

West Dunbartonshire Council

Annual Audit Plan 2012/13



Prepared for Members of West Dunbartonshire Council
February 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Summary Plan

Summary of planned audit activity

Based on our analysis of the risks facing West Dunbartonshire Council (the Council), our planned work in 2012/13 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of the Council as at 31 March 2013 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2012 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This has consisted of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2013/14 to 2015/16
- provision of the annual report on the audit addressed to the members of the Council and the Controller of Audit
- a review and assessment of the Council's governance and performance arrangements in a number of key areas including the review of: internal controls; the adequacy of internal audit; Statutory Performance Indicators; national study follow-up work; and ICT computer service reviews
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements throughout 2012/13.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to the Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the Council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the Council, and sets out the audit work that we propose to undertake in 2012/13 to address these. Our annual audit plan reflects:
 - the risks and priorities facing the Council
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards

- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission
 - issues brought forward from previous audit reports.
2. In addition to this annual audit plan which focuses on those risks which may impact on the financial statements, we will issue, on behalf of the Local Area Network (LAN), an Assurance and Improvement Plan Update which will update the LAN's joint assessment of the strategic and performance risks facing the Council and set out the planned scrutiny activity in the Council for the period April 2013 to March 2016.

Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that the Council:
- has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which give a true and fair view of the financial position at 31 March 2013 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2012 Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2012 Code applies to reporting periods commencing 1 April 2012
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - proactively manages and reviews its performance in line with its strategic and operational objectives
 - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.

Our approach

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the Council, and identification of the

key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of the Council and the risk exposure which could impact on the financial statements
- assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation, understanding how the Council will include these in the financial statements and developing procedures to audit these
- assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
- determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.

7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2012/13 includes:

- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
- clear responsibilities for provision of accounts and working papers being agreed
- delivery of unaudited accounts to agreed timescales
- a comprehensive working papers package and supporting records to demonstrate full compliance with the requirements of IFRS
- completion of the internal audit programme for 2012/13.

8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the Council. We note that a new Audit & Risk Manager was appointed in December 2012, there is currently a vacancy in the Internal Audit department. This increases the risk that there are insufficient resources available to complete the 2012/13 Internal Audit plan. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.

9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.

10. At the completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

11. It is the responsibility of the Head of Finance and Resources as Proper Officer to prepare the financial statements in accordance with the Code. This means:
- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of the Council as at 31 March 2013 and its expenditure and income for the year then ended
 - reviewing the main components of the system of internal control, including the arrangements for internal audit and group entities. This should include consideration of issues identified as part of the audit process
 - preparing an explanatory foreword.

Format of accounts

12. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003. The Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government and is required to prepare its accounts using common accounting principles and standard formats for summarisation.

Audit issues and risks

13. This annual audit plan focuses on governance and other risks specific to the financial statements of the Council. Our Assurance and Improvement Plan update 2013-16 also provides an analysis of wider risks and issues which relate to aspects of the Council's performance against agreed outcomes and targets.
14. Based on our experience, discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following specific areas that we will keep under review as part of the 2012/13 audit:
15. **Managing financial pressures and achieving efficiency savings:** The Scottish Government's spending plans for the next four years show a cumulative, real-term reduction in the Scottish budget of 12.3% by 2014/15. Funding for local government will reduce by 3% between 2011/12 and 2012/13 and, cumulatively, by 6.3% by 2014/15. Capital funding will fall significantly in the period to 2013/14 but increase in 2014/15. These reductions come at a time of increasing pressures on demand-led services such as social work and housing, due in

part to the current general economic conditions but with additional pressures resulting from the implications of Welfare Reform.

