INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

West Dunbartonshire Council

Audit plan overview
Year ending 31 March 2009

03 March 2009

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 (all together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other that the beneficiaries.

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

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

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Grant Macrae, who is the engagement leader for our services to the Council, telephone 0131 527 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 2009 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, and prevention and detection of corruption; 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.
  - 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 financial reporting standards issued or adopted by the Accounting Standards Board and relevant guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA)/Local Authorities (Scotland) Accounts Advisory Board (LASAAC).

As part of our audit we also review the financial information contained in the foreword to ensure that it is consistent with the financial statements. We also review the statement on internal control to ensure it has been prepared in accordance with the local government Statement of Recommended Practice 2008 ("SORP 2008"), the financial statements and other information gained by us as auditors.

International Standard on Auditing (UK and Ireland) 240: *The auditor's responsibility to consider fraud and error 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 the end of 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.

Understanding
We ensure we understand the issues facing you and discuss accounting and other developments affecting the organisation with you. This allows us to perform our audit risk and IT risk analysis and devise our detailed audit strategy to focus on the key financial statement risk areas and significant classes of transactions. We agree our audit strategy and timetable with you.

Evaluating
We evaluate the design and operating effectiveness of key financial and IT application controls that prevent misstatements in the financial statements. We assess control risk and update our assessment of the risk areas in the financial statements. We will also discuss any findings with you, recommending areas for improvement where appropriate.

Testing
We plan and perform our substantive procedures, including analytical procedures and tests of detail, over significant classes of transaction, account balances and the presentation of the financial statements. This provides us with sufficient and appropriate audit evidence to enable us to form our audit opinions on the financial statements.

Communicating
The key elements of our formal reporting to you will be an annual audit report to members of the Council and Controller of Audit which will include our observations on matters of an internal control or business process nature noted during the course of the audit.

Financial position

The *Code* requires us to consider and report on management's financial reporting arrangements and the financial outturn.

Revenue

The revenue budget predicted a net cost of services outturn figure, excluding joint boards, of £202 million. The Council has experienced significant pressures in the achievement of this target 2008-09 financial position. The current economic climate has presented significant challenges to the budget. The Council has undertaken a debt rescheduling programme of c£25 million. The Council is also exposed to general price inflation which has resulted in a significant increase in utility prices. Cost pressures are further enhanced by the fall in commercial income experienced by the Council during 2008-09. Decreases in the volume of land charges and planning permission, combined with a drop in commercial rents, due to failing businesses, has result in decreases in revenue budgeted for 2008-09.

The following table details the most recent results of budget against actual as at period nine, showing an adverse variance in the net cost of services of £131,000. We have been informed by management that further corrective action has been taken during the year to address this position, although there are a number of remaining variables which could affect the year-end outturn position.

£000	Year to date		
Description	**Actual**	**Budget**	**Variance**
Net cost of services:			
Chief Executive	1,145	1,173	(29)
Corporate services	10,501	10,543	(42)
Educational services	65,528	64,982	546
Social work and health improvement	41,092	40,747	345
Housing, environmental and economic development	19,326	19,080	246
Miscellaneous services	4,837	5,049	(212)
Loan charges	11,756	11,800	(44)
Contingency fund	0	680	(680)
Total net cost of services	**154,185**	**154,054**	**131**

Source: West Dunbartonshire Council (February 2009)

Capital

The original 2008-09 financial plan projected a capital spend on the general services programme of £29.5 million. The outturn figure is currently forecast to be significantly lower at £16.2 million. This is due to delays experienced in major capital works, in particular the schools regeneration budget for which £7.9 million was budgeted in 2008-09 but remains largely unspent. As a result, significant incoming resources from supported borrowing, capital receipts and capital grants will be carried forward to be applied to the 2009-10 capital programme.

Financial position

During the planning process we review the existing financial position and the outlook for the future.

Reserves

The Council has a prudential reserve target of 2% of net expenditure. This equates to £4.9 million. The expected outturn of this balance at 31 March 2009 is £2.7 million.

