview is presented under the terms of our appointment by the Accounts Commission.

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About this report
This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice*.

This report is for the benefit of only West Dunbartonshire Council and is made available to the Accounts Commission and Audit Scotland (all together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy 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, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Complaints
If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Grant Macrae, who is the engagement leader for our services to the Council, telephone 0131 527 6795, email grant.macrae@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Lorraine Bennett, our Head of Audit in Scotland, either by writing to her at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 222 2000 or email to lorraine.bennett@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

Introduction

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice*. This specifies a number of objectives for our audit.

The Accounts Commission appointed KPMG LLP as auditors of West Dunbartonshire Council ("the Council") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2006-07 to 2010-11, inclusive. This document summarises our responsibilities as external auditors for the year ending 31 March 2011 and our intended approach to issues impacting the Council's activities in that year.

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ("APB") and the wider responsibilities embodied in Audit Scotland's *Code of Audit Practice*. Under the *Code of Audit Practice,* auditors address and comment upon a number of objectives, together with complying with a number of obligations. The *Code of Audit Practice* also places a number of obligations on the Council.

Auditors' objectives in relation to the *Code of Audit Practice* are to:

- provide an opinion on the Council's financial statements;
- review and report on the Council's grant claims and other returns submitted by the Council, to the extent required by other authorities, and in accordance with any guidance issued by Audit Scotland;
- review and report on (as required by relevant legislation, the *Code of Audit Practice* and any guidance issued by Audit Scotland):
  - the Council's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct; prevention and detection of corruption; and its financial position;
  - the Council's arrangements to achieve Best Value and to comply with their community planning responsibilities;
  - other aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources; and
  - the Council's arrangements for preparing and publishing statutory performance indicators.

We conduct our audit of the financial statements in line with International Standards on Auditing (UK and Ireland), taking into account the UK Auditing Practices Board's Practice Note 10 which was updated in October 2010. We have a professional responsibility to report if the financial statements do not comply, in any material respect, with the IFRS-based Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 ("the Code"), taking account of the international financial reporting standards issued by the International Accounting Standards Board and relevant guidance issued by the Chartered Institute of Public Finance and Accountability ("CIPFA") / Local Authorities (Scotland) Accounts Advisory Board ("LASAAC").

As part of our audit we also review the financial information contained in the foreword to ensure that it is consistent with the financial statements. We also review the statement on internal control to ensure it has been prepared in accordance with the Code, taking account of the financial statements and other information gained by us as auditors.

Introduction (continued)

International Standard on Auditing (UK and Ireland) 240: *The auditor's responsibility to consider fraud in an audit of financial statements* applies to our work. In particular, this Standard requires us to consider directly the possibility that management may choose to override the system of internal controls that otherwise may appear to be operating effectively. The Standard requires the auditor to maintain an attitude of professional scepticism, recognising the possibility that a material misstatement due to fraud could exist – notwithstanding the auditor's past experience of the Service with regard to the honesty and integrity of management and those charged with governance.

In accordance with International Standard on Auditing (UK and Ireland) 260: *Communication of audit matters with those charged with governance* we will report to you all non-material, non-trivial errors, which have not been adjusted.

Audit methodology

Our ability to deliver a quality audit depends on our team maintaining a comprehensive understanding of the Council so that we can effectively tailor our approach and ensure it appropriate.

Our audit methodology is based on:

- a strong emphasis on risk assessment, allowing us to identify and pre-empt emerging issues, which may not be reflected in your accounting records, and on which we will focus our audit efforts;
- an audit aligned to your operational strategies;
- communication with management at each stage of the audit process to reduce the likelihood of surprises; and
- a commitment to continuous improvement.

Our approach to the audit is based on understanding and assessing the Council's structures and processes for decision making, accountability, control and behaviours and what risks can affect the financial statements. We then consider the audit procedures to address any identified weaknesses and risks.

Consistent with the requirements of the *Code of Audit Practice*, corporate governance work will include consideration of the Council's reviews of its systems of internal control, including reporting arrangements, prevention and detection of fraud and irregularity, standards of conduct and arrangements for the prevention and detection of corruption, and the Council's financial position.

Our work consists of the following four key stages, shown in more detail on the following page:

- planning;
- control evaluation;
- substantive procedures; and
- finalisation.

Planning guidance provided by Audit Scotland includes a priorities and risks framework giving a number of risk areas of potential application at the Council. We will consider this guidance as part of our planning and risk assessment procedures for the audit, shaping our approach in accordance with any additional matters which consideration of the guidance identifies.

To maintain an efficient audit process, we recommend that any adjustments to the financial statements are left until the end of the audit process to avoid multiple versions of the statements.

Audit methodology (continued)

We undertake our work on your financial statements in four key stages.

