

