

Clackmannanshire Council

Report to the Scrutiny Committee
on the 2012 Audit

Planning Report

23 February 2012

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Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for the Clackmannanshire Council for the year ending 31 March 2012. Our audit will be carried out under the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General covering (1) financial statements and corporate governance and (2) best value, use of resources and performance. Our proposed audit fee for this year is £218,000 and this has been agreed with the Director of Finance.

Financial statements and corporate governance	We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB").	Section 1
Best value, use of resources and performance	<p>In addition to performing the audit of the financial statements, Audit Scotland requires us to undertake a number of additional areas of work as part of our contract with them. These additional tasks are communicated to us annually through their Planning Guidance document. These include:</p> <ul style="list-style-type: none"> • Shared Risk Assessment (SRA) and Joint Scrutiny Planning; • Best Value (BV) and Community Planning; • Single Outcome Agreements (SOAs); • Performance Reporting and Statutory Performance Indicators (SPIs); • Local response to Best Value, Scrutiny and Improvement (BVSI) led reports; • Audit Scotland National Performance Reports; • National Fraud Initiative; • Housing and Council tax benefit; • Grant claims and returns; and • Fraud returns. <p>As part of our work in this area we will also consider other issues relevant to the organisation and how these are monitored and addressed by the Council.</p>	Section 1

Executive summary (continued)

Key audit risks	<p>The key audit risks which we have identified as part of our overall audit strategy are detailed below. We would emphasise that these risks, which will potentially impact on the Council's financial statements, reflect what we would generally expect for an organisation of the Council's size. Two of the risks reflect the requirements of mandatory ISA's which we are required to review and the others are derived from a combination of significant account balances, complexity of accounting treatment and the judgemental nature of the balance. These risks will inform key areas of audit focus and do not reflect specific issues or concerns at this stage of the audit.</p> <ol style="list-style-type: none"> 1. Accounting for Public Private Partnership (PPP); 2. Completeness of accruals; 3. Valuation of defined benefit pension scheme liability; 4. Revenue recognition (Council Tax and Housing Rent Income); 5. Property, plant and equipment (PPE) valuation; 6. Human Resources and Payroll Systems replacement; 7. Management override of controls; 8. Equal pay provision 	Section 2
Other issues	<p>Other issues which have not currently been identified as financial statement risks but will be considered as part of our audit in line with compliance with the Code of Audit Practice, and work on Best Practice, are:</p> <ol style="list-style-type: none"> 1. Delivery of services with reduced funding; 2. Compliance with outcomes based approach and quality ambitions for public sector bodies; 3. Achievement of local and national outcomes from Single Outcome Agreement; 4. Sustainable workforce; 5. Instability of key suppliers; 6. Governance model; and 7. Community engagement. 	Section 3

Executive summary (continued)

Materiality	For the 2012 financial statements, we have determined materiality of £1.3 million. We will report to the audit committee on all unadjusted misstatements greater than £27,000.	N/A
Internal control	<p>As set out in "Briefing on audit matters" included within Appendix 1, for controls considered to be 'relevant to the audit' we are required to evaluate the design of the controls and determine whether they have been implemented ("D & I").</p> <p>The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.</p> <p>Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within Clackmannanshire Council, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.</p>	N/A
Other matters for those charged with governance	<p>As set out in our publication "Briefing on audit matters" included within Appendix 1 we have communicated those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). The document also provides detail of the safeguards and procedures we have in place to ensure our independence and objectivity.</p> <p>Deloitte's Audit Transparency Report for 2011 provides comprehensive information regarding our approach to delivering quality and is available on our website: http://annualreport.deloitte.co.uk/audit-transparency-2011/AT-report-2011.pdf. This also includes a summary of the findings of the Audit Inspection Unit who conduct an annual review of our whole-firm procedures insofar as they relate to our audit business and of a number of completed audit engagements of public interest clients.</p> <p>We confirm we are independent of Clackmannanshire Council and will reconfirm our independence and objectivity to the audit committee for the year ending 31 March 2012 in our final report to the Audit Committee.</p>	Appendix 1

Executive summary (continued)