1 Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

2 Control Evaluation

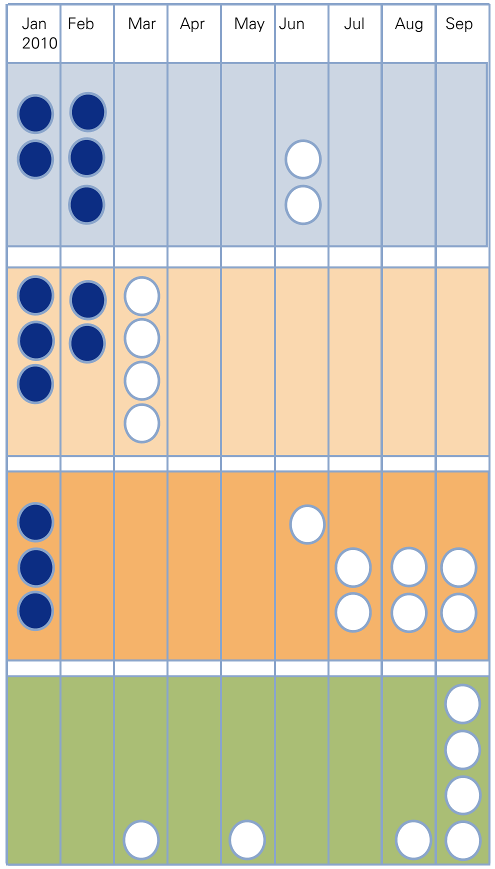
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of significant misstatement

3 Substantive procedures

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

4 Finalisation

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit and performance review committee reporting



Key

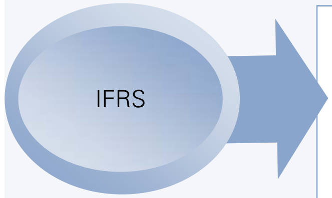
- ● complete (control and substantive work undertaken to date relates to restatement of the 2009-10 financial statements under the Code)
- ○ to be completed

Areas of audit emphasis

Our reports to management and members will update you, throughout the year, with our findings in respect of existing and emerging areas of audit emphasis.

During our audit planning work we have identified the following areas which will require particular consideration as part of our audit. This list is not exhaustive; our audit planning and risk assessments are ongoing throughout the audit.

Issue



Audit areas affected

- Financial statements
- Accounting policies

Impact on audit plan

The Code is the first to be based on International Financial Reporting Standards. The transition to an IFRS-based code from a UK GAAP SORP results in a number of significant changes in accounting practice. These changes need to be adopted at the beginning of the earliest comparative period, being 1 April 2009. This requires the Council to obtain sufficient information to restate the prior year financial statements. The key accounting changes are:

- Under IAS 20: *Accounting for government grants and disclosure of government assistance*, grants and contributions for capital purposes will be recognised as income immediately, rather than being deferred and released to match depreciation.
- Property leases are classified and accounted for as separate leases of land and buildings and the criteria on which lease classification is determined has been changed which may result in a number of arrangements previously accounted for as operating leases being recognised as finance leases.
- The Code requires the Council to account for investment properties under IAS 40: *Investment properties*. The Code interprets IAS 40 by defining investment properties as those held solely to earn rentals and / or for capital appreciation, and not used to deliver services or for administrative purposes. Any changes in valuation will also have to be recognised within the comprehensive income and expenditure statement as opposed to any available revaluation reserve balance.
- All impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset. Previously the SORP made a distinction between impairments due to the consumption of economic benefits and impairments due to a fall in economic benefits and this is no longer applicable.
- Employee benefits are accounted for as they are earned by employees. This requires accruals for items such as holiday pay, not previously required by the SORP.

We met with management in January 2011 to discuss the implications of these changes for the Council and provided some additional guidance for consideration. Other less significant changes to the Code will be discussed with management as part of the audit process. We will review all material adjustments.

Areas of audit emphasis (continued)

Our reports to management and members will update you, throughout the year, with our findings in respect of existing and emerging areas of audit emphasis.

Issue

Audit areas affected

- Income and expenditure
- Financial performance and budgeting

Summary of audit approach

2010-11 outturn

For the year ended 31 March 2010, the Council's general fund balance increased by £1.6 million from £5.0 million to £6.6 million. Included within this balance were earmarked commitments of £3.2 million (2009: £4.7 million). The Council's uncommitted reserves in 2009-10, therefore, increased by £3.1 million to £3.4 million.

The 2010-11 budget included a total of approximately £2.1 million of management adjustment savings and £2.6 million of council approved savings. The achievement of these savings was incorporated across the budget headings within the general fund revenue budget monitoring reports, but have also been monitored during the year by the Strategic Finance Working Group.

As at 26 January 2011, the Council is forecasting a favourable variance of £3.1 million for the year. If delivered by the year end, this will ensure that the Council's uncommitted general fund balances are restored above the Council's target minimum level general fund balance of £4.1 million.

We will continue to monitor financial forecasts of the year end position, paying particular attention to those areas that could impact on the level of uncommitted general reserves at 31 March 2011.

As at 26 January 2011 the Council is forecasting capital expenditure of £20.5 million against an original budget of £25.8 million. Spend to period nine was £13.2 million, in line with the phased budget to the period.

2011-12 and beyond

The Council has set its budget for 2011-12, confirming a 0% increase in council tax for the fourth year in a row, and we will consider and report on the revised timescale for budget setting adopted for 2011-12. Following a revised funding allocation from the Scottish Government which provided an additional £1.0 million, a range of savings options totalling £1.9 million were agreed by Council. As part of the budget process, a £1 million regeneration fund was agreed from Council reserves, as well as a £0.2 million allocation to a social work contingency fund.

We will review actions taken, including those of the strategic working finance group, to achieve the 2010-11 to 2013-14 savings targets as part of our review of medium to longer term financial sustainability plans.