16. As a result of these financial constraints the Council continues to face pressures on its budget. The Council's revenue allocation from the Scottish Government will reduce in cash terms over the next two years. The latest projections, presented to full Council in December 2012, are for indicative general fund revenue budget gaps of £2.7m, £3.6m and £10.5m cumulatively for 2013/14 - 2015/16..
17. There are a number of national reforms which are likely to have an impact on the Council's future financial planning. These include welfare reform (see below), and the integration of health and social care. The uncertainty around the impact of these reforms represents a risk for the Council and is likely to require adjustments to the Council's budgets as future developments and their implications become clearer.
18. **Welfare reform:** The changes resulting from the implementation of the Welfare Reform Act 2012 are likely to be significant both in terms of the impact on the Council and on benefit claimants. The introduction of the Universal Credit will result in the administration of housing benefits passing from councils to the Department for Work and Pensions (DWP) on a phased basis between 2013 and 2017. In addition, council tax benefit will be replaced by a localised council tax reduction scheme, administered by local authorities. At present, the cost of council tax benefit disbursed by the Council is predominantly met by subsidy received from DWP. The proposed localised council tax reduction from 2013 will only be funded at 90% of current subsidy levels. Whilst the council tax reduction scheme has been agreed by COSLA and the Scottish Government for 2013/14 there is uncertainty as to the arrangements from 2014/15 onwards. The Council is one of 12 councils selected from across the UK by the Department of Work and Pensions to run a pilot project. The pilot will run from autumn 2012 and will explore how local services can be organised and delivered to best support, prepare and advise residents in receipt of Universal Credit.
19. Councils will face considerable challenges in implementing these changes, and communicating these effectively to local residents. Councils will be challenged during this period to maintain service delivery and performance with changes to technology, systems and staff skills required.
20. Further changes to be introduced over the next two years include:
 - 'Under occupancy' changes to social housing benefit entitlements
 - Application of an 'absolute benefits cap'
 - Ending the practice of paying housing benefits directly to landlords
21. These changes increase the risk of:
 - housing rent arrears
 - pressure on homelessness services.

- 22. Transformation programme:** The need to generate efficiencies and savings will continue for the foreseeable future, with councils facing the challenge of delivering statutory services and achieving planned priorities in the face of continuing financial constraints.
- 23.** The Council has identified a series of efficiency savings options and management adjustments which contain a range of service redesign and restructuring programmes that are estimated to deliver £5.8 million in savings. They are also embarking on a major transformation programme with the intention of the associated projects contributing significantly to successful delivery of efficient and effective services.
- 24.** The opportunities for further savings will become more difficult to identify and realise with the need for a more radical approach to creating efficiencies. The Council may also face a challenge in respect of its capacity to manage simultaneously such a wide range of initiatives.
- 25. Scottish housing quality standards:** In June 2012 the newly formed Council took the decision to retain 100% of the Council's housing stock rather than pursue the previous policy of partial housing stock transfer. The Council have a duty to meet the Scottish Housing Quality Standards for all its housing stock by 2015. Achieving this requires an accelerated programme of capital works which places financial pressure on the housing revenue account. It also requires annual rent increases of RPI plus 4.5% until 2016/17 which may increase the risk of rent arrears.
- 26. Capital slippage:** The 2011/12 annual audit report highlighted slippage in the Council's capital programme, with only 59% of planned general services expenditure, and 87% of HRA expenditure, for the year having been realised. Significant capital slippage has also been reported in the years 2007/08 - 2010/11. We recognise that the 2011/12 slippage was predominantly caused by delays in capital projects commencing and that the capital expenditure has been allocated to the 2012/13 capital budgets. If this trend of significant capital slippage continues future capital programmes and associated service improvements may not be delivered in a timely manner.
- 27. Identification and valuation of common good assets:** The Council have not performed an exercise to verify the respective ownership of its heritable properties. This is important to ensure that both the Council's and any common good fixed assets are fairly stated. Officers have committed to consider the options available to clarify ownership of heritable properties between the Council and the Common Good within an agreed target date of 31 March 2013. We will monitor the outcomes from this exercise.
- 28. Net debt:** In our 2011/12 annual audit report on the audit we highlighted a concern about the Council's debt levels. We are satisfied that the Council are operating within prudential limits however net debt levels will increase as the Council look to improve their housing stock and deliver new care homes and educational facilities. There is a risk that high levels of debt servicing may have an adverse financial impact on the delivery of other Council initiatives. We will continue to monitor this as part of our standard audit process.
- 29. Leadership and governance:** The continued budget challenges facing councils combined with rising demands on services will require strong political leadership and effective working

relationships within councils and with local partners. Members will be required to make challenging decisions about the allocation of limited resources to the Council's priorities and key objectives.

- 30. The May 2012 elections resulted in a new administration. The new Council comprises almost one third new members, and there are also changes to the representation on, and scheduling of, the Council's scrutiny committees. Continued elected member training and development will be essential to support members in their roles and responsibilities, including where they are asked to serve on scrutiny committees and take on roles in external organisations.
- 31. In our Annual Audit Report issued in October 2012 we highlighted a need for elected members to set aside political differences and work together with officers to deliver the best outcomes for West Dunbartonshire. We will continue to monitor this area in relation to the 2012/13 audit.
- 32. **Police and fire reform:** The Police and Fire Reform (Scotland) Act 2012 will result in the creation of the Scottish Police Authority (SPA) and the Scottish Fire & Rescue Service (SFRS), transferring responsibility for police and fire services from local government to the new bodies with effect from 1 April 2013.
- 33. The Scottish Government has indicated that they require the accumulated balance on the usable reserves of the joint boards at 31 March 2013 to be returned to constituent authorities.