Description	Balance - £000
Prudential Reserve Target	**4,873**
Balance at 01/04/2008	2,277
Provision restored in 2008-09	436
Projected balance at 01/04/2009, per 2009-10 budget paper	**2,713**
Single status	(1,000)
Council tax rebanding	(900)
Draft provision to restore 2009-10	400
Projected balance to 01/04/2010	**1,213**

Given the significant shortfall of targeted reserves below the prudential level, the Council should ensure that its policy and level of prudential reserves remains appropriate given the changes to ring-fenced funding, future financial pressures and the current economic climate.

Housing Revenue Account (HRA)

At period nine, the budgetary control report for the HRA indicated a favourable variance of £402,000, with an outturn surplus of £447,000 now expected. The cumulative outturn position at 31 March 2009 is therefore forecast to be £1,685,000 which exceeds the prudential level of HRA reserves set by Council. We will look at the impact of the 2009-10 HRA budget-setting exercise as part of our review of the financial position.

Treasury Management

At 31 March 2008, the Council had significant short term investments of £23.6 million. This level arose as a result primarily of balances earmarked for settlement of liabilities in respect of single status and equal pay, as well as general fund balances and committed capital expenditure. Following the Council decision to implement the single-status agreement from 1 March 2009, significant payments from the earmarked balances have subsequently been paid out during the year.

Through discussion with management we are aware that significant debt restructuring has been under taken in 2008-09. Council has approved its prudential indicators and treasury strategy for 2009-10 at the February Council meeting.

Forward Looking

At the Council meeting on 12 February 2009 to approve the budget, a two year budget plan for 2009-10 and 2010-11 was proposed. The adoption of a two year budget plan indicates the Council is adopting a longer term strategy to their operations and assumes in the first year that the Council will receive £3 million of the Scottish Government efficiency savings and wage inflation will increase by 2.5%. We will consider the financial outturn and comment in our reports to the audit committee during the year.

Areas for audit emphasis

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

Our planning process has identified the following specific areas of audit emphasis. As our audit planning and risk assessments are ongoing through out the audit, this list is not exhaustive. We will feedback to you in our reports our findings in respect of all key areas of audit emphasis we identify.

Areas of audit emphasis	
Priorities and risk framework	Details of the generic priorities and risks affecting local authorities, as identified by Audit Scotland within their Priorities and Risks Framework, are summarised in Appendix 1. We will consider the specific impact on the Council of these issues through the course of our audit work, including financial and wider corporate governance, as well as through actions taken by the Council within its Best Value Improvement Plan. We continue to work alongside Audit Scotland as part of the formal Best Value follow up, which will also consider the findings from other scrutiny and inspection agencies.
SORP 2008 / IFRS	While no major changes have been introduced by the updated SORP 2008 we will, however, review the Council's financial statements for continued compliance with SORP 2008 and best practice disclosure. We have outlined in Appendix 3, however, the key transition dates to International Financial Reporting Standards, and will update our understanding of the Council's actions in preparing for the transition to IFRS.
FRS 17	Revised disclosures are required in the 2008-09 financial statements in respect of pensions as a result of amendments to FRS 17. Consideration will also be given to the assumptions used by actuaries to determine FRS 17 disclosure balances and to ensure that they are consistent with Council circumstances.
Valuation of fixed assets	The economic downturn could indicate the need for an impairment review of fixed assets to be undertaken. Particular consideration will be given to the valuation of fixed assets held for disposal at the market value and commercial assets.
Treasury management	Given the current economic climate and the debt re-scheduling activities undertaken by the Council, treasury management strategy and policy will be of increased importance through out our audit. We will consider the debt rescheduling and subsequent decisions undertaken by the Council. We will also consider the adequacy of controls in place to ensure effective treasury management review of any investments.
Equal pay / single status provisions	Single status implementation is progressing within the Council, with the majority of payouts expected to occur by March 2009. Audit testing will consider the completeness, existence and accuracy of payments made to employees. We will also consider whether appropriate provision remains in respect of outstanding obligations.
Debtors and bad debt provision	We understand that during 2008-09 significant efforts have been taken to recover debtor balances owed to the Council, including by employees. These balances remain a significant area of audit emphasis and we will continue to review the action taken to recover the debtors balances, including reviewing the bad debt provision against the profile and nature of outstanding debt.