Areas of audit emphasis (continued)

Issue	Summary of audit approach
Non-current assets → Audit areas affected: • Property, plant and equipment • Investment properties	The valuation of property, plant and equipment remains an area of audit emphasis in 2010-11. We will continue to conduct audit work over capital additions to ensure that capitalisation is in accordance with the Code and IAS 16 *Property, plant and equipment*. The application of the Code has also triggered the Council to review its method for valuation of its social housing properties. This is likely to lead to an adjustment in the carrying value of properties. We liaise with both finance and estates over the revised basis of valuation adopted, to ensure that this continues to meet the requirements of the Code. We will ensure that where expenditure replaces an existing asset the replaced asset is removed from the accounting records. We will also ensure that the Council has applied component accounting in accordance with the Code. Property market conditions mean that we will also continue to pay particular attention to the valuation of any asset held for disposal at market value, as well as the valuation of investment properties.
Pension assumptions → Audit areas affected: • Pension assets and liabilities • Past service cost / credit	The government announced on 8 July 2010 that they will in future use the consumer prices index ("CPI") in place of the retail prices index ("RPI") as the index for determining pension increases for public sector pension schemes. We understand that this will affect minimum required increases, applying to both current and future pension payments. CPI is generally expected to be lower than RPI in the long term and this should lead to lower pension increases. In addition, the cost of benefit accrual will also be correspondingly lower. We will consider the impact that this has on the valuation of the local government pension scheme and the treatment of any gain arising as a result of the change. Our audit of the pension information to be included in the financial statements will also consider the actuarial assumptions used by comparing these to KPMG's acceptable parameters by involving discussions on these key assumptions with our internal pensions specialists.

Materiality

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

A matter is material if its omission or misstatement would reasonably influence the decision of an addressee of the auditors' report. The main focus of our attention in deciding whether a matter is material will be the addressees of the audit report. However, our position as public auditors places a responsibility upon us to go beyond consideration of the addressees of our report to consider the interests of other stakeholders such as customers, regulators and the wider general public.

Assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

KPMG LLP uses a base calculation for materiality which is normally derived from the total revenue base. This approach is in line with ICAEW guidance.

Under International Auditing Standard 260 *Communication of audit matters to those charged with governance* we are required to report any uncorrected audit differences to the audit and performance review committee for its consideration, unless the differences are clearly trivial. Our opinion on the financial statements and the impact of any outstanding audit differences will depend on the materiality of any remaining uncorrected differences following discussion with management. In this context, we propose to report the following:

- individual errors, corrected and uncorrected, over £350,000;
- in aggregate, smaller errors over £175,000;
- matters involving a significant level of judgement; and
- any significant non-recurring items impacting the result for the year.

Any movement which may lead to change in the financial position at the year end (for example a change in surplus or deficit position on uncommitted general fund balance) will be subject to further audit scrutiny.

Internal audit

We will continue to liaise with your internal auditors to minimise duplication of effort.

International Standard on Auditing (UK and Ireland) 610 *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect, if any, on external audit procedures;
- obtain a sufficient understanding of internal audit activities to assist in planning the audit and developing an effective audit approach;
- perform a preliminary assessment of the internal audit function when it appears that internal audit is relevant to our audit of the financial statements in specific audit areas; and
- evaluate and test the work of internal audit, where use is made of that work, in order to confirm its adequacy for our purposes.

We will continue liaison with your internal auditors and update our understanding of their approach to ensure duplication of effort is minimised. We will review the internal audit work proposed or completed to determine the extent of assurance that can be taken from the work performed.

At this stage we have identified that the following planned and completed internal audit reviews are relevant to our own responsibilities:

- treasury management;
- payroll;
- main accounting;
- debtors;
- IFRS arrangements;
- statutory performance indicators; and
- regularity audits.

Governance and scrutiny arrangements

Priorities and Risks Framework

Audit Scotland prepares its priorities and risks framework ("PRF") in the local government sector, to provide a national planning tool for auditors to use when planning risk-based audits of local authorities. The 2008-09 PRF was prepared as a three year document and details of this were provided in our audit plan overview for 2008-09, presented to the audit and performance review committee on 25 March 2009. The main elements of this are considered to be still relevant to 2010-11, albeit with appropriate change of focus to take account of the economic climate.

Throughout our audit, we will be considering the specific impact on the Council of these ongoing challenges, combined with our work on shared risk assessment and joint scrutiny planning, and the single outcome agreement.

Shared Risk Assessment and joint scrutiny planning

Following the publication of the Crerar report in September 2007, the Scottish Government's response stated its aim of establishing a simplified and coherent approach to delivering local government scrutiny. A key aspect of this agenda is to better coordinate and streamline scrutiny and achieve greater effectiveness, while at the same time protecting the independence of scrutiny bodies. Scrutiny bodies that engage with local government established a shared assessment of the risks in each council and developed a range of proportionate approaches in response to the risk assessment. These scrutiny bodies include Audit Scotland, HM Inspectorate of Education, the Social Work Inspection Agency, the Scottish Housing Regulator, NHS Quality Improvement Scotland, and the Care Commission.

Local area networks ("LANs") have been established for each council, with the Council chosen in 2009 to be one of the development sites for the new process. The LANs bring together these local scrutiny representatives in a systematic way with the common aims of joint scrutiny scheduling and planning, shared risk assessment and the delivery of a single corporate assessment through the Best Value 2 audit process. The local auditors are key members of the LAN for each council.