<p>New accounting and legal pronouncements</p>	<p>The 2011/12 Code of Practice on Local Authority Accounting incorporates only a few changes from the 2010/11 Code. The main changes which should be considered by Clackmannanshire Council are as follows:</p> <ul style="list-style-type: none"> • Authorities are required to account for tangible heritage assets in accordance with <i>FRS30 Heritage assets</i>; • The Code now permits investment properties that meet the criteria to be classified as held for sale and reported separately; • The disclosure requirements in respect of trust funds has been reinstated; • The disclosure requirements for related party transactions in respect of other public sector bodies are less detailed; • A new disclosure requirement has been introduced in respect of exit packages; • There is a new requirement for disclosure of compliance with the statement from CIPFA on the chief financial officer in the statement on the system of internal financial control or annual governance statement. It recommends that the proper officer in Scotland signs and dates the statement of accounts, stating that they give a true and fair view. <p>Other areas where additional guidance or clarification has been provided include: leases; valuation of surplus assets; the treatment of irrecoverable VAT; financial instrument disclosures in respect of leases and PFI/ PPP arrangements and the presentation of the surplus or deficit of trading operations which are not allocated back to services.</p>	<p>N/A</p>
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1. Scope of work and approach

Our audit will be carried out under the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General covering (1) financial statements and corporate governance and (2) best value, use of resources and performance.

1.1 Financial statements and corporate governance

Our audit opinion

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB").

In respect of our work on the audit of the financial statements, we are required to audit these and give an opinion on whether:

- they give a true and fair view of the state of affairs of the Council and its group and of its income and expenditure for the year in question;
- they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword by the Head of Finance is consistent with the financial statements.

We are also required to report by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all of the information and explanations we require for our audit; or
- the Statement of Assurance does not comply with 'Delivering Good Governance in Local Government'; or
- there has been a failure to achieve a prescribed financial objective.

1. Scope of work and approach (continued)

Liaison with internal audit

From discussions with management, we have identified that the internal audit function has not been operating effectively for sometime and as such we will be generally unable to place reliance upon their work in the current year. We will, however, consider the audit report on rent setting, collection and arrears as part of our work.

1.2 Best Value, use of resources and performance

Shared Risk Assessment (SRA) and Joint Scrutiny Planning

A key aspect of the Scottish Government's scrutiny agenda is to better coordinate and streamline scrutiny and achieve greater effectiveness, while at the same time protecting the independence of scrutiny bodies. The Scottish Government requested that the Accounts Commission take on the role of facilitating and co-ordinating scrutiny. All scrutiny bodies that engage with local government have established an annual shared risk assessment approach to identifying the scrutiny risks in each Council in order to identify the scrutiny activity required.

Local Area Networks (LANs) are in place at each Council. These bring together the local scrutiny representatives in a systematic way with the common aims of agreeing a SRA for the Council, identifying the appropriate proportionate scrutiny response and planning that activity over a three year rolling programme.

We are a key member of the LAN for Clackmannanshire Council and will contribute to the drafting of the 3 year rolling Assurance and Improvement Plan (AIP) and are also required to participate in ongoing evaluation and training. The AIP, likely to be published after the May local elections, will set out the shared risk assessment of the Council and the proposed scrutiny response.

Best Value (BV) and Community Planning

The Local Government in Scotland Act 2003 established BV and Community Planning as statutory duties for local authorities. In response to these duties, the Accounts Commission introduced specific arrangements for the audit of BV and Community Planning under section 53 of the Act.

All Councils have now had an initial (or 'baseline') BV audit. The Commission has reviewed and revised its approach to BV audits.

One of the key characteristics of the revised BV audit approach is that it is more risk based and proportionate. The timing, nature and extent of BV audit work is determined following the shared risk assessment, undertaken in partnership with other scrutiny bodies as described above.

A key component of the SRA will be the extent to which implementation of the existing BV Improvement Plan has had the anticipated impact. As the local external auditor, we will continue to be responsible for conducting follow-up reviews to assess the progress the Council is making against its agreed improvement priorities, reporting on this locally and feeding into future risk assessments.

1. Scope of work and approach (continued)

1.2 Best Value, use of resources and performance (continued)

Single Outcome Agreements (SOAs)

SOAs align public sector activity to national priorities and the Accounts Commission is likely to become increasingly involved, going forward, in the audit of their delivery. The SRA process and BV draws upon evidence contained within the SOAs in order to consider outcomes more widely, as planning for, and managing the delivery of outcomes should be central to all aspects of a body's activity. Successful delivery of SOAs will depend on the degree to which they are supported by effective planning, budgeting and performance management arrangements at service level, within councils and across partner agencies.

