INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

West Dunbartonshire Council

Audit plan overview
Audit: Year ending 31 March 2010

1 February 2010

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

This audit plan overview is presented under the terms of our appointment by Audit Scotland.

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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* ("the *Code*").

This report is for the benefit of only West Dunbartonshire Council and is made available to the Accounts Commission and Audit Scotland (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 Board, telephone 0131 527 6611, 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 2010 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* ("the *Code*"). Under this *Code* auditors address and comment upon a number of objectives, together with complying with a number of obligations. The *Code* also places a number of obligations on the Council.

Auditors' objectives in relation to the *Code* 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* 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;
  - 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. We have a professional responsibility to report if the financial statements do not comply, in any material respect, with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice ("the 2009 SORP"), taking account of the financial reporting standards issued or adopted by the Accounting Standards Board and relevant guidance issued by the Chartered Institute of Public Finances (CIPFA) / Local Authorities (Scotland) Accounts Advisory Board (LASAAC).

As part of our audit we also review the financial information contained in the foreward 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 2009 SORP, taking account of the financial statements and other information gained by us as auditors.

Introduction (continued)

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

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 with the Council 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 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.

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;
- an audit aligned to your operational strategies;
- communication with management at each stage of the audit process to help reduce the likelihood of surprises; and
- a commitment to continuous improvement.

Our ability to deliver a quality audit depends on our team maintaining a comprehensive understanding of your business processes, accounting policies, internal controls, including internal audit arrangements, and financial reporting issues so that we can effectively tailor our approach to develop one that is appropriate for the Council. To maintain an efficient audit process, we recommend that any adjustments to the financial statements are left until an agreed point in the audit process to avoid multiple versions of the statements.

Consistent with the requirements of the *Code*, corporate governance work will include consideration of the Council's reviews of 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.

Audit methodology (continued)

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

1 Planning

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

2 Control Evaluation

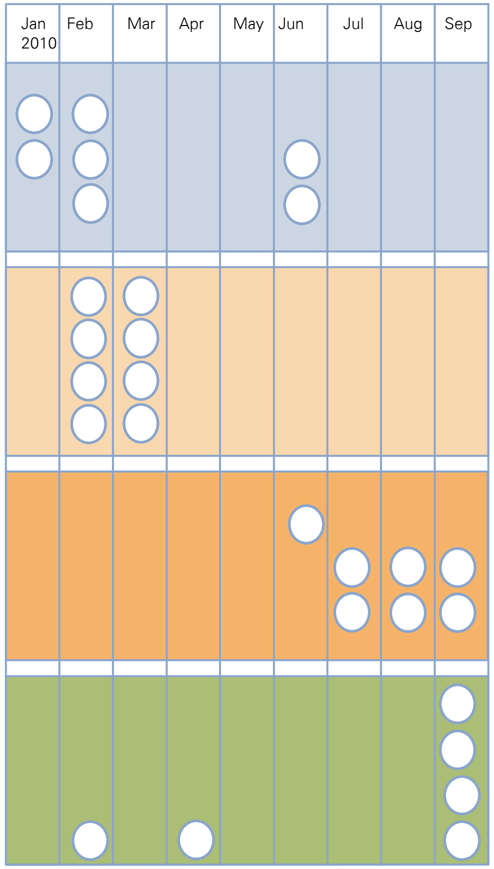
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of significant misstatement

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 committee reporting



Financial position

In 2008-09 the Council increased the general fund balance by £1.7 million to £5.0 million. However, £4.8 million of the Councils reserves were earmarked for specific purposes, leaving the Council with free reserves of only £258,000. The Council approved the 2009-10 budget at a net cost of services of £243.9 million. The current economic climate continues to present significant challenges to the budget. The probable outcome of the Council against the original and revised estimate is summarised below.