The role of LAN representatives is to ensure that relevant data collected from councils and other sources by their organisation is analysed and bought to the LAN for discussion. All LAN members will discuss and agree a shared risk assessment of the council and identify a proportionate scrutiny response.

In the National Scrutiny Plan for Local Government 2010-11, Scotland's scrutiny agencies jointly set out the strategic scrutiny work they will undertake in councils during the year. The agencies are coordinating their work and focusing on the key issues at each council, in order to make scrutiny more efficient and effective.

The National Scrutiny Plan is supported by an assurance and improvement plan ("AIP") for each council. The existing plan covers the period 2010-13 and includes all planned scrutiny activity at corporate and service level based on a risk assessment of the Council. We continue to participate in the LAN for the Council, with a refreshed and updated AIP currently being prepared.

Governance and scrutiny arrangements (continued)

Single outcome agreement

Single outcome agreements ("SOAs") are a mechanism for aligning public sector activity to national priorities and the Accounts Commission has no immediate plans to audit their delivery. Best Value 2 will draw upon evidence contained within a council's SOA in order to consider outcomes more widely, as planning for, and managing the delivery of, outcomes should be central to all aspects of a local authority's activity. Successful delivery of SOAs will depend on the degree to which they are supported by effective planning, budgeting and performance management arrangements at service-level, within councils and across partner agencies.

During the audit cycle, our responsibilities extend to updating our understanding on the approach the Council and its partners are taking to:

- developing governance and accountability arrangements to support the SOA in line with Scottish Government advice;
- ensuring explicit links are made between high-level SOA outcomes and more detailed service-level outcomes, outputs and activities – both within a council and across community planning partners;
- ensuring the SOA is supported by robust resource planning arrangements at a service-level within the Council and jointly with community planning partners;
- ensuring the SOA is supported by robust performance management and reporting:
  - corporately
  - at service level
  - jointly with partners;
- reporting progress towards SOA outcomes to the Scottish Government, in line with guidance on annual reporting; and
- undertaking Public Performance Reporting ("PPR") on progress towards SOA outcomes, including linking SOA outcomes and indicators with other forms of PPR such as SPIs (specified and unspecified), other local performance indicators and community planning partners' public performance reporting – all in accordance with statutory guidance on PPR issued in 2003.

We will report our findings during the year and will include a summary of our findings in our 2010-11 annual audit report to members and the controller of audit.

National Fraud Initiative

We monitor and report on the approach, commitment and progress of the Council's participation in the 2010-11 NFI exercise.

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use.

NFI helps participating bodies to identify possible cases of fraud, and to detect and correct any under or overpayments. NFI also helps auditors to satisfy their duties to assess bodies' arrangements for preventing, deterring and detecting fraud. The 2008-09 NFI exercise in Scotland helped to identify £21 million[1] of outcomes[2] since the previous exercise.

The information required for the 2010-11 NFI exercise should now have been uploaded by the authority.

Auditors are expected to monitor bodies' participation in NFI. In 2010-11 this will include:

- monitoring that participants reviewed their approach to NFI having regard to the self appraisal checklist in the national report published by Audit Scotland in May 2010;
- discussions with the Council about risk based datasets and promoting NFI where appropriate;
- ensuring that the Council complied with the privacy notice (previously referred to as fair processing) requirements in the 2010-11 NFI Instructions and Code of Data Matching; and
- monitoring bodies' preparations for the 2010-11 data upload and checking that a prompt start is made to following up NFI 2010-11 matches at the end of January 2011.

We will include any significant findings in relation to our work on NFI within the annual audit report to members and the controller of audit.

Fraud returns

Audit Scotland's *Code of Audit Practice* requires auditors to make submissions of instances of fraud and irregularity. We will liaise with your internal auditors and relevant finance staff in advance of completing these submissions.

[1]The value of NFI to the public purse is measured by the amounts of overpayments (whether due to error or fraud) that are identified and stopped, estimates of amounts that bodies will save by stopping incorrect payments that would have continued if not identified by NFI and, in some cases, attaching an appropriate value to other significant findings.
[2] Source: Audit Scotland, "*National Fraud Initiative in Scotland : 2010-11, Instructions for participants*"

Best Value; Statutory performance indicators

We review and report on the Council's arrangements to achieve Best Value and compliance with statutory performance indicators.

The Audit of Best Value and Community Planning

The Local Government in Scotland Act 2003 (the 2003 Act) established Best Value and Community Planning as statutory duties for local authorities. In response to these duties, the Accounts Commission introduced specific arrangements for the audit of Best Value and Community Planning (Best Value audits) under section 53 of the 2003 Act. Currently Best Value audits are carried out by central teams within Audit Scotland working in partnership with local auditors.

All councils have now had an initial (or 'baseline') Best Value audit. The Accounts Commission has reviewed its approach to Best Value audits and tested its revised approach through five pathfinder audits in East Ayrshire, Dundee, Angus, Highland and Scottish Borders Councils. The revised approach, Best Value 2 ("BV2") follows the same legislative framework, but will have a more proportionate a risk based approach that the initial Best Valu audits with an increased focus on impact and outcomes and the differences the council and its partners are making for their local communities. This is linked directly to the scrutiny assessment of a council made by local area networks in preparing the assurance and improvement plan for a council.