We are not required to audit performance against SOAs. However, in view of their significance, we are expected to understand and report appropriately on the approach the Council and its partners are taking on a number of aspects.

Performance Reporting and Statutory Performance Indicators (SPIs)

The statutory deadline for authorities to place details of SPIs results in the public domain is 30 September each year. We are required to have early discussion with the Council to emphasise its responsibility to have appropriate arrangements in place to meet its obligations to collect, record and publish complete and accurate data, so far as practicable, and that it is planning to meet this deadline. We have had initial discussions with the Head of Strategy and Customer Services and Corporate Improvement & Performance Manager and plan to have regular contact throughout the year to ensure that these deadlines are met.

Audit Scotland National Performance Reports

Audit Scotland's Corporate Plan 2009-12 reinforced its commitment to maximising the impact of its work and to provide more evidence of impact. As part of our audit we are expected to provide information on how Clackmannanshire Council has responded to the national performance audit reports. As part of this review we will be expected to assess the following:

- Which Committee, if any, considered the report;
- Whether the Council has produced an Action Plan; and
- Form an overall view on how the Council has responded to the report and the impact of the report locally.

1. Scope of work and approach (continued)

1.2 Best Value, use of resources and performance (continued)

Audit Scotland National Performance Reports (continued)

From a review of the national reports published by Audit Scotland concerning local authorities we have identified the following relevant reports:

- Community Health Partnerships;
- Transport for health and social care;
- Scotland's public finances: addressing the challenges;
- Modernising the planning system; and
- The role of community planning partnerships in economic development.

Further to review of the national performance audits, Audit Scotland have requested specifically that a focused follow up should be performed on '*Maintaining Scotland's roads: a follow-up report*' (published February 2011). We are required to produce a report including our opinion on the extent of progress against recommendations included in the original report.

Local response to BVSF led reports

BVSF produces overview reports and the "How councils work" series of reports for the Accounts Commission. As with the national performance audit report, we are required to follow-up how Clackmannanshire Council has responded to these reports and what the impact of the report is locally. In 2011/12 we will follow-up the 'overview report and '*How councils work: an improvement series for councillors and officers – Arm's length external organisations (ALEOs): are you getting it right?*

1. Scope of work and approach (continued)

1.2 Best Value, use of resources and performance (continued)

National Fraud Initiative

Audit Scotland requires auditors to continue to monitor bodies participation in the National Fraud Initiative during 2011/12 audits, specifically:

- conduct further enquiries and tests to be able to confirm that the questionnaire prepared by the outgoing auditor in 2011 remains valid;
- monitor that participants review the Council Tax/ Electoral Roll matches promptly upon their being made available;
- promote NFI in audited bodies, where appropriate; and
- reference in 2011/12 annual audit report if necessary and appropriate.

Housing and council tax benefit

The administration of housing and council tax benefit (HB/ CTB) is an important area for audit, not only because of the large amount of money involved but also because of its high political profile. The Accounts Commission has responsibility for the inspection of HB/CTB services in Scotland, and specialist benefits auditors with Audit Strategy carry out a programme of performance audit work. As part of this work, the benefits auditors will liaise with us as the appointed external auditor so that any local intelligence can be taken into account.

The audit of the annual subsidy claim continues to be a key part of the local auditors' responsibilities and we are required to comply with the testing and reporting requirements set out in the grant note published by Audit Scotland. HBCOUNT will continue to be in place for 2011/12 (and beyond) for auditing benefit subsidy claims despite the uncertainty regarding the future of the Audit Commission.

Grant claims and returns

Audit Scotland provides a list of approved grant claims/ returns for the local authority sector. From review of this list, we have identified the following relevant to Clackmannanshire Council:

Grant Name	Submission Deadline	Audit Deadline
Education maintenance allowance	30 April 2012	31 July 2012
Safety camera partnership grant	6 May 2012	31 July 2012
Criminal justice social work services grant claim	3 June 2012	30 September 2012
Housing and council tax benefit subsidy claim	30 April 2012	30 November 212
Non-Domestic Rate Income Returns	Mid-October 2012	Mid February 2013

1. Scope of work and approach (continued)

1.2 Best Value, use of resources and performance (continued)

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 hold discussions with management with a view to agreeing arrangements for the Council to notify us of all relevant frauds over £5,000 which occur in the Council and will report them by completing and submitting a pro-forma return for each case. Reports of frauds over £5,000 perpetrated by housing benefit claimants are only required if the fraud was facilitated by collusion with local authority staff or by weaknesses in internal control systems. Reports of frauds involving less than £5,000 are not required.