	Original estimate £'000	Revised estimate £'000	Probable outcome £'000
Total departmental budget	243,941	242,391	243,779
Contingency fund	0	1,550	0
Total budget	243,941	243,941	243,779
Favourable variance			162

Positive variances (YTD)

- Chief executive (£9,420)
- Corporate services (£613,780)
- Social work and health (£51,190)
- Allocation to non GAE services (£30,210)
- Contingency fund (£1,550,000)

£2,254,600

£2,092,850

- Educational services (£1,395,640)
- Housing, environmental and economic development (£30,360)
- Miscellaneous services (£541,850)
- Loan charges (£125,000)

Adverse variances (YTD)

The probable outturn, reported to Council 27 January 2010, forecasts an overall favourable variance of £162,000 in net revenue expenditure against the original budget approved by Council on 12 February 2009. Debt rescheduling exercises and non-essential spending freeze target saving levels in year lead to a transfer of £1.6 million to the contingency fund and revised the departmental estimated spend to £242.4 million.

Key pressures which have affected the spend of the Council during the year include the increase of expenditure in educational services as a result of higher than anticipated staff costs and energy bills, plus a higher number of residential places required in year. This is combined with education grant income being lower than forecast. Miscellaneous costs included increased pension costs, plus loan charges have increased again due to a further fall in short term investments interest rates. A significant favourable position is forecasted in corporate services, and this is mainly due to vacancies being held and additional income from housing benefits.

The year to date capital position is in line with the capital plan. The total planned capital expenditure is £31.9 million. Funding of the capital programme includes Government grants, prudential borrowing and capital receipts. The Council estimates £1.7 million capital receipts in 2009-10. Given the current climate such capital receipts may not be received in year, and this may require increased short-term borrowing to meet planned capital expenditure.

Areas for audit emphasis

During the planning process we identify key risks for specific consideration during the audit.

Risk area:	Summary of audit approach
Financial position	The most recent outturn forecast reported to Council on 20 January 2010 indicated that the financial position at the Council remains extremely tight. The uncommitted free reserves are likely to remain below £0.5 million a figure which represents only 0.2% of the annual net cost of services. We will continue to monitor financial forecasts of the year end position. We will also perform a review of medium to long-term strategies and the progress of strategic initiatives to generate significant efficiencies. Our audit work will pay significant attention to areas of judgement in the financial statements, including single status assimilation and review accruals, accrued income and deferred income, impairment, fixed asset additions and the bad debt provision. We will pay particular attention to those areas which could impact on the uncommitted general reserves level. We will consider the financial outturn, together with management's actions in response to our recommendations raised during the 2008-09 financial statements audit and Best Value reviews. We will comment on progress in our reports to the audit and performance review committee during the year.
Changes to the 2009 SORP	There have been changes to the 2009 SORP that will impact the preparation of the 2009-10 financial statements. The key change to be implemented in 2009-10 is the accounting requirements for private financing initiatives and similar contracts, which are no longer based on Financial Reporting Standard 5 but on an interpretation of International Financial Reporting Interpretation Council 12: *Service concession arrangements* contained in the Government Financial Reporting Manual. It is expected that the PFI/PPP properties used to deliver services will generally be required to be recognised on the local authority's balance sheet along with a liability for the financing provided by the operator. This accounting treatment will be required for contracts entered into from 1 April 2009, and therefore the Council will need to consider the accounting treatment of their new schools opened in 2009-10. Other less significant changes to the 2009 SORP will be discussed with management during the audit cycle.
Fixed assets	Historically, there have been issues relating to the capitalisation of expenditure over the write-off to the operating cost statement. We will continue to conduct audit work over capital additions to ensure that capitalisation is only for expenditure which enhances fixed assets. The valuation of fixed assets remains an area of audit emphasis in 2009-10. Significant impairment charges, were made to land and buildings in 2008-09 as a direct result of economic conditions. There has been limited improvement in market conditions and therefore we will pay particular attention to the valuation of any asset held for disposal at market value, as well as the valuation of investment properties.

Areas for audit emphasis (continued)

During the planning process we identify key risks for specific consideration during the audit.