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 to liaise 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 work is relevant to our own responsibilities:

- housing benefits;
- council tax;
- national non domestic rates;
- improvement grants and loans;
- asset management;
- procurement
- National Fraud Initiative 2008-09;
- service standards;
- computer audit; and
- ledger controls and reconciliations;

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Fraud and irregularity

We will update our understanding of the Council's arrangements for NFI 2008-09 and monitor progress in following up matches provided to the Council.

National Fraud Initiative (NFI)

NFI is a data matching exercise which matches electronic data within and between participating bodies to prevent and detect fraud. The Audit Commission processes the data for NFI in Scotland on behalf of Audit Scotland. NFI helps participating bodies to identify possible cases of fraud, and detect and correct any consequential under or overpayments. Local authorities are again taking part in the 2008-09 NFI exercise which is expected to continue to take place on a two yearly cycle following its success in 2004-05 and 2006-07. The handbook for Scotland for the 2008-09 NFI was issued in early June 2008 and set out the timetable for data collection and provision of matches to authorities by February 2009.

Auditors are expected to monitor bodies' participation in NFI during 2008-09 audits. This should at least include:

- following up any weaknesses in the Council's arrangements for NFI identified at the 2006-07 exercise;
- being involved in discussions with the Council about 2008-09 risk-based datasets;
- requesting the submission of risk-based data for audit purposes;
- ensuring that authorities comply with the new guidance about layered fair processing notices in the 2008-09 NFI handbook;
- monitoring that councils are progressing the council tax matches provided in April or July 2008;
- ensuring a prompt start to the follow up of NFI matches at the end of January 2009; and
- including a reference to NFI in our 2008-09 annual audit reports to members and the Controller of Audit

It is likely we will be required to complete a questionnaire about the Council's participation in NFI 2008-09 for submission to Audit Scotland, probably around the end of February 2010. A draft questionnaire is to be issued to auditors in early 2009 so that audit work can be appropriately planned around this.

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.

Best Value and Statutory Performance Indicators

We review and report on the Council's arrangements to achieve Best Value.

Best Value

The Local Government in Scotland Act (2003) 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. The first report on the audit of best value at the Council was released by Audit Scotland in February 2007, with a follow up report in January 2008. A further follow-up review is due to the Accounts Commission by June 2009.

We continue to work with Audit Scotland to ensure a consistent and coordinated approach to the Best Value follow-up work, which will be undertaken in March 2009. This work will consider the progress made by the Council in implementing its agreed Best Value improvement plan, and assessing the extent to which the Council has addressed the key issues raised in the baseline Best Value audit report.

We will review and report of the Council's published Statutory Performance Indicators.

Statutory Performance Indicators

The statutory deadline for the publication by the Council of statutory performance indicators ("SPIs") is 30 September 2009. Our audit work is undertaken with regard to the 2008-09 SPI Audit Guide relating the appraisal of the Council's arrangements for collecting, recording and publishing the required information. We will ensure that our submission on the SPIs is made to Audit Scotland by the deadline of 31 August 2009.

Priority will be given to consideration of systems:

- for the provision of information for new or changed indicators;
- previously assessed as providing unreliable data;
- for indicators not subject to internal independent verification;
- which the Council has modified for operational reasons; and
- for indicators where there is evidence of widespread problems amongst other councils (identifiable from the PI Compendium)

We will work together with your internal auditors to consider a sample of the indicators with consideration of the above priorities.

Audit Scotland national studies

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

Audit Scotland periodically undertakes national studies on topics relevant to the performance of local authorities. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at Council level, as appropriate. As part of our 2008-09 audit plan we will assess how the Council has responded to relevant national performance study reports published between November 2008 and March 2009.

