

# West Dunbartonshire Council

## Annual Audit Plan 2011/12



Prepared for those charged with governance  
January 2012

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

---

# Contents

<b>Summary plan .....</b>	<b>4</b>
Summary of planned audit activity .....	4
Introduction .....	4
Our responsibilities.....	5
Responsibility for the preparation of accounts .....	6
Format of the accounts.....	7
Audit issues and risks.....	7
National performance audit studies – impact and follow up .....	9
Summary assurance plan.....	9
Materiality.....	9
Reporting arrangements.....	10
Quality control .....	11
Fees and resources.....	12
Independence and objectivity .....	13
<b>Appendix A - Summary assurance plan.....</b>	<b>14</b>
<b>Appendix B - Financial statements audit timetable .....</b>	<b>21</b>
<b>Appendix C - Audit team .....</b>	<b>22</b>
<b>Appendix D - Reliance on internal audit.....</b>	<b>24</b>
<b>Appendix E - Independence and Objectivity.....</b>	<b>25</b>

# Summary plan

## Summary of planned audit activity

Based on our analysis of the risks facing West Dunbartonshire Council (the Council), our planned work in 2011/12 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the financial position of the Council as at 31 March 2012 and its income and expenditure for the year then ended
  - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2012/13 to 2014/15 for the Council.
- provision of the annual report on the audit addressed to the Council and the Controller of Audit
- a review and assessment of the Council governance and performance arrangements in a number of key areas including the review of: internal controls; the adequacy of internal audit; Statutory Performance Indicators; national study follow-up work; and ICT computer service reviews.
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements throughout 2011/12

## Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to the Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the Council financial statements. This report summarises specific governance and other risks that may affect the financial statements of the Council, and sets out the audit work that we propose to undertake in 2011/12 to address these. Our annual audit plan reflects:

- the risks and priorities facing the Council
- current national risks relevant to local circumstances
- the impact of changing international auditing and accounting standards
- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission

- issues brought forward from previous audit reports.
2. In addition to this annual audit plan which focuses on those risks which may impact on the financial statements, we will issue, on behalf of the Local Area Network, an Assurance and Improvement Plan Update which will update the LAN's joint assessment of the strategic and performance risks facing the Council and set out the planned scrutiny activity in the council for the period April 2012 to March 2015.

## Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that the Council:
  - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
  - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
  - prepares financial statements which give a true and fair view of the financial position at 31 March 2012 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2011 Code of practice on local authority accounting in the United Kingdom (the Code). The 2011 Code applies to reporting periods commencing 1 April 2011.
  - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulations
  - proactively manages and reviews its performance in line with its strategic and operational objectives
  - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.
6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the Council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the business of the Council and the risk exposure which could impact on the financial statements

- assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
  - identifying major transaction streams, balances and areas of estimation, understanding how the Council will include these in the financial statements and developing procedures to audit these
  - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
  - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2011/12 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for provision of accounts and working papers being agreed
  - delivery of unaudited accounts to agreed timescales
  - a comprehensive working papers package and supporting records to demonstrate full compliance with the requirements of IFRS
  - completion of the internal audit programme for 2011/12.
8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the Council. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.
9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.
10. At the completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Responsibility for the preparation of accounts

11. It is the responsibility of the Head of Finances and Resources as Accountable Officer to prepare the financial statements in accordance with the Code. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Council as at 31 March 2012 and its expenditure and income for the year then ended;
- reviewing the main components of the system of internal control, including the arrangements for internal audit and group entities. This should include consideration of issues identified as part of the audit process;
- preparing an explanatory foreword.

## Format of the accounts

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

## Audit issues and risks

13. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
14. **Managing financial pressures and achieving efficiency savings:** The Council, like all public sector bodies, faces substantial real-term reductions in financing in the short to medium term. At the same time pressures are building on demand led services such as social work, especially as a consequence of a steady decline in West Dunbartonshire's population and changes in age profiles in the area. The Council have withdrawn from the Clyde Valley Shared Services believing that it can continue to achieve efficiency savings internally to help meet future funding gaps. The Financial Strategy approved by full Council in August 2011 indicates a budget gap of £7.2m in 2012/13 and £12.6m in 2013/14. A draft revenue budget for 2012/13 was presented to full Council in December 2011 which results in a budget surplus of £1.1m. The reduction of the £7.2m budget gap to a £1.1m surplus is brought about predominantly through settlement funding, the income securitisation project, management adjustments and recurring savings. Savings identified through the income securitisation project are not guaranteed and care should be taken over placing reliance on them. Strong financial management and governance will be required to help manage the Council's financial resources through the projected periods of financial uncertainty.
15. **Capacity to deliver key projects:** The Council are currently either progressing or considering major strategic projects including a partial housing stock transfer, creation of a leisure trust,