Risk area	Summary of audit approach
Single status / equal pay	Substantial advancement has now been made in progressing the pay modernisation programme. A provision remains for appeals by employees in respect of single status outcomes. A sizeable amount of the payouts were made during 2008-09, resulting in a remaining provision of £3.4 million at 31 March 2009. Audit testing will consider the completeness, existence and accuracy of further payments made during the year; the reasonableness of any provision which remains in respect of outstanding obligations and the implications of any short-term borrowing.
Debtors and bad debt provision	In 2008-09 we reported that we had considered the bad debt provision against amounts included in the financial statements and confirmed the methodology used to calculate the provision was reasonable given our understanding of the debt recovery process. Historically, however, there has been limited evidence provided during the audit to demonstrate that adequate consideration had been given to the basis on which provision is made against aged debt listings or the impact of the current economic climate on the recoverability of debt. We understand from management, however, that this area has been a focus of attention during 2009-10. We will review the action taken to recover debtor balances, including reviewing the bad debt provision against the profile and nature of outstanding debt, and consider action taken against specific aged debt balances.
Treasury management	We are aware the Council has been exploring options for the future of their short term borrowing of £25 million which is due to mature naturally in February 2010. We will consider the option selected, as well as any debt rescheduling which may be undertaken by the Council. We will also consider the adequacy of controls in place to ensure effective treasury management review of any investments, given the breach of the prudential indicator for maturity structures of fixed interest rate borrowing in 2008-09.
Application of International Financial Reporting Standards as interpreted by the IFRS-based Code of Practice on Local Authority Accounting	The Council will prepare it's financial statements for the year ending 31 March 2011, in accordance with the IFRS-based Code of Practice on Local Authority Accounting. This will necessitate development of revised accounting policies and significant changes in the presentation of the financial statements. In the rest of the public sector, shadow IFRS-based accounts were required to be subject to a 'dry-run' audit, however there is no such requirement for local authorities. During the audit cycle we will liaise with management to confirm that the Council has prepared a reasonable plan, adequate arrangements to manage the transition to IFRS-based accounts are in place and that satisfactory progress is being made.
Deferred capital grants	A process should be in place at the Council to ensure the impairment of deferred capital grants are matched to expenditure on the asset. We will consider the Council's arrangements to ensure this accounting treatment is implemented in practice.

Our detailed audit approach to individual captions within the Council's financial statements is provided in Appendix one.

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 during our interim audit visit to determine the extent of assurance that can be taken from the work performed.

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

- value added tax;
- procurement;
- capital contracts;
- partnerships;
- health and safety;
- insurance;
- cash and bank;
- accounting systems 2009-10;
- enterprise risk management;
- sustainability; and
- civil emergencies.

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 strategy document in 2008-09, presented to the audit and performance review committee on 25 March 2009. While the key risks remain relatively unchanged, a 2009-10 update is due which will provide additional detail on recently developing challenges as a result of the economic downturn and emerging sustainability issues. At the time of preparation of this document, the update PRF has not yet been released. On its publication, we will consider the specific impact on the Council of these issues through the course of our wider financial and corporate governance audit work. This will be linked to the actions taken by the Council within its Best Value improvement plan, plus our work on shared risk assessment and joint scrutiny planning, and the single outcomes 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, whilst at the same time protecting the independence of scrutiny bodies. All scrutiny bodies that engage with local government are working to establish a shared assessment of the risks in each council and to develop 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. These 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.

All LAN members will be expected to contribute to the drafting of the three year rolling Assurance and Improvement Plan (AIP) for the council and participate in ongoing evaluation and training. This sets out the shared risk assessment of the council and the proposed scrutiny response. The plan covers a three year rolling period and includes all scrutiny activity at corporate and service level. It excludes scrutiny activity at individual unit level - such as a school, residential home or day care centre.

The LAN will agree what the appropriate scrutiny response should be over the next three years, based on the result of the shared risk assessment. This should be proportionate and aligned to the assessed level of risk. This may include specific audit exercises, including reviews of aspects of governance or local studies, or other work to be undertaken in partnership between auditors and inspectorates.

The Council was chosen to be a development site for the shared risk assessment. This work commenced in 2009 and the process of finalising the Assurance and Improvement Plan is currently still being progressed. This will set out the specific strategy for scrutiny of the Council over the forthcoming three year period commencing 1 April 2010.

Governance and scrutiny arrangements (continued)

Single outcome agreements

Single outcome agreements ("SOAs") are still a relatively new mechanism for aligning public sector activity to national priorities and the Accounts Commission has no immediate plans to audit their delivery. However, 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 improving our understanding on the approach the Council and its partners are taking to:

- developing governance and accountability arrangements to support SOAs 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 SOAs are supported by robust resource planning arrangements at service-level within councils and jointly with community planning partners
- ensuring SOAs are 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
- 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 appropriately during the year and will include a summary of our findings in the annual audit report to members and the controller of audit for 2009-10.