2. Key audit risks

The key audit risks which we have identified as part of our overall audit strategy are detailed below. We would emphasise that these risks, which will potentially impact on the Council's financial statements, reflect what we would generally expect for an organisation of the Council's size. Two of the risks reflect the requirements of mandatory ISA's which we are required to review and the others are derived from a combination of significant account balances, complexity of accounting treatment and the judgemental nature of the balance. These risks will inform key areas of audit focus and do not reflect specific issues or concerns at this stage of the audit.

Accounting for Public Private Partnerships (PPP)	
Description of risk	Clackmannanshire Council is engaged in PPPs related to the building of the 3 secondary schools in the area. Given the magnitude of the balance and the high profile nature of the PPP in Local Government, a risk has been identified in relation to the appropriateness of the accounting for the PPP.
Deloitte response	We shall focus on analysing the PPP model and conclude on whether the accounting treatment complies with the requirements of IFRS.

Completeness of accruals	
Description of risk	It has been noted through our planning procedures that there is not an integrated purchase ledger function, and that accruals are only calculated and recorded at financial year end. There is a risk that the accruals balance at year end is not accurate and complete. In addition, there is a risk that ongoing monitoring of expenditure commitments is not fully optimal, although officers consider that this is mitigated by the Council's 'budget challenge' monthly process with service departments.
Deloitte response	Deloitte shall perform testing of post year end invoices and payments to test whether the year end accrual carried is complete. We will also assess the robustness of the budget challenge process.

Valuation of defined benefit pension scheme liability	
Description of risk	Clackmannanshire Council have a defined benefit pension scheme which is accounted for based on a series of actuarial assumptions. There is a risk that the assumptions used are not appropriate and therefore the valuation of the scheme (and the surplus / deficit) is inaccurate. This would also apply to other participating Councils.

Valuation of defined benefit pension scheme liability

Deloitte response

We shall use our actuarial specialists to review the pension calculations and the reasonableness of the assumptions underlying the figures.

2. Key audit risks (continued)

Revenue recognition	
Description of risk	<p>Under ISA (UK and Ireland) 240 'The auditor's responsibility to consider fraud in an audit of financial statements there is a rebuttable presumption that there is a risk of fraud in relation to revenue recognition'.</p> <p>For Clackmannanshire Council, we have considered this risk to be around the completeness of Council Tax and Housing Rents income.</p>
Deloitte response	<p>We will review the treatment of income in the year to consider whether it is in line with IFRS guidance and the Code.</p> <p>In particular, we will seek to develop our understanding in regards to the Design and Implementation of key controls in place in relation to Council Tax and Housing Rents income and test a sample of these to ensure they are appropriate.</p>

Property, plant and equipment (PPE) valuation	
Description of risk	<p>We have identified an audit risk in respect of PPE valuation because, with changes in the economic environment and property markets, these assets can be subject to material changes in value and there is a risk that these changes are not appropriately recorded in the financial statements.</p> <p>IFRS requires revaluation to be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Where additions or significant completed projects are recorded at cost during the year, or where the valuation happened earlier than the end of the year, there is a risk that this cost/ valuation is materially different to the fair value at the end of the reporting period.</p>
Deloitte response	<p>We will review any external revaluations performed on PPE and consider whether the valuations have been performed by suitably qualified individuals and that valuations have been made using a reasonable basis and have been performed in a timely manner.</p> <p>If no external valuations have been performed in the year, we will gain an understanding of the rationale for this decision from management and assess the reasonableness of this decision in relation to IFRS requirements.</p>

2. Key audit risks (continued)

Human Resources and Payroll Systems replacement	
Description of risk	The current Human Resources and Payroll systems are due for renewal in the current year, and as with any major system replacement, there is a risk that controls are compromised and data transferred to the new system is not fully accurate and complete.
Deloitte response	We will assess both the robustness of the data transfer process and the adequacy of the new system key controls.