rationalisation of the school estate and the income securitisation project which includes moving to new Council headquarters. Progressing five strategic projects of this nature, in parallel, will require strong project management and place significant demand on the Council's strategic, operational and financial resources. The issues and risks associated with this may be impacted if the May 2012 elections result in a change in administration.

- 16. Preparation of financial statements:** The 2010/11 report to those charged with governance highlighted that the Council continues to enhance the financial statement preparation process and highlighted areas where this process could be further enhanced. A new Executive Director of Corporate Services has recently been appointed (start date likely to be mid March 2012) who will have responsibility for the finance function and the Section 95 Officer role has recently been transferred from the newly appointed Chief Executive to the Head of Finance and Resources. In addition the finance team have been restructured with a more centralised model adopted that sees business partners working within Corporate Services. It will take time for the new structure to be fully bedded in with staff becoming accustomed to their new roles and responsibilities. There is a risk that the extent of change within finance might impact on the quality of the financial statements and supporting working papers.
- 17. Heritage assets:** The 2011 Code requires that both tangible and intangible heritage assets be included in the financial statements in accordance with the requirements of FRS 30 and IPSAS 31 respectively. The code defines a Heritage Asset as 'A tangible heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.' The Council need to ensure they take a proactive approach to ensure they meet the requirements of the Code.
- 18. Capital slippage:** The 2010/11 report to members highlighted that there had been 21% slippage in the Council's general fund capital programme with a further 23% slippage in the HRA programme. The level of slippage in the general fund was consistent with the 2009/10 slippage however the HRA slippage was a material increase on the 2009/10 figure. Continued slippage raises a concern about the Council's capacity to deliver its capital programme and achievement of the Scottish Housing Quality Standards.
- 19. Net debt:** Compared to the other 31 Scottish Local Authorities (based on the 2010/11 audited accounts) the Council has the second highest net debt per head of population and second highest cost of servicing debt as a proportion of net revenue expenditure. This highlights a concern about the Council's ability to maintain repayments and the impact of servicing the debt could have on service delivery.
- 20. PPP sinking fund:** Factors such as decreases in interest rate and lack of capital receipts has resulted in there being a shortfall in the PPP Sinking Fund. Previous contributions from the general fund have helped address this concern on a short term basis however this approach is not sustainable to address the medium to long term.
- 21. Financial strategy:** The Council's financial strategy (2011/12-2020/21) was last updated and presented to Council in August 2011. This is designed to provide direction on how the Council



can structure and manage its financial resources and ensure they are focused on achieving corporate objectives. A review of the strategy confirmed that it includes detailed information on the short to medium term revenue position however the information detailed regarding capital projections was more limited and would benefit from further development.

22. **Strategic finance working group:** The Council has established a strategic finance working group on which there are elected members, council finance officers, and representatives of the community health partnership and Council's corporate management team. The group meet periodically to discuss matters of a financial nature such as the budget timetable, welfare reform, distribution review, and the financial strategy. The group has not met for approximately six months since the previous Executive Director of Corporate Services was appointed as the new Chief Executive.

## National performance audit studies – impact and follow up

23. In addition to the above work, Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits we will follow up a number of studies at a local level. In 2011/12 this will involve a follow up Audit Scotland's 'Maintaining Scotland's Roads' report.

## Summary assurance plan

24. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake are also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

## Materiality

25. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
26. International Standard on Auditing 320 states that, "Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible

effect of misstatements on specific individual users, whose needs may vary widely, is not considered.”