Fraud and irregularity

We will update our understanding of the Council's arrangements for NFI 2008-09 and report our findings to Audit Scotland in February 2010.

National Fraud Initiative

Along with others, the Council took part in the 2008-09 NFI exercise. Payroll and housing and council tax benefit information remains the main dataset for local authorities. Creditors' payment history and standing data were also added to the 2008-09 exercise as a 'risk-based' dataset.

Auditors are expected to monitor bodies' participation in NFI. In 2008-09 this included:

- following up on any weaknesses in the Council's arrangements identified in prior years;
- being involved in discussions with audited bodies about risk-based datasets. Auditors requested the submission of risk-based data for audit purposes;
- ensuring that bodies comply with the new guidance about layered fair processing notices (see the 2008-09 NFI handbook);
- monitoring the Council's preparations for the data upload in October 2008, and ensuring a prompt start to the follow up of NFI matches at the end of January 2009;
- reference to NFI in 2008-09 annual reports to members and the Controller of Audit.

As a result of our work in 2008-09 we concluded that, while the number of matches had increased compared to the previous exercise, the Council had adopted appropriate arrangements to follow these up and addressed recommendations raised to improve the NFI process identified in 2007-08. Testing of resolved matches showed that satisfactory evidence was available.

We will submit a questionnaire on the Board's processes and performance to Audit Scotland in February 2010 and this will be used in a national report by Audit Scotland.

Fraud returns

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

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 committee for its consideration, unless the differences are clearly trivial. Our final 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 £750,000;
- in aggregate, smaller errors over £250,000;
- 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 unrestricted general reserves) will be subject to further audit scrutiny.

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 (BV audits) under section 53 of the 2003 Act. Currently BV audits are carried out by central teams within PRG working in partnership with local auditors.

Following completion of these pathfinders the revised Best Value 2 ("BV2) approach will be finalised and applied to a future programme of audits, commencing from May 2010. One of the key characteristics of BV2 is that it is more risk based and proportionate. The timing, nature and extent of BV audit work is determined following the assessment of risk, undertaken in partnership with other scrutiny bodies as part of the shared risk assessment process described previously.

A key component of the shared risk assessment will be the extent to which implementation of the existing BV Improvement Plan has had the anticipated impact. 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 and feed it into future risk assessments.

Statutory performance indicators

The statutory deadline for the publication by the Council of statutory performance indicators ("SPIs") is 30 September 2010. The direction of SPIs for 2009-10 represents a significant shift in the approach, reflective of the changing environment in which local authorities operate. This change in direction has 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 heir mainstream performance management and reporting activities.

In that same way that councils are being encouraged to integrate SPIs with the requirements of Best Value and their mainstream performance management and reporting systems, our audit work will focus on the broader interest in performance management and reporting that is included in our core responsibilities as appointed auditors of the Council. 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 has shifted to 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.

Audit Scotland periodically undertakes national studies on topics relevant to the performance of local authorities. As part of the development of joint scrutiny and shared risk assessment, national audit work will increasingly be informed by local risk assessments, with future studies programmes being more responsive to information and intelligence generated through local audit work. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation by the Council, as appropriate.

As part of our 2009-10 audit plan we will be required to assess how the Council has responded to relevant national performance study reports published between March and November 2009.

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

- if the report 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?

The Accounts Commission and Audit Scotland wish to improve the way that the impact of performance studies is assessed and measured and Audit Scotland has developed a framework to enable systematic assessment of impact.

The following studies were published in the relevant period:

- Protecting and improving Scotland's environment;
- Overview of local authority audits;
- Delivering efficiencies within the public sector;
- Scotland's public finances: preparing for the future;
- Making an impact: Overview of the Best Value audits; and
- Improving civil contingencies planning.