The Council has been subject to a number of follow-up reports by the Accounts Commission in respect of progress against its agreed Best Value improvement plan, including meetings between members of the Accounts Commission and members of the Council. A key component of the shared risk assessment, therefore, continues to be the extent to which implementation of the Council's improvement plan has had the anticipated impact, in line with expected timescales. We will continue to conduct follow-up reviews to assess the progress the Council is making against its agreed improvement priorities and report on this locally, feeding the results into future risk assessments.

Statutory performance indicators

The statutory deadline for the publication by the Council of statutory performance indicators ("SPIs") is 30 September 2011. In 2009-10 there was a significant shift in approach, reflecting the changing environment in which local authorities operate. This change in approach significantly reduced the number of specific indicators that councils are required to use, and include measures designed to encourage councils to use a greater range of information as part of their mainstream performance management and reporting activities.

For 2010-11 the approach towards SPIs remains consistent with that adopted in 2009-10. During the audit cycle, we will concentrate on the arrangements and systems that the Council uses to generate performance results and consequent reports. Our testing may require sampling of data to test reliability, but the risk of ensuring accuracy and relevance of performance indicators lies with the Council.

Audit Scotland national studies

Audit Scotland undertakes a programme of studies on financial management, governance and performance on behalf of the Accounts Commission and Auditor General.

Local response to national studies

Audit Scotland periodically undertakes national studies on topics relevant to the performance of local authorities. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at individual organisation level, as appropriate. In order to ensure that added value is secured through the role of Audit Scotland and its appointed auditors, auditors will continue to ensure that audited bodies respond appropriately to reports from the Auditor General's and Accounts Commission's programme of national performance audits. We will therefore be required to make returns to Audit Scotland that performance reports have been considered by the Council and that action has been planned in response.

As part of our 2010-11 audit plan we are required to assess how the Council has responded to relevant national performance study reports published between March 2010 and March 2011.

The template report has not yet been issued to auditors but is likely to consider:

- if the report was discussed at any committee? If so, which committees and on which dates?
- if the Council carried out a self-assessment against the national report's findings?
- if the Council produced an action plan (a copy of which will be provided to Audit Scotland)?
- how progress against the action plan is being monitored?

In addition, during 2010-11 auditors are required to undertake targeted follow up evaluation of audited bodies' action in response to the reports *Improving public sector purchasing* (published July 2009) and *Sustainable waste management* (published September 2007).

The aim of this work is to identify whether Audit Scotland needs to do more work to promote national reports, provide initial information for any more detailed local follow-up that may take place, and inform Audit Scotland's annual report.

Scotland's public finances: responding to the challenge

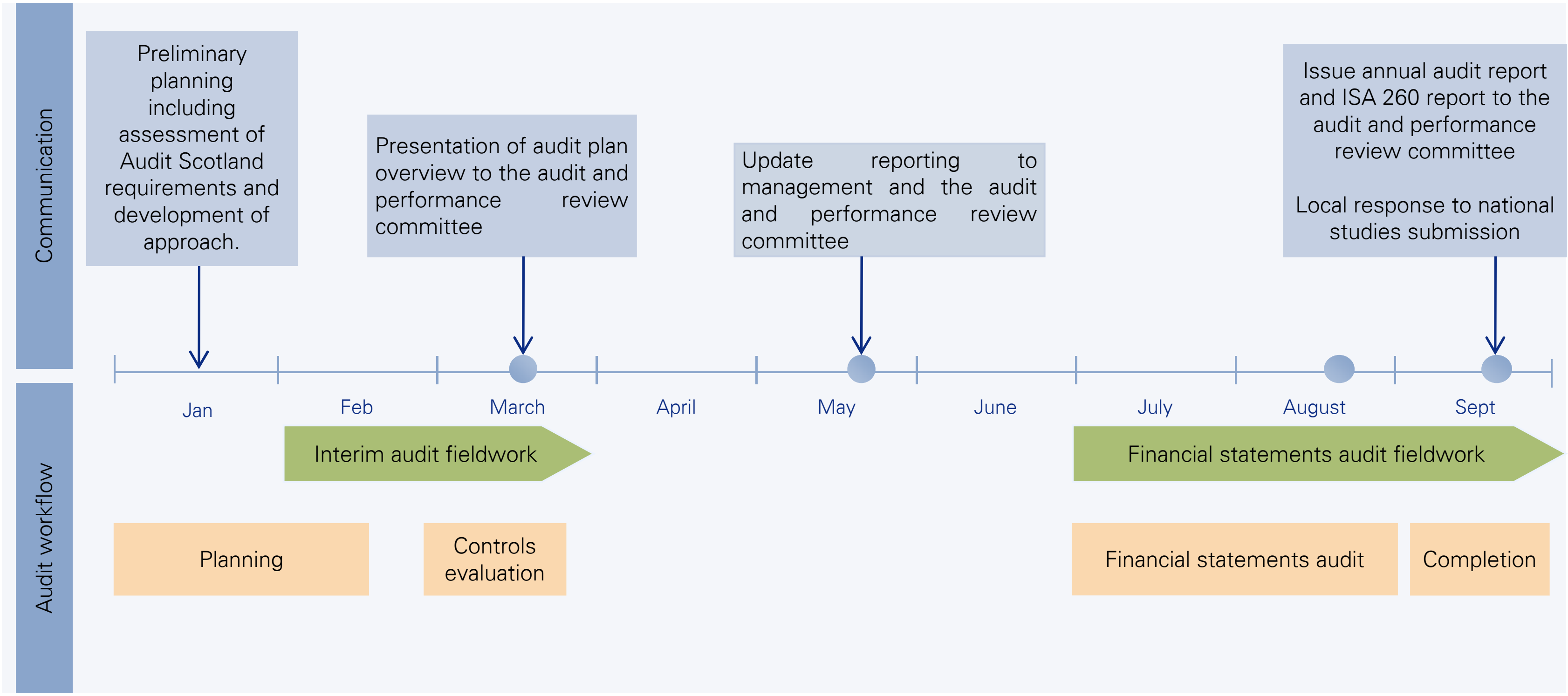
Audit Scotland published *Scotland's public finances: preparing for the future* in November 2009. The review looked at the country's financial situation and at how the Scottish budget is scrutinised and decided. Audit Scotland developed the scope of a follow-up review, *Scotland's public finances: responding to the challenge*. This review will consider the following areas across all sectors:

- the extent to which action plans have been defined and published;
- quantification of budget cuts required;
- the impact of budget cuts on service redesign and workforce plans; and
- governance arrangements.

Audit Scotland has detailed the information required to be gathered by auditors to inform this review, however, the Council was not selected as one of sample organisations across local and central government and NHS boards from whom information was to be sought by auditors. We will, however, discuss with management the type of information being requested so they may consider how this can be best used within the Council going forward.

Audit timeline

We communicate with management and the audit and performance review committee at each stage of the audit process to help reduce the likelihood of surprises.



= Audit performance review committee meeting

Along with the procedures identified above, we will also have regular update meetings with the finance team to ensure that any issue identified during the audit is raised in a timely manner.

Reporting and fees

Reporting

Through regular meetings at appropriate levels, there will be open and regular discussion between management, auditors and management. As a result, accounting and control issues can be identified and reported to allow you to manage them throughout the year.

The *Code of Audit Practice* requires us to communicate to management findings arising as a result of the audit work completed. Reports to management will be submitted throughout the course of the year, with draft reports discussed and agreed with management and action plans developed to include the recommendations, target dates for implementation and the member of staff responsible for implementation.

We envisage submission of the following reports in respect of 2010-11:

- interim management reporting based on the priorities and risk framework, findings of our testing of financial, strategic and IT controls and arrangements in respect of performance management, and public performance reporting;
- report to those charged with governance setting out findings surrounding the financial statements process; and
- annual audit report to the Council and the Controller of Audit.

We will also submit information on the following areas to Audit Scotland during the year:

- NFI;
- fraud returns;
- Audit Scotland national reports;
- Best Value; and
- grant claims.

Fees

Audit Scotland requires that the fee for our work within the limits of an indicative range, depending on the assessment of risk and other factors facing the Council. Audit Scotland is planning to reduce the average charges made to audited bodies by around 20% in real terms over the four audit years starting with 2010-11. The indicative charges for 2010-11 have reduced by an average of 2.5% in cash terms. Additional work for the transition to IFRS is not included in the indicative charges.

We have agreed a fee of £222,175 (*2009-10 £217,900*) with management, which represents a point 6% above the mid-point of the indicative range (*2009-10: 5.8% above)*. This includes the additional work expected in auditing the restatement of the 2009-10 financial statements under the Code. The fixed charge element of the fee payable to Audit Scotland is £84,500 (*2009-10: £97,500*).

Financial statements – approach to major captions

We identify account balances and significant classes of transaction and focus our work on identified risks over completeness, existence, accuracy, valuation, ownership and presentation.

Area	Summary of audit approach
Comprehensive income and expenditure statement	
Service level expenditure & joint board expenditure	*Completeness, existence, accuracy presentation of non-pay expenditure*: • identify and test the operation of controls over the payment and recording of expenditure to third parties; • discuss significant variances between management's expectations, based on internal budgets, and the year end outturn; • review and test management's process for recording transactions on and around 31 March to ensure that expenditure is recorded in the correct accounting period; and • discuss management's categorisation of expenditure across expenditure categories and compare to the BVACOP and the Code requirements, while considering consistency with previous years.
Staff costs	*Completeness, existence and accuracy of pay expenditure*: • identify and test the operation of controls over access and amendments to the payroll system, including 'starters' and 'leavers'; • review and test controls in place to ensure that the financial ledger and the financial statements accurately reflect payments made to staff from the payroll system; • discuss significant movements between the current and prior year staff costs, taking into account pay awards, single status and changes in the staffing profile; • ensure that the Council has recognised short term employee benefits within the financial statements in accordance with the Code; and • agree disclosures in the financial statements for officers emoluments and members allowances to source documentation.
Significant trading operations ("STO")	*Completeness, existence and accuracy of STO income and expenditure:* • ensure the Council has reviewed its trading operations in the year against the Code criteria; • identify and test the operation of controls over the payment and recording of expenditure to third parties by the Council's STOs; • discuss significant variances between management's expectations, based on internal budgets, and the year end outturn; • review and test management's process for recording transactions on and around 31 March for STO income and expenditure to ensure that transactions are recorded in the correct accounting period; and • consider the financial performance of each STO over the previous three-year period against the statutory requirement to break even.