Accounts presentation and disclosure

- 34. There are a limited number of changes required by the 2012 Code to the presentation and disclosure of the 2012/13 financial statements. We will discuss these changes as part of our financial statements audit planning meetings with Council officers. One particular change that we will discuss further is the encouragement by the Code to prepare the explanatory foreword in the financial statements taking into consideration the requirements of the Government financial reporting manual.

National performance audit studies - impact and follow up

- 35. In addition to the above work, Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits, we will follow up a number of studies at a local level. In 2012/13 this will involve the completion of templates about the consideration of relevant national performance reports by the Council as well as a more targeted review of *Scotland's Public Finances: Addressing the challenges*, (published in August 2011).

Summary assurance plan

- 36. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the Council. Details of the sources of assurance that we have

received for each of these risks and any audit work we plan to undertake are also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Materiality

37. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
38. International Standard on Auditing 320 states that, “Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.”
39. When considering, in the context of a possible qualification to the audit opinion, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
40. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting arrangements

41. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the Council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is important that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned committee dates and audit resources.

42. 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 responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission.
43. A copy of all final agreed reports will be sent to the Chief Executive, Executive Director of Corporate Services, Head of Finance & Resources, relevant senior managers, Internal Audit and Audit Scotland's Best Value & Scrutiny Improvement Group.
44. We will provide an independent auditor's report to the Council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the Council's management of key risks.
45. All annual reports produced by Audit Scotland are published on our website (www.audit-scotland.gov.uk).
46. The full range of outputs to be delivered by the audit team are summarised in Exhibit 1.

Exhibit 1: 2012/13 Planned Outputs

Planned outputs	Target delivery date
Governance	
Assurance and Improvement Plan update (jointly prepared with other local government scrutiny bodies)	30 April 2013
Review of Adequacy of Internal Audit	31 March 2013
Internal controls management letter	31 July 2013
Performance	
Scotland's Public Finances: Addressing the challenge - follow up report	31 August 2013
Financial Statements	
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	30 September 2013
Independent auditor's report on the financial statements	30 September 2013
Audit opinion on Whole of Government Accounts	30 September 2013
Annual report to members and the Controller of Audit	31 October 2013

Planned outputs	Target delivery date
Grants	
Audit opinions on Education Maintenance Allowance, Non Domestic Rates Income return, and Housing Benefit & Council Tax Benefit subsidy.	As required

Quality control

47. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is David McConnell, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
48. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

Fees and resources

49. In the context of the challenges faced by local authorities, the impact of national spending decisions, and changes made in Audit Scotland's own overall budget we have re-examined our audit fee in 2012/13.

Exhibit 2: Audit Fee

Description	Audit Fee 2011/12	Audit Fee 2012/13	% Change
Total audit fee	£288,275	£274,281	-4.9%

50. Our agreed fee for the 2012/13 audit of the Council is £274,281. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at Audit & Performance Review Committee meetings and other committees
 - access to advice and information on relevant audit issues
 - travel and subsistence costs.
51. In determining the agreed fee we have taken account of the risk exposure of the Council, the management assurances in place and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 28 June 2013.

- 52. In 2011/12 Audit Scotland were successful in delivering all of our work for less than the budgeted costs, largely as a result of our cost reduction plans continuing to be achieved faster than planned. As a result, you will receive a one off rebate equivalent to around 6% of the 2011/12 indicative fees. This is in addition to the ongoing reduction noted above.
- 53. We reserve the right to charge an additional fee for further audit work in such instances as late receipt of the draft financial statements, the lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. An additional fee may be required if our audit cannot proceed as planned.
- 54. Fiona Kordiak, Director, Audit Services is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors; for the Council this is David McConnell.
- 55. The local audit team will be led by Elaine Boyd who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience of our team are provided at Appendix C. The core audit team will call on other specialist and support staff as necessary.