Management override of controls	
Description of risk	Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent Financial Statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities. This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.
Deloitte response	We will seek to develop our understanding in regards to the design and implementation of key controls in place in relation to the posting of journal entries and other such adjustments and test a sample of these adjustments to ensure they are appropriate. We will also conduct a review of significant accounting estimates in order to assess the reasonableness of managements judgements in relation to these estimates. We will also review any transactions that appear to by outwith the course of normal business in order to understand the business rationale of these transactions.

Equal pay provision	
Description of risk	There is a significant equal pay provision held in respect of the Equal Pay Act 1970. The Council implemented its new pay and grading model in March 2009, and under the legislation, employees are entitled to make a claim for Equal Pay settlements for a period of up to 6 years. There is a risk that the provision carried by the Council is not complete.
Deloitte response	<p>We will gain an understanding of the process to identify and record all equal pay claims and the underlying assumptions applied through discussions with management.</p> <p>We will test a sample of completed cases and assess the adequacy of the remaining provision against remaining cases. The Council have worked hard to process the backlog of cases and it is expected that the majority of cases shall be resolved by the time of the audit work commencing.</p>

3. Other issues

Other issues which have not currently been identified as financial statement risks, but will be considered as part of our audit in line with the Code of Audit Practice, and work on Best Practice are as follows:

Delivery of services with reduced funding	
Issue identified	Clackmannanshire Council needs to be able to demonstrate that it is delivering an effective service for the public and achieving value for money. Given the increasing cost pressures on the Council, in line with all public sector entities, there is an increasing risk that the Council will be unable to continue delivering services at the current level. In addition it is projected that the Council will have a funding gap over the next 3 years, 2012/13 to 2014/15, in the region of £13.5m. Working in partnership with other public sector organisations and the third sector will help the Council meet its strategic objectives and to address these needs.
Deloitte response	Deloitte will review the Council's process for developing its Corporate, Directorate and Service and Savings Plans and how these are monitored to ensure that the Council is meeting its strategic objectives. In particular, given that Educational and Social Services accounts for in the region of 80% of overall Council spend, we will prioritise the review of the adequacy of the savings plans in place for these services. We will also monitor the work of the Community Planning Partnership (CPP) as well as other partnerships through observation at meetings and from review of minutes.

Achievement of local and national outcomes from Single Outcome Agreement	
Issue identified	Clackmannanshire Council, as a public body, is open to scrutiny in regards to its stated targets and quality ambitions which are common to all public bodies across Scotland. It is important that Clackmannanshire Council, with these ambitions and targets, is able to show how these have been achieved. In addition, the Council needs to be able to demonstrate a robust process for linking spend and activities to outcomes achieved for its citizens.
Deloitte response	Deloitte will assess Clackmannanshire Council's contribution to its stated outcome targets and quality ambitions that are common across the public sector. We will review the processes for linking activities and spend to outcome planning and budgeting and the single outcome agreement. We will also review Committee minutes in order to assess how relevant reports are reviewed, monitored and challenged.

3. Other issues (continued)

Sustainable workforce	
Issue identified	Given the financial pressures on Clackmannanshire Council to achieve financial balance there is considerable focus on reducing staff and other costs through service redesign and robust vacancy management arrangements. There is a risk that current plans do not deliver a sustainable workforce for the future. There is also a risk that transformation and change management strategies do not deliver anticipated benefit levels.
Deloitte response	Deloitte will assess the workforce strategies in place and consider whether the Council has appropriate processes in place to manage any reduction in staffing numbers that may be judged necessary. We will also review business plans and financial plans to assess how well workforce planning is integrated into the process. In addition we will assess the adequacy of the Council's change management strategy and planning.

Instability of key suppliers	
Issue identified	The current economic climate has been increasingly challenging for all industries. Due to this, a risk has been identified in relation to the stability of key suppliers.
Deloitte response	Deloitte will review the arrangements in place in regards to supplier management and contingency planning. We will also review the key suppliers in place in order to establish if there are any suppliers for which there are any over reliance placed.

Governance model	
Issue identified	The Council's strategic governance model is under review including the role of the Audit and Scrutiny Committee. It is important that any proposed changes to the Council's Governance Model are considered and evaluated end to end from a Council wide perspective prior to any changes being implemented.
Deloitte response	Deloitte will assess the robustness of any proposed changes to the Council's strategic governance model.