Financial statements – approach to major captions (continued)

Area	Summary of audit approach
Service level income & government grant income	*Completeness, existence and accuracy of service level income:* • identify and test the operation of controls over the receipt and recording of income from third parties; • discuss significant variances between management's expectations, based on internal budgets, and the year end outturn; • review and test management's process for recording transactions on and around 31 March to ensure that income is recognised in the correct accounting period; • discuss management's categorisation of income across categories and compare to the BVACOP and Code requirements, while considering consistency with previous years; and • agree grant income to third party support.
Income from local taxes and housing rents	*Completeness, existence and accuracy of income from local taxes and housing rents:* • identify and test the operation of controls over the receipt and recording of income from tax payers and housing tenants, including controls over the council tax, non-domestic rate and housing rents systems and interface controls between these feeder systems and the financial ledger; • discuss significant movements between the current and prior years' income, taking into account changes in rates and charges and the profile of rate payers and housing stock; • review and test management's process for recording transactions on and around 31 March to ensure that income is recognised in the correct accounting period; and • ensure the housing revenue account, council tax income account and non domestic rates account have been prepared in accordance with the Code and are consistent with underlying records.

Financial statements – approach to major captions (continued)

Area	Summary of audit approach
Balance Sheet	
Property, plant and equipment • additions • disposals • depreciation • valuation & impairment	*Completeness, existence, valuation and accuracy of fixed assets*: • agree significant additions to invoices and physically verify a sample of these to confirm existence and ensure capital and revenue expenditure has been treated correctly in the financial statements; • discuss management's process for identifying disposals and review documentation, such as bank receipts and sales agreements, for significant disposals to ensure that income is correctly recorded; • discuss significant movements between the current and prior years' depreciation charge, taking into account additions and disposals during the year; • ensure that property, plant and equipment is valued in accordance with IAS 16 as interpreted by the Code. • agree movements in asset values, including surplus assets held for sale, to independent confirmation from the Council's valuer, ensuring the new revaluation reserve has been accurately constructed; and • review the Council's capital programme for evidence of potential impact on the current values of land, buildings and equipment.
Long term receivables	*Completeness, existence, valuation and accuracy of long term receivables*: • review long term receivables for reasonableness, comparing balances to expectations based on prior year comparatives; and • assess whether debt over 1 year is fully recoverable, or has been appropriately provided for.
Deferred premiums on early repayment of debt	*Completeness, existence and accuracy of deferred premiums*: • review movements in deferred premiums with reference to underlying treasury management documentation for accuracy; and • ensure amortisation of deferred premiums and the capitalisation of new premiums has been conducted in accordance with the Code.
Inventory	*Completeness, existence, valuation and accuracy of stock*: • identify and test the operation of controls over inventory counts performed during the year and on 31 March 2011; • agree stock balances at 31 March 2011 to inventory control sheets prepared during annual inventory counts; and • discuss significant movements in inventory balances compared to previous years, taking into account changes in store arrangements and other local factors

Financial statements – approach to major captions (continued)

Area	Summary of audit approach
Receivables due within one year: • local taxation • housing rents • government grants • trade receivables • prepayments, accrued income and other receivables	*Completeness, existence, accuracy and valuation of receivables*: • identify and test the operation of controls over recording and receipt of amounts due; • sample test receivables balance as appropriate; • review and discuss with management changes in the aging profile of receivables, including consideration of cash received after the year end; • sample test accruals and prepayments to invoices or other third party documentation and consider the appropriateness of accruing income, including consideration of cash received after the year end; and • review and test management's process for recording transactions on and around 31 March 2011 to ensure that income is recognised in the correct accounting period.
Borrowing	*Completeness, existence and accuracy of borrowing*: • identify and test the operation of controls over recording and monitoring of borrowing and loans, including reconciliations between underlying treasury management records and the financial ledger; • agree any significant loan balances at 31 March 2011 to independent confirmations; and • review minutes and Council papers to ensure that all treasury management activities in the year have been accounted for in accordance with the Code.
Cash and cash equivalents	*Completeness, existence and accuracy of cash in hand and at bank*: • identify and test the operation of controls in respect of cash balances, including bank reconciliations; and • agree bank balances at 31 March to independent confirmation from the bank and test significant reconciling items to bank records after the year end. *Completeness, existence and accuracy of short term investments*: • identify and test the operation of controls over recording and monitoring of short term investments, including reconciliations between underlying treasury management records and the financial ledger; and • agree any significant investment balances at 31 March 2011 to independent confirmations.

Financial statements – approach to major captions (continued)

Area	Summary of audit approach
Payables due within one year: • trade payables • loan interest • local taxation • accruals • payroll and taxes payables • deferred income and other payables	*Completeness, existence and accuracy of creditors due within one year*: • identify and test the operation of controls in relation to recording and payment of payables; • sample test payables balances as appropriate, including agreement to post year end payments processed; • review and discuss with management changes in the length of time taken to process and make payment to payables; • test a sample of payments made after the year end to confirm that they have been recorded in the accounting period to which the goods or service relate rather than the period in which the invoice was paid; • ensure that deferred income creditor balances have been disclosed in accordance with the Code and other guidelines received from the Scottish Government and Audit Scotland according to terms and conditions set by the third party who has paid the funds to the Council; • agree a sample of payments received on account to invoices or other third party documentation; and • tax and social security payables will be agreed to payments made in April 2011.
Provisions for liabilities and charges	*Completeness, existence and accuracy of provisions*: • update our understanding of claims being made against the Council and ensure the financial implications of such claims have been accounted for in accordance with IAS 37: *Provisions, contingent liabilities and contingent assets*, and the Code; • review arrangements for identifying and recording equal pay claims and single status provisions; and • review any recent restructuring or awarding of early retirements to ensure enhanced elements have been appropriately provided for.
Defined benefit pension scheme asset / liability	*Completeness, existence, valuation and accuracy of pension scheme asset / liability:* • evaluate the Council's arrangements for obtaining an actuarial IAS 19: *Employee benefits*, valuation of their share of the defined benefit pension scheme; • ensure the assumptions used in obtaining this valuation are appropriate and reasonable given our understanding of the Council and the local government sector in Scotland; • ensure management have satisfied themselves that the assumptions used in the valuation are reasonable and consistent with their expectations; and • agree the year end valuation and the in-year movements to the Council's financial statements for accuracy and compliance with the Code including the additional disclosure requirements of IAS 19.