27. When considering, in the context of a possible qualification to the audit opinion, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
28. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

## Reporting arrangements

29. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the Council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned audit committee dates and audit resources.
30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission.
31. A copy of all final agreed reports will be sent to the Chief Executive, Executive Director of Corporate Services, Head of Finance & Resources, relevant senior managers, Internal Audit and Audit Scotland’s Best Value & Scrutiny Improvement Group.
32. We will provide an independent auditor’s report to the Council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the Council’s management of key risks.
33. All annual reports produced by Audit Scotland are published on our website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).
34. The full range of outputs to be delivered by the audit team are summarised in Exhibit 1.

**Exhibit 1: 2011/12 Planned Outputs**

Planned outputs	Target delivery date
<b>Governance</b>	
Assurance and Improvement Plan Update (jointly prepared with other local government scrutiny bodies)	31 May 2012
Review of the Adequacy of Internal Audit	31 January 2012
Internal controls management letter	31 May 2012
<b>Financial statements</b>	
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	28 September 2012
Independent auditor's report on the financial statements	28 September 2012
Audit opinion on Whole of Government Accounts	28 September 2012
Annual report to Members and the Controller of Audit	31 October 2012
<b>Grants</b>	
Audit opinions on Education Maintenance Allowance, Criminal Justice Social Work Services, Non Domestic Rates, Housing Benefit & Council Tax Benefit Subsidy grant claims.	As required

**Quality control**

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

## Fees and resources

37. In the context of the challenges faced by Local Authorities, the impact of national spending decisions, and changes made in Audit Scotland's own overall budget we have re-examined our audit fee in 2011/12. The fees for 2011/12 are summarised in Exhibit 2 below.

### Exhibit 2: Audit Fee

Description	Audit Fee 2010/11	Audit Fee 2011/12	% Change
Total audit fee	£306,675	£288,275	-6%

38. Our fee covers:
- all of the work and outputs described in this plan
  - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
  - attendance at Audit & Performance Review Committee meetings
  - access to advice and information on relevant audit issues
  - access to workshops/seminars on topical issues
  - travel and subsistence costs.
39. In determining the agreed fee we have taken account of the risk exposure of the Council, the management assurances in place and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 27 June 2012.
40. We reserve the right to charge an additional fee for further audit work in such instances as late receipt of the draft financial statements, the lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. An additional fee may be required if our audit cannot proceed as planned.
41. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
42. Fiona Kordiak, Director, Audit Services is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For the Council the Assistant Director is David McConnell.
43. The local audit team will be led by Elaine Boyd who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience of our team are provided at Appendix C. The core audit team will call on other specialist and support staff as necessary.

## Independence and objectivity

44. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.
45. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

# Appendix A - Summary assurance plan

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

Risk	Source of Assurance	Planned audit action
<p>The Council, like all public sector bodies, faces substantial real-term reductions in financing in the short to medium term whilst demand led services are increasing.</p> <p>Strong financial management and governance are increasingly important to minimise the impact on service delivery. Particular care should be taken over placing reliance on the income securitisation project to generate projected savings.</p>	<ol style="list-style-type: none"> <li>1. The Council will continue to consider and approve its medium and longer term Financial Strategy on a regular basis.</li> <li>2. Regular budget monitoring information will be provided to the CMT, Council and it's Committees.</li> <li>3. Ongoing review of the short, medium and longer term plans and strategies will be developed taking account of spending pressures and reported through the Strategic Finance Working Group as a discussion vehicle prior to reporting officially to Council/Committee.</li> <li>4. The budgetary control process is planned to be reviewed for appropriateness and effectiveness within the financial year.</li> <li>5. The process for approval of projects under any Securitisation process will</li> </ol>	<p>Monitor the Council's financial position via revenue budget reports presented to full Council and meetings with officers.</p> <p>Review progress to date on income securitisation project and maintain a watching brief over future developments.</p> <p>Report in the Annual Report to Members.</p>