Independence and Objectivity

- 56. 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 within the audit team.
- 57. We comply with ethical standards issued by the Financial Reporting Council and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of the Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of Assurance	Planned audit action
Financial Pressure and Efficiency Savings		
<p>The Council face ongoing reductions in local government funding at a time of increasing pressures on demand-led services such as social work and housing. This increases the pressure on the Council's budget.</p> <p>There is a risk that the Council will not be able to deliver services within budget and will need to rely on their unearmarked reserves to fund service delivery.</p>	<ul style="list-style-type: none"> • Robust budget setting and monitoring processes including regular reporting to Department Management Teams, CMT, service Committees and Council for revenue and capital budgets for General Services and Housing Revenue Account. • Ongoing review of short, medium and long term financial planning. • Departmental Management and CMT monitoring of achievement of savings and management adjustments. • Annual year-end review to compare with new year budget to identify options for removal of recurring cost reductions. • Development and agreement of long-term 	<ul style="list-style-type: none"> • Monitor the Council's financial position via revenue budget reports presented to full Council and meetings with officers. • Ongoing review of Council's medium and long term financial planning. • Review of Council's long term capital plan. • Consideration of relevant issues as part of follow up of Audit Scotland national report "Scotland's public finances: addressing the challenges" • Report in the 2012/13 Annual Audit Report.

Risk	Source of Assurance	Planned audit action
	<p>capital plan and ongoing regular review.</p> <ul style="list-style-type: none"> Improved long term financial strategy agreed September 2012 and subject to ongoing review; recognising pressures around welfare reform, expected demographic changes and grant funding risk re the general UK economic position. 	
Welfare Reform		
<p>The changes resulting from the implementation of the Welfare Reform Act 2012 are likely to be significant both in terms of the impact on the Council and on benefit claimants.</p>	<ul style="list-style-type: none"> Cross Council project board well established to lead the strategic response to the WR changes. Projected impact of these reforms on Council budgets for 13/14. Agreement to increase funding for Discretionary Housing Payments to support claimants. Ongoing review of position as welfare reform changes are implemented and consideration of impact on demand for services. The impact on the General Fund will be monitored and issues reported and considered in future financial planning processes. The impact on the HRA will be monitored and appropriate financial 	<ul style="list-style-type: none"> Review progress to date on implementation of welfare reform and maintain a watching brief over developments through minute review and meetings with relevant Council officers. Review Council's welfare reform questionnaire submission scheduled to be returned by 1 March 2013. Monitor the impact on the HRA through HEED committee reports and meetings with officers. Report in the 2012/13 Annual Audit Report.

Risk	Source of Assurance	Planned audit action
<p>There is a financial risk to the Council due to changes to the council tax reduction scheme in 2013/14 and the potential for increased rent arrears, debt financing and demands on the homelessness service.</p>	<p>modelling will be undertaken in relation to HRA capital investment and rent levels.</p> <ul style="list-style-type: none"> Finance strategy and budget recognised agreed funding reductions (COSLA and SG) in regard to reduced funding following the ending of Council Tax benefit and reduced Administration funding. Will monitor and position through budgetary control reports. The HRA budget includes allowance for effect of welfare reform, in addition Council has agreed to maximum level of Discretionary Housing Payment funding. HRA capital investment plans will consider the mix of council housing provision. Pressures on homeless services will be monitored. Council has agreed a plan to provide supported accommodation. 	
Transformation Programme		
<p>The Council has identified a series of efficiency savings and management adjustments estimated to deliver £5.8m in savings. They are also embarking on a transformation</p>	<ul style="list-style-type: none"> CMT strategic direction and leadership Comprehensive change management processes and project planning, management and project 	<ul style="list-style-type: none"> Monitor achievement of efficiency savings and transformation programme progress through committee reports, CMT reports and meetings with

Risk	Source of Assurance	Planned audit action
<p>programme designed to deliver efficient and effective services.</p> <p>There is a risk that planned savings are not achieved and service provision is adversely affected. Furthermore there is a risk that the Council may not have the capacity to manage such a wide range of initiatives.</p>	<p>risk techniques, including identifying appropriate capacity to deliver.</p> <ul style="list-style-type: none"> Tracking of anticipated cost reductions and benefits against actual outcomes. 	<p>officers.</p> <ul style="list-style-type: none"> Report in the 2012/13 Annual Audit Report.
Scottish Housing Quality Standards		
<p>The Council have a duty to meet the SHQS standards for all housing stock by 2015.</p> <p>There is a risk that the accelerated capital programme required to meet this deadline places financial pressure on the housing revenue account and that rent increases result in an increase in rent arrears.</p>	<ul style="list-style-type: none"> Appropriate financial planning and modelling work will be undertaken on an ongoing basis from 2013/14 to reflect on variables that impact on rent levels and affordability. Appropriate capital planning prioritisation to ensure achievement of SHQS. Arrears performance is and will continue to be monitored and will be considered in the production of future budgets and investment plans. 	<ul style="list-style-type: none"> Joint inquiry with Scottish Housing Regulator to be carried out in March 2013 to assess performance management, housing asset management and continuous improvement. Monitoring of financial planning and modelling through HEED committee attendance and meetings with relevant officers. Report in the 2012/13 Annual Audit Report.
Capital Slippage		
<p>Capital slippage has been an area of concern for a number of years with an average of 25.5% per annum since 2007/08. There is a risk that future capital programmes and</p>	<ul style="list-style-type: none"> Revised capital planning process implemented to develop and agree long term capital plan. New monitoring process agreed and to be 	<ul style="list-style-type: none"> Monitor capital expenditure through budget reports submitted to committee. Review of Council's long term capital plan. Report in the 2012/13