Financial statements – approach to major captions (continued)

Area	Summary of audit approach
Capital grants receipts in advance	*Completeness, existence and accuracy of capital grants received:* • ensure that the Council has recognised capital grants received in accordance with IAS 20: *Accounting for government grants and disclosure of government assistance*, and the Code; • confirming that capital grants received have been accounted for on an accruals basis and normally recognised immediately in the comprehensive income and expenditure statement as income, provided there are not any conditions (that could lead to it being returned) that the authority has not satisfied at the balance sheet date. • verify capital grants received in the year to third party confirmations and bank statements to ensure that they are capital in nature, have been physically received and relate to assets actually purchased.
Fund balances and reserves: • revaluation reserve • capital financing account • useable capital receipts • general fund / HRA reserve • pension reserve • other reserves	*Completeness, existence and accuracy of reserves*: • agree movements in reserves to the relevant note to the financial statements and other underlying records; • ensure fund balances and reserves have been disclosed in accordance with the Code • and the Council's statutory powers; • review reconciliations of fund balances and reserves for accuracy with reference to other notes in the financial statements and underlying documentation; and • ensure the revaluation reserve has been correctly constructed with reference to underlying records and ensure the prior year comparatives have been correctly restated in accordance with the Code.

Financial statements – approach to major captions (continued)

Area	Summary of audit approach
Cash flow, other statements and disclosures	
Cash flow statement	*Accuracy of cash flow statement and related notes:* • review the cash flow statement for accuracy with reference to other notes to the financial statements and underlying records; and • ensure the cash flow statement reconciles and is consistent with the other key balances in the financial statements.
Common good and trust funds	*Completeness, existence and accuracy of common good and trust funds:* • review movements in fund balances for accuracy with reference to underlying records; and • ensure that the Council has complied with the Code and OSCR requirements in relation to disclosures for its registered charities.
Other financial statement disclosures	*Completeness, existence and accuracy of other financial statement disclosures:* • ensure the Council's financial statements comply with the Code and that all required disclosures have been made, including publicity expenditure, members remuneration and operating and finance leases; and • agree all disclosures to other notes in the financial statements and underlying records.
Group accounts	*Accuracy and presentation of group accounts*: • ensure the Council has appropriate considered all its interests in related third parties for inclusion in the group accounts and use our understanding of the Council and local government in Scotland to ensure the completeness of the group accounts disclosures; and • review consolidation adjustments for accuracy with reference to final audited financial statements of subsidiaries, associates and joint ventures.

Audit Scotland national studies

Audit Scotland undertakes a programme of studies on financial management, governance and performance on behalf of the Accounts Commission and Auditor General.

Local response to national studies

Audit Scotland periodically undertakes national studies on topics relevant to the performance of local authorities. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at individual organisation level, as appropriate. In order to ensure that added value is secured through the role of Audit Scotland and its appointed auditors, auditors will continue to ensure that audited bodies respond appropriately to reports from the Auditor General's and Accounts Commission's programme of national performance audits. We will therefore be required to make returns to Audit Scotland that performance reports have been considered by the Council and that action has been planned in response.

As part of our 2010-11 audit plan we are required to assess how the Council has responded to relevant national performance study reports published between March 2010 and November 2010.

The template report has not yet been issued to auditors but is likely to consider:

- if the report was discussed at any committee? If so, which committees and on which dates?
- if the Council carried out a self-assessment against the national report's findings?
- if the Council produced an action plan (a copy of which will be provided to Audit Scotland)?
- how progress against the action plan is being monitored?

In addition, during 2010-11 auditors are required to undertake targeted follow up evaluation of audited bodies' action in response to the reports *Improving public sector purchasing* (published July 2009) and *Use of consultancy services* (published January 2009).

The aim of this work is to identify whether Audit Scotland needs to do more work to promote national reports, provide initial information for any more detailed local follow-up that may take place, and inform Audit Scotland's annual report.

Scotland's public finances: responding to the challenge

Audit Scotland published *Scotland's public finances: preparing for the future* in November 2009. The review looked at the country's financial situation and at how the Scottish budget is scrutinised and decided. Audit Scotland developed the scope of a follow-up review, *Scotland's public finances: responding to the challenge*. This review will consider the following areas across all sectors:

- the extent to which action plans have been defined and published;
- quantification of budget cuts required;
- the impact of budget cuts on service redesign and workforce plans; and
- governance arrangements.

Audit Scotland has detailed the information required to be gathered by auditors to inform this review, however, the Council was not selected as one of sample organisations across local and central government and NHS boards from whom information was to be sought by auditors. We will, however, discuss with management the type of information being requested so they may consider how this can be best used within the Council going forward.