Timetable

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

Timing	Activity
January – February 2010	Preliminary planning, including consideration of Audit Scotland requirements, and development of approach
10 February 2010	Presentation of audit plan overview to the audit and performance review committee
26 February 2010	Submission of non-domestic rates 2008-09 grant claim to Audit Scotland
28 February 2010	Submission to Audit Scotland on the Board's arrangements for managing NFI
February – March 2010	Interim audit fieldwork
7 April 2010	Update reporting to management and the audit and performance review committee
July - September 2010	Financial statements audit fieldwork
September 2010	Audit and performance review committee to receive our report to those charged with governance on the outcome of the audit, and the final financial statements prior to their certification.
By 30 September 2010	Signed financial statements and Whole of Government Accounts submitted to Audit Scotland Annual audit report to members of the Council and Controller of Audit (absolute deadline of 31 October 2010)

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* 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 2009-10:

- 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;
- grant claims; and
- statutory performance indicators.

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. In determining the remuneration ranges available to auditors for 2009-10, Audit Scotland have applied an uplift of 2.5% (based on the NJC APT&C pay scale movement for 2009), but applied a 2% efficiency saving to remuneration with effect from 1 April 2010. This means that the net increase in fees for the local authority sector for 2009-10 is 1.8%. Additional work for PPP / PFI arrangements is not included in the construction of the audit fee and may be billed for separately if it cannot be accommodated in the audit fee.

We have agreed a fee of £217,900 (*2008-09 £215,000*) with management, which represents a point 5.8% above the mid-point of the indicative range (2008-09: 6.4% above the mid-point). The fixed fee payable to Audit Scotland is £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
Income and expenditure accounts	
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 2009 SORP 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 accounts 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; and • agree disclosures in the accounts 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 2009 SORP 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 2009 SORP 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 2009 SORP and are consistent with underlying records.
Balance Sheet	
Fixed assets: • 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 accounts; • 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; • 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.

Financial statements – approach to major captions (continued)

Area	Summary of audit approach
Long term debtors	*Completeness, existence, valuation and accuracy of long term debtors*: • review long term debtors 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 2009 SORP.
Stock	*Completeness, existence, valuation and accuracy of stock*: • identify and test the operation of controls over stock counts performed during the year and on 31 March; • agree stock balances at 31 March to stock control sheets prepared during annual stock counts; and • discuss significant movements in stock balances compared to previous years, taking into account changes in store arrangements and other local factors
Debtors due within one year: • local taxation • housing rents • government grants • trade debtors • prepayments, accrued income and other debtors	*Completeness, existence, accuracy and valuation of debtors*: • identify and test the operation of controls over recording and receipt of debtors; • sample test debtors balance as appropriate; • review and discuss with management changes in the aging profile of debtors, 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 2010 to ensure that income is recognised in the correct accounting period.
Short term investments	*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 significant investment balances at 31 March 2010 to independent confirmations.

Financial statements – approach to major captions (continued)

Area	Summary of audit approach
Cash and bank	*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.
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 significant loan balances at 31 March 2010 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 2009 SORP.
Creditors due within one year: • trade creditors • loan interest • local taxation • accruals • payroll and taxes creditors • deferred income and other creditors	*Completeness, existence and accuracy of creditors due within one year*: • identify and test the operation of controls in relation to recording and payment of creditors; • sample test creditor 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 creditors; • 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 2009 SORP 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 creditors will be agreed to payments made in April 2010.

Financial statements – approach to major captions (continued)

Area	Summary of audit approach
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 FRS 12 and the 2009 SORP; • 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 FRS 17 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 accounts for accuracy and compliance with the 2009 SORP, including the additional disclosure requirements of FRS 17 `retirement benefits' which are now applicable.
Deferred capital grants	*Completeness, existence and accuracy of deferred capital grants:* • review movements in deferred capital grants in the year for reasonableness and accuracy; • agree amortisation of government capital grants to corresponding depreciation charges in the fixed asset register and balance sheet; and • verify additions to the deferred capital grant account to third party confirmations and bank statements to ensure 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 accounts and other underlying records; • ensure fund balances and reserves have been disclosed in accordance with the 2009 SORP • and the Council's statutory powers; • review reconciliations of fund balances and reserves for accuracy with reference to other notes in the accounts 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 2009 SORP.

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 accounts and underlying records; and • ensure the cash flow statement reconciles and is consistent with the other key balances in the accounts.
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 2009 SORP 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 accounts comply with the 2009 SORP 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 accounts 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 accounts of subsidiaries, associates and joint ventures.