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

- if the national report was discussed at any council committees? If so, which and when?
- if the Council carried out a self-assessment against the national report?
- If so, did it produce 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. For 2008-09 auditors are required to report to Audit Scotland the extent to which Councils have implemented the recommendations of the report published in October 2008, which considers primarily the following study:

- Impact of the race equality duty;

Additional impact assessments will be required later in the year for other national reports once the success of this initiative has been measured.

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
December 2008 – February 2009	Planning
11 March 2009	Presentation of audit plan overview to the audit committee
March 2009 – April 2009	Audit fieldwork to assess and update our understanding of financial and business processes and to identify and test controls
31 March 2009	Submission to Audit Scotland in respect of the Priorities and Risks Framework
31 May 2009	Interim management report
July 2009 – September 2009	Completion of financial statements audit work
31 July 2009	Completion of review of trading operations
By 31 August 2009	Submission to Audit Scotland in respect of Statutory Performance Indicators
4 & 11 September 2009	Draft and finalised audit report to those charged with governance
23 September 2009	Audit committee to review accounts and report to those charged with governance
By 30 September 2009	Signed accounts issued to Audit Scotland
By 31 October 2009	Annual audit report to the members of the Council and the Controller of Audit

Reporting and fees

Reporting

Through regular meetings at appropriate levels, there will be open and regular discussion between management, auditors and the Council. 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 2008-09:

- interim management report based on the findings of our testing of financial, strategic and IT controls;
- specific report on the Council's trading activities, and its wider approach to ensuring competitiveness of its services;
- report to those charged with governance setting out findings surrounding the financial statements process;
- report on progress of equal pay/single status implementation; and
- annual audit report to members of the Council and Controller of Audit.

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

- NFI;
- priorities and risks framework;
- Audit Scotland national reports;
- Best Value – competitiveness;
- Statutory Performance Indicators;
- Education Inspection

Fees

Audit Scotland requires that the fee for our work is within the limits of an indicative range. Placement within the range depends on the level of work we consider necessary to perform and is influenced by the number and level of risks facing the Council. Our fees for the year ending 31 March 2009, which have been discussed with the Executive Director of Corporate Services, are analysed as follows:

We have agreed a fee of £215,000 (2007-08: £216,920) with management exclusive of the Audit Scotland fixed charge of £96,800 (2007-08: £92,200). This fee represents an uplift from the mid-point of the indicative range of 6.4% (2007-08: 10% uplift).

Our work in respect of participation with HMIe in respect of the ongoing education inspection is the subject of a separate fee, dependent on time input, while our fee in respect of participation in the Best Value follow-up is met out of Audit Scotland's central charges

Priorities and risks framework

Planning guidance provided by Audit Scotland includes a *priorities and risks framework* giving a number of risk areas of potential application at the Council

As appointed external auditors, we must consider the priorities and risk framework for all local authorities, our review will consider the risks associated with the key themes as identified by Audit Scotland, which are outlined in summary below.

Priorities and risks	Key Risk
Vision and strategic direction *Councils that perform well have clear aims and objectives for delivering high quality services that provide best value and meet the needs of their local community*	Key risks in association with visions and strategic direction:- • Community plans, Single Outcome Agreements (SOA) and Corporate Plans do not link to more detailed strategies and operational plans such as service plans and budgets, and lack actions plans and clear milestones to measure progress. • The Council has competing demands on limited resources, and as such public services provided are not in line with their Corporate Plan. • Leaders do not clearly communicate expectations, with poor change management and little recognition of the need for staff training and development. • There is no clear or common understanding of members' strategic leadership role or the limitations that should be set on their involvement in detailed management operations.
Partnership working and community leadership/engagement *The council has duties under the Local Government in Scotland Act 2003, to initiate facilitate and maintain a Community Planning process and a role in ensuring effective leadership within local Community Planning Partnership*	Key risks in relation to partnership working and community leadership/engagement:- • There may be a lack of effective leadership to ensure partners are committed to community planning and have shared visions for the community. • A poor shared understanding of the community will result in priorities agreed and decisions about services not being based upon strong evidence of need, relevant information should be collected and shared in systematic way, should be fully up to date, accurate to result in a good connection between strategic priorities and the issues an area is facing. • Partnership governance and accountability arrangements may be insufficiently developed, resulting in a lack of clarity regarding lines of communication, areas of responsibility, delegated authority and scrutiny arrangements • Consultation and engagement with local communities and service users may be poorly co-ordinated or insufficiently linked to wider community empowerment activity. • Councils may not fully involve all partners in developing partnerships plans and strategies, as such Community Plans and SOAs. • Councils may lack clear arrangements for linking community planning priorities to financial and service planning processes. Councils may be unable to identify mainstream resources to support initiatives previously funded through ring-fenced monies. • Arrangements for tracking progress towards shared priorities and high-level outcomes may not be linked to performance management at service levels, or partners may be unwilling to share service performance.