3. Other issues (continued)

Community engagement	
Issue identified	In order to provide quality services, it is important that the Council understands the needs and aspirations of Communities and involves Communities in decision making. Planning and monitoring arrangements also need to reflect Community engagement.
Deloitte response	From discussions and review of the strategies, policies and procedures, we will assess how the leadership and culture within the Council demonstrates commitment to Community engagement.

4. Consideration of fraud

4.1 Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We are aware that management has the following processes in place in relation to the prevention and detection of fraud:

- The Financial Regulations include a section on the Prevention and Detection of Fraud which requires that whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores, equipment or other property of the Council or any suspected irregularity in the exercise of the functions of the authority, the Director concerned shall immediately notify the Chief Executive, the Head of Finance and the Audit and Fraud Team Leader, as appropriate, who shall take steps as may be considered necessary by way of investigation and report.
- In order to assist in the prevention of fraud and corruption; appropriate internal control have been established
- All members and employees are expected to comply with the Council's Disclosure of Information (Whistleblowing) and Anti-fraud and Corruption Policies.
- The Council has a separate team to deal with Benefit Frauds.

4.2 Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

4. Consideration of fraud (continued)

4.3 Fraud inquiries

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
<ul style="list-style-type: none"> • Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments. • Management's process for identifying and responding to the risks of fraud in the entity. • Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. • Management's communication, if any, to employees regarding its views on business practices and ethical behaviour. • Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity. 	<ul style="list-style-type: none"> • Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud. 	<ul style="list-style-type: none"> • How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. • Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.

We will make inquiries of others within the Council as appropriate. We will also inquire into matters arising from your whistling blowing procedures.

4. Consideration of fraud (continued)

4.4 Process and documentation

Meetings will be held with various key members of management as well as those charged with governance in order to establish the processes around the detection and prevention of fraud. We will also liaise with Internal Audit in order to assess their findings in this area throughout the year.

4.5 Concerns

As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as key audit risks for your organisation in line with the requirements of ISA 240.

4.6 Representations

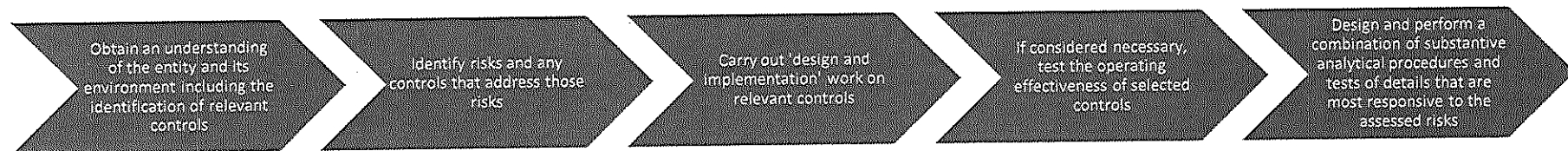
We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud that affects the entity and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

5. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters" included within appendix 1, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I"). Our audit approach consists of the following:



The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Council, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

6. Communications timetable

Set out below is the approximate expected timing of our reporting and communication with the Scottish Ambulance Service and Audit Scotland.

Timing	Activity	Deliverables
November/ December 2011	External audit planning, identification of risks, confirmation of opening balances and review of systems.	Planning Report to the Scrutiny Committee – 23 February 2012.
February 2012	Submission of Audit Scotland template summarising Council's response to national performance reports published between June and August 2011.	Response to national performance reports to Audit Scotland – 28 February 2012.
	Submission of Audit Scotland's Best Value and Scrutiny Improvement Group (BVSI) template summarising Council's response to the BVSI led overview reports and the "How councils work" series.	Response to BVSI led reports to Audit Scotland – timing to be confirmed (once issued by Audit Scotland).
	Audit of grant claims and submission to the Scottish Government: <ul style="list-style-type: none"> • Education Maintenance Allowance • Safety Camera Partnership 	Audited claims to be submitted to relevant departments within the Scottish Government – 31 July 2012
June – August 2012	Submission of Audit Scotland template summarising Council's response to national performance reports published between September 2011 and February 2012.	Response to national performance reports to Audit Scotland – 31 July 2012.
	Discussion with management and completion of local audit report to follow-up Audit Scotland's performance audit on <i>Maintaining Scotland's roads: a follow-up report</i> (published February 2011).	Local audit report submitted to Audit Scotland – 31 August 2012.
	Assess whether the Council has fulfilled its obligations as set out in the 2010 Direction in respect of Statutory Performance Indicators to allow the Council to submit the proforma to Audit Scotland by 31 August 2012.	Reference to be made in Annual Report to Members and the Controller of Audit – 30 September 2012.
	Audit of Criminal Justice Social Work Services Grant Claim and submission to the Northern Criminal Justice Authority (NCJA).	Audited claim to be submitted to the NCJA – 31 August 2012