Risk	Source of Assurance	Planned audit action
	<p>consider and identify specifically projected savings.</p> <p>6. At present the forecast budgets for 2012/13 to 2014/15 only account for the likely cost of Securitisation (i.e. the lost income) and no expectation is included of a revenue stream from this. However clearly if Income Securitisation option is pursued then consideration of the value for money of the approach will need to be made as part of the decision-making process.</p>	
<p>The Council are progressing or considering five major strategic projects. This will require strong project management and place significant demand on the Council's strategic, operational and financial resources.</p>	<p>In recognition of the importance of building capacity in project planning &amp; management the Council has invested in training &amp; development of all officers involved in these key projects as well as other covered within the securitisation framework. This will be augmented as necessary as projects are identified for further progression.</p> <p>Project management principles including governance arrangements, project planning &amp; management have underpinned the approach to date and will continue to inform decisions on capacity for delivery moving forward.</p> <p>All 5 of the projects referred to will be project managed (if all are approved).</p> <p>For each of these priorities (if</p>	<p>Review progress to date on key strategic projects and maintain a watching brief over future developments through minute review and meetings with relevant Council officers.</p> <p>Report on progress in the Annual Report to Members.</p>

Risk	Source of Assurance	Planned audit action
	<p>approved) senior members of staff will have responsibility for driving forward and managing the implementation of the projects, ensuring high-level "buy-in" and leadership.</p> <p>At all stages finance management will consider the capacity of the in-house team to deliver the financial advice required to these projects, based on in-house experience and knowledge and ongoing work commitments.</p> <p>Appropriate use of consultants may be required where necessary to ensure appropriate knowledge is brought to the various considerations in each of these projects.</p>	
<p>Changes in leadership and structure within the Council's finance section might impact on the successful provision of quality draft financial statements and supporting working papers.</p>	<ol style="list-style-type: none"> <li>1. The effectiveness of the new centralised Finance structure will be undertaken during the 2012/13 financial year, including feedback from customer departments and Elected Members.</li> <li>2. The new PDP process has been rolled-out to all employees within the Finance service and this will be scrutinised to identify training needs to ensure effective service delivery continues.</li> </ol>	<p>Work in conjunction with Finance to offer any required support / advice in relation to the draft financial statements and working papers.</p> <p>Quality of final output will be assessed as part of the routine audit of the 2011/12 annual accounts.</p>
<p>The Council need to ensure their disclosure of heritage assets in the 2011/12 financial statements comply with the 2011 Code.</p>	<ol style="list-style-type: none"> <li>1. The Council will ensure that all heritage assets that we are able to disclose are done in accordance with the 2011 code - note however that not all museums artefacts are</li> </ol>	<p>Assess disclosure of heritage assets as part of the routine audit of the 2011/12 annual accounts.</p>



Risk	Source of Assurance	Planned audit action
	catalogued at present and is therefore a work in progress.	
Continued capital slippage raises a concern about the Council's capacity to deliver its capital programme and achieve the Scottish Housing Quality Standards.	<p>1. The HEED Committee recently approved a "framework" approach for HRA Capital projects which aims to improve capital spend in-year, through having in place stand-by projects to substitute for projects which slip and an aligned process to access appropriate contractors to undertake this work as the capital position develops each financial year.</p> <p>2. The Housing service are, therefore planning to have capital projects developed to go live at short notice to manage the slippage issue in line with the framework identified above.</p> <p>3. The approach to capital planning and the development of a long term capital planning process is to be developed within the next financial year, including extending the HRA capital approach to General Services</p>	<p>Monitor capital expenditure through budget reports submitted to committee.</p> <p>Report in the Annual Report to Members.</p>
The Council's net debt position and the cost of servicing this debt raises a concern that their ability to make repayments whilst maintaining service delivery standards.	<p>1. The finance service will continue to manage the Council's debt portfolio closely, through taking professional advice from appointed financial advisors.</p> <p>2. The finance service will continue to ensure that all revenue implications of debt currently held and to be held in</p>	<p>Review controls in place relating to treasury management function.</p> <p>Report any concerns regarding treasury management in interim control report.</p> <p>Report position on net debt in Annual Report to Members.</p>

Risk	Source of Assurance	Planned audit action
	<p>future is built into ongoing short, medium and long term financial plans. However it has to be recognised that WDC at present retains all HRA debt as no stock transfer has taken place, and has debt associated with PPP included in it's figures. Debt is how Councils raise funds to invest in improvement projects and there will always be a conflicting position where to improve and make efficiencies (while maintaining service delivery standards) the Council will require to undertake additional borrowing. In looking at debt in another way it can be seen that there may be opportunities to plan to repay debt early using revenue funds or capital receipts, however this option may be at the expense of maintaining service delivery.</p> <p>3. The Council will maintain a robust Treasury Management function which will include proactively managing debt by reviewing our debt position and total fundable debt position based on prudential indicators.</p> <p>4. The Council is currently pursuing it's policy of partial stock transfer of elements of the HRA estate. If successful this will remove a significant element of the current level of debt.</p>	