Priorities and risks framework

Planning guidance provided by Audit Scotland includes a *priorities and risks framework* giving a number of risk areas of potential application at the Council

Priorities and risks	Key Risk
Governance and accountability *A sound system of decision-making should operate and an effective process to support it should be embedded within the Council to support strategic aims*	Key risks of Governance and accountability:- • The role and development of elected members is not clearly defined, and members do not have access to appropriate training and development tailored to their continuing needs to be effective in their role. The lack of clarity may extend to individual elected members responsibility in representation on boards of trusts, companies and other arms length organisations. • Support available to elected members is not always available, as councils may not provide information of sufficient quality resulting in transparent decisions which allow for sufficient scrutiny, challenge and risk assessment by elected members. • The reasons for establishing and working with external organisations and the intended benefits may not be clear, or councils may not make clear their financial commitment, limitations etc. Monitoring and reporting arrangements for financial and service performance may not be agreed or implemented.
Performance management and improvement *The statutory duty of best value requires councils to demonstrate continuous improvement in services and to address equality and sustainability duties*	Key risks in relation to performance management and improvement:- • Corporate priorities may not be clearly articulated at corporate or service level or may lack specific or measurable outcome targets. Corporate and service plans may not integrate with the provide linkages between resources and performance to demonstrate whether outputs and outcomes have been maintained, improved or have deteriorated. • Clear links may not exist between community plan/corporate objectives and the SOA, making it difficult for councils to demonstrate the relevance of their agreed local outcomes and indicators. • Performance indicators may not be measured accurately resulting in the council being unable to demonstrate the quality, effectiveness or cost of its services overall. Councils may not have systems to collect the relevant information to report on the delivery of agreed outcomes, on a timely basis, with baseline data agreed and ensure sufficient quality control procedures are in place. Minimum service standards may not have been established or published, with the result the public are unaware of the quality of service. • Monitoring of performance may be ineffective, resulting in poor performance not properly identified to allow appropriate remedial action. Effective monitoring of performance should be in place, over time, against corporate and service objectives including those arising form community plans and SOAs and against ‘best practice’ quality standards or those achieved by others. • Involving users through ensuring all information collected through consultation and feedback may not be routinely linked with the performance management system and used to improve service delivery. • Performance reporting may not provide service users and the wider public balanced information on performance, leading to the inability to meet statutory duties or ineffective democratic accountability leading to the poor management of expectations of residents and customers.

Priorities and risks framework

Planning guidance provided by Audit Scotland includes a *priorities and risks framework* giving a number of risk areas of potential application at the Council