6. Communications timetable (continued)

Timing	Activity	Deliverables
July - September 2012	Audit of the financial statements for the year ended 31 March 2012.	Report to the Scrutiny Committee – September 2012.
	Submission of audited financial statements to Audit Scotland and the Controller of Audit.	Financial Statements Audit Opinion and Report to Members – 31 October 2012.
	Completion of Report to Members	
June - November 2012	Audit of the Housing and Council Tax Benefit Subsidy Claim and submission of audited claim to the Department for Work and Pensions (DWP).	Audited claim to be submitted to the DWP – 30 November 2012
October 2012 – February 2013	Audit of the Non-Domestic Rates Income Return and submission of the audited return to the Scottish Government.	Audited return to be submitted to the Scottish Government - mid February 2013.

7. Client service team

We set out below our audit engagement team.

<p>David Bell Audit Partner</p> <p>Tel: 0141 304 5625 Email: dabell@deloitte.co.uk</p>	<p>Pat Kenny VFM and Advisory Director</p> <p>Tel: 0141 304 5771 Email: pakenny@deloitte.co.uk</p>	<p>Douglas Gray Audit Senior Manager</p> <p>Tel: 0141 304 5105 Email: douglasgray@deloitte.co.uk</p>	<p>Lindsay Robertson Audit Assistant Manager</p> <p>Tel: 0141 304 5704 Email: lrobertson@deloitte.co.uk</p>
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|---|--|---|--|
| <ul style="list-style-type: none"> • Main point of contact for the Scrutiny Committee and Nikki Bridle; • Decision maker on key audit and accounting issues; and • Overall responsible for the quality of our service. | <ul style="list-style-type: none"> • Working directly with Douglas sharing his knowledge of the Local Government sector; • Assistance with identifying risks, planning and delivering the audit; • Responsible for the delivery of our best value, use of resources and performance work; and • Bringing sector issues and experiences to the scrutiny committee and management. | <ul style="list-style-type: none"> • Oversees delivery of audit service and resolves any issues escalated by Lindsay; • Assist David in planning the audit; • Develop and implement our audit strategy; and • Technical review of audit work. | <ul style="list-style-type: none"> • Day to day contact with the finance team; • Responsible for the day to day delivery of our services; • Co-ordinate and manage the team; and • Early advice on technical issues. |
|---|--|---|--|

8. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of audit practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you with this report and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to Members and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

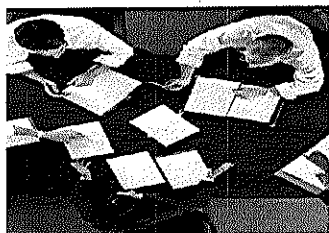
Chartered Accountants

Glasgow

23 February 2012

Appendix 1: Briefing on audit matters

Published for those charged with governance



This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are to give an opinion on whether:

- they give a true and fair view of the state of affairs of the council and its group and of its income and expenditure for the year in question;
- they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword by the Head of Finance is consistent with the financial statements.

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Appendix 1: Briefing on audit matters (continued)

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine planning materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

We determine planning materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Appendix 1: Briefing on audit matters (continued)

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value whilst minimising a “box ticking” approach.

Our audit methodology is designed to give members the confidence that they deserve.

For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented (“D & I”). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720	Section A: Other information in documents containing audited financial statements
(revised)	Section B: The auditor's statutory reporting responsibility in relation to directors' reports

Appendix 1: Briefing on audit matters (continued)

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies.

Appendix 1: Briefing on audit matters (continued)

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any closely-related person) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any closely-related person) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any closely related persons) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.