Risk	Source of Assurance	Planned audit action
<p>The shortfall in the PPP Sinking Fund needs to be addressed to ensure there is not a significant shortfall at the end of the 30 year business plan period.</p>	<p>1. The finance service considers the PPP position on an annual basis and make necessary provisions within the accounts or as part of a budgetary process to ensure that any gap in the Sinking Fund contribution to the PPP costs is covered through other sources.</p>	<p>Assess as part of the routine audit of the 2011/12 annual accounts.</p>
<p>The information on capital projections in the financial strategy is limited which presents a risk that capital decisions are not adequately planned and managed to ensure successful delivery of the capital programme.</p>	<p>1. There is a planned review of capital planning processes being managed by the Asset Management Group which will develop an approach for long term capital planning.</p> <p>2. The HRA capital account has a process approved recently by HEED Committee to develop a framework approach to capital planning and spending.</p> <p>3. The finance service and the Asset Management Group while developing the approach to long term capital planning will consider the option to replicate the framework approach adopted by the Housing department recently.</p> <p>4. The finance department plan to complete in the next few months a review of the current process for approval, monitoring and review of capital projects.</p> <p>5. Once the long term capital planning approach has been developed and implemented then the finance service will link that process to the</p>	<p>Monitor progress through committee reports and meetings with officers.</p> <p>Report in the Annual Report to Members.</p>

Risk	Source of Assurance	Planned audit action
	revenue budget planning processes.	
<p>The strategic finance working group has not met for approximately six months. There is a risk that, without direction, the Council makes financial decisions which are not consistent with corporate objectives.</p>	<p>1. The Council's planning and budgeting guidance for departments attempts to ensure that the planning "golden thread" is maintained throughout our planning processes and that our financial plans will reflect the corporate objectives</p> <p>2. The role of the Strategic Finance Working Group will be considered following the local elections in May 2012, as the new Administration may implement alternative means of consideration of Member involvement in the financial planning process.</p>	<p>Re-assess financial planning process as part of risk assessment phase of 2012/13 audit to determine impact of May 2012 elections on process.</p>

# Appendix B - Financial statements audit timetable

Key stage	Date
Provision of closedown procedures to audit	31 March 2012
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2012
Testing and review of internal control systems and transactions	31 May 2012
Planned committee approval of unaudited financial statements	June 2012
Latest submission of unaudited financial statements with working papers package	27 June 2012
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with Head of Finance & Resources or other senior officers	TBC
Agreement of unsigned financial statements for audit committee agenda, and issue of report to the audit committee on the audit of financial statements (ISA 260)	28 September 2012 (dependant on Committee date)
Audit & Performance Review committee date	September 2012 (TBC)
Independent Auditors Report signed	By 30 September 2012
Latest date for submission of unaudited whole of government accounts return to external audit	TBC
Latest date for signing of WGA return	TBC
Certified accounts and annual report presented to Council	TBC

# Appendix C - Audit team

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

**David McConnell MA CPFA**

**Assistant Director of Audit Services (certifying auditor)**

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

**Elaine Boyd FCCA**

**Senior Audit Manager**

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

**Laurence Slavin CPFA**

**Senior Auditor**

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

**Pauline Murray CPFA**

**Auditor**

Pauline joined Audit Scotland in 2008 as a professional trainee and qualified in September 2011. Prior to joining Audit Scotland Pauline worked in a range of roles across the voluntary and public sector. She has gained experience on local government and health audits.

**Ian Docherty**

**Professional Trainee**

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

**Jim Cumming**

Senior Auditor (ICT)

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

# Appendix D - Reliance on internal audit

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

- Payroll
- Main accounting
- Council tax & NDR valuations
- Creditors
- Council tax billing

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



# Appendix E - Independence and Objectivity

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

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

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

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

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

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

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