Priorities and risks	Key Risk
Risk management *Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance*	Key risk regarding risk management arrangements:- • Policy, strategy and procedures may not clearly define the overall strategy for managing risk and communicating how this should operate in practice. A risk management strategy and policy should set out how risk management is embedded into corporate processes, which is enhanced through comprehensive procedures. • Councils may not be effectively managing corporate/strategic risks to the achievement of their key objectives, a corporate risk register should be in place at a high level sitting above departmental risk registers. • Departmental risk management, if not effectively managed, could impact the quality of service delivery and contribute to failure to achieve corporate objectives. Therefore, risk management should be maintained through regular departmental meetings. • Partnership risk management should be considered to ensure that councils effectively consider and manage the risks of involvement with other bodies and that processes are in place to obtain required assurance over the management of risk in significant partnerships. • Project risk management may not be undertaken to prevent the risk of failure in delivery of projects, which could have value for money implications resulting from overruns, recognised project management principles should be in place. • There is a risk that councils do not consider all risks related to making key decisions that commit them to action or expenditure. • Officers and members should have clear understanding and ownership of risk management, to ensure risk management consideration operate through out the council. • Risk management will only be effective is there is sufficient dedicated resources to support consistent development and risk management is clearly linked with other corporate processes.

Priorities and risks framework

Planning guidance provided by Audit Scotland includes a *priorities and risks framework* giving a number of risk areas of potential application at the Council

Priorities and risks	Key Risk
Use of resources *Key operations that feed directly in to best value are considered: financial management, people management, asset management, procurement and information management*	Our review of the Council's Use of Resources will involve assessing the risks under the following areas:- **Financial management** • Good Financial management may not be in place to ensuring that significant public monies and assets are applied to meet national priorities and the needs of local communities. Good financial management is about efficiency, effectiveness, best value and tight financial control. councils need to oversee budgets, monitoring should be ongoing and financial performance reviewed regularly. • Budgets and budgetary control may not reflect the prioritisation of individual service need and may not receive the necessary commitment from service officers, resulting in disproportionate budgetary pressure on different parts of the Council leading to a reduction in service delivery or over-spending. • The approach to joint working may not support effective joint working, restricting the ability to achieve community planning objectives. • Senior management of the Council must fully understand the financial environment in which the organisation operates. The development of strategic and corporate plans should be informed by a proper understanding and appreciation of their financial implications. • Long-term plans of the Council may not appropriately reflect the recent economic downturn and the risk of recession. This could result in resources not being targeted to priorities or reflecting changing demographics. **People management** • Single status and equal pay may not be appropriately budgeted for, all relevant costs should be included in the appropriate budgets with on-going financial implications fully considered. Management should review their position on outstanding cases and financial impact of these cases on a regular basis. • There may not be in place a comprehensive workforce management strategy, which identifies risks in relation to matters such as Health and Safety, equalities, business continuity, succession planning and performance assessment. • Work force management may not be sufficiently linked to the financial strategy, leading to problems in meeting employee related costs, including pensions, in the longer term. • Absence management arrangements may not be effective in tackling abuse and work-related causes of ill-health or to support staffing so that they can return to work. **Asset Management** • Asset management may not be viewed as an integral part of the strategic and business planning process, with the result that business planning may not be supported by the most appropriate asset base. A corporate approach to asset management and utilisation should be undertaken, to ensure full advantage is taken of economies of scale or opportunities to share. • Information on asset condition and suitability may not be used to inform management proposals for new investment and maintenance plans. Key performance indicators in relation to cost and utilisation should be used to maximise the use of assets and identify efficiency savings. • Costs and time frames may not have been estimated to bring assets currently not in a satisfactory condition or accessible to disabled people up to an acceptable standard. The Council should ensure such estimates have been carried out.

Priorities and risks framework

Planning guidance provided by Audit Scotland includes a *priorities and risks framework* giving a number of risk areas of potential application at the Council