Risk	Source of Assurance	Planned audit action
associated service improvements may not be delivered in a timely manner.	<p>implemented from 2013/14 to improve project management and reporting of variances, delays and slippage.</p> <ul style="list-style-type: none"> Regular review of projected spend to highlight slippage and consider early alternative spend options, Asset Management Group and CMT. 	Annual Audit Report.
Identification and Valuation of Common Good Assets		
The Council needs to verify the ownership of its heritable properties to ensure the financial statements account for these assets appropriately.	<ul style="list-style-type: none"> Officers will consider options available to clarify ownership of heritable properties between the council and the common good 	<ul style="list-style-type: none"> Discuss options with relevant Council officers. Report in the 2012/13 Annual Audit Report.

Appendix B - Financial statements audit timetable

Key stage	Date (by)
Testing and review of internal control systems and transactions	31 May 2013
Provision of closedown procedures to audit	31 May 2013
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2013
Planned committee approval of unaudited financial statements	27 June 2013
Latest submission of unaudited financial statements with working papers package	30 June 2013
Progress meetings with lead officers in emerging issues	Ongoing during audit process
Latest date for final clearance meeting with the Executive Director of Financial Services or other senior officers	TBC
Agreement of unsigned financial statements for audit committee agenda, and issue of report to the audit committee on the audit of financial statements (ISA 260)	TBC
Audit Committee date	TBC
Independent Auditor's Report signed	30 September 2013
Latest date for submission of unaudited Whole of Government Accounts (WGA) return for external audit	31 July 2013
Latest date for signing WGA return	30 September 2013
Certified accounts and annual report presented to the Council	31 October 2013

Appendix C - Audit team

A summarised curriculum vita for each core team member is set out below:

David McConnell MA CPFA

Assistant Director of Audit Services (certifying auditor)

David has worked in public sector audit since 1981, firstly with the National Audit Office and, since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in Central Government, Local Government and the NHS. Dave is currently Audit Scotland's lead on resource management issues.

Elaine Boyd FCCA

Senior Audit Manager

Elaine has eleven years experience of public sector audit with Audit Scotland, covering local government, health and central government. Prior to this, Elaine spent seven years in a financial management and audit role within the public sector and seven years in private practice.

Laurence Slavin CPFA

Senior Auditor

Laurence has nine years experience of public sector audit with Audit Scotland, covering local government, health and education. Prior to this Laurence spent seven years in an IT audit role within the private practice and gained experience both in an audit capacity and as a consultant on large scale IT projects.

Ian Docherty

Professional Trainee

Ian joined Audit Scotland in 2011 as a professional trainee and commenced studying for the Institute of Chartered Accountant of Scotland qualification in September 2012.

Jim Cumming

Senior Auditor (ICT)

Jim has twelve years experience of public sector ICT audit with Audit Scotland, covering local government, health and the central government sectors. Prior to working for Audit Scotland, Jim spent 15 years in various IT development, quality, security, system administration and project management roles in engineering.

Appendix D - Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review concluded that the service provided by the internal audit function of the Council operates in accordance with the CIPFA Code of Practice for internal audit in local government. We plan to place reliance on the work of internal audit on specific controls in the following areas:

- Payroll
- General Ledger
- Treasury Management
- Non Domestic Rates Billing
- Council Tax Billing
- Housing Rent Arrears & Collection

For our wider governance and performance audit work, under our Code of Audit Practice, we also plan to place reliance on the work of internal audit, including the following areas:

- Statutory Performance Indicators (SPIs)

The reliance on internal audit work in these areas will allow us to direct our resources to the financial systems, performance and governance areas we have assessed as being of higher audit risk.

Appendix E - Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Financial Reporting Council (FRC). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication with those charged with governance) requires that the appointed auditor communicates:

- A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the FRC's Ethical Standards for auditors.
- All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor.
- The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines "those charged with governance" as "the person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process." In your case, the appropriate addressees of communications from the auditor to those charged with governance are the s95 officer and the Audit & Performance Review Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice requires appointed auditors to carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.