Priorities and risks	Key Risk
Use of resources *Key operations that feed directly in to best value are considered: financial management, people management, asset management, procurement and information management*	**Procurement** • A key risk of local authorities is the failure to fully engage with procurement centres of excellence, council's need to demonstrate that procurement strategies in place are fit for purpose and that procurement and governance strategies comply with the standards set out in the McClelland Report. **Information Management** • The responsibility for data handling and security may not be considered as a corporate requirement, and instead handled at a local or service based level. • Information regarding clients may be held at service or departmental level and not shared at a corporate level. This lack of sharing may lead to the delivery of service being less efficient and effective. • Investment in computer systems and ICT infrastructure may not be subject to corporate management team control and instead performed at a local or service based level. Councils without adequate process in place to ensure all significant investment is in line with strategic targets may fail to achieve the desired outcomes. • The responsibility for compliance with information legislation may not be considered as a corporate requirement, and instead handled at a local or service based level. This way of working could lead to inconsistent working practices and possible unnecessary duplication of effort. A lack of corporate policies and guidelines in place to ensure the organisation can fulfil its legal commitments in relation to information processing legislation may increase the risk of non-compliance. • Government initiatives, such as green ICT and OneScotland Portal, are not being sponsored at the appropriate level within the Council and progress is not being reported on a regular basis, which may limit the Council's ability to meet desired objectives. • ICT contingency in the context of the Council's 'emergency planning and response' may not be considered as a corporate requirement and instead handled at a local or service based level.

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.

Income and expenditure account – audit areas and approaches	
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 SORP 2008 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 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.
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 SORP 2008 requirements, while considering consistency with previous years; and • agree grant income to third party support.

Appendix 2

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.

Income and expenditure account – audit areas and approaches	
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 SORP 2008 and are consistent with underlying records.

Balance sheet – audit areas and approaches	
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 to independent confirmation from the Council's valuer, ensuring the new revaluation reserve has been accurately constructed; and • review the Council's capital programme for evidence of potential impact on the current values of land, buildings and equipment.
Long term 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 SORP, with special attention paid to the new requirements under FRS 25,26 and 29.

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.

Balance sheet – audit areas and approaches	
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 2009 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 2009 to independent confirmations.
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 2009 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 SORP 2008.

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.

Balance sheet – audit areas and approaches	
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 SORP 2008 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 2008.
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 SORP 2008; • 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 SORP 2008, including the additional disclosure requirements of FRS 17 `retirement benefits' which are now applicable.

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.

Balance sheet – audit areas and approaches	
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 SORP 2008 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 SORP 2008.

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 SORP 2008 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 SORP 2008 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.

Implementation of International Financial Reporting Standards

The Council will prepare full IFRS compliant financial statements for the year ending 31 March 2011. This is preceded by a conversion process.

In October 2008 CIPFA/LASAAC announced a new governance framework for the Code of Practice on Local Authority Accounting. The new Code for 2010-11, when local authorities will complete their transition to IFRS-based reporting, will be prepared under the oversight of the Financial Reporting Advisory Board (FRAB) rather than the Accounting Standards Board (ASB) as for previous years.

Under the new governance framework CIPFA/LASAAC remains the accounting standard setter for local authorities. The Code will also continue to be the authoritative source of accounting guidance for local authorities across the UK, although it will no longer be badged as a Statement of Recommended Practice (SORP).

For the first IFRS-based accounts to be published in 2010-11, the Council will also need to restate the 2009-10 accounts. This will require an opening balance sheet as at 1 April 2009 to be prepared (in effect the closing 2008-09 balance sheet will need to be restated) and published as part of the 2010-11 accounts.

CIPFA/LASAAC has issued "*IFRS-based code of practice on local authority accounting – updates 1 and 2*" which outline the latest position regarding the development of the IFRS-based code and actions that local authorities are required to carry out in preparation for implementation of the new code of practice.

As part of the move to IFRS-based reporting, CIPFA have issued *Back to Basics A first Principles' Review of Local Authority Accounting* on the format of the financial statements following the move to IFRS-based reporting.

Date	Publications
May 2008	CIPFA issued Back to Basics a First Principles' Review of Local Authority Accounting
5 October 2008	CIPFA/LASAAC issued "*IFRS-based code of practice on local authority accounting update 1*"
9 October 2008	CIPFA/LASAAC joint announcement that the new Code for 2010-11 will require IFRS-based reporting from 1 April 2011 with comparative information for 2009-10.
26 January 2009	CIPFA/LASAAC issued "*IFRS-based code of practice on local authority accounting update 2*"

Further information on the implementation of IFRS will be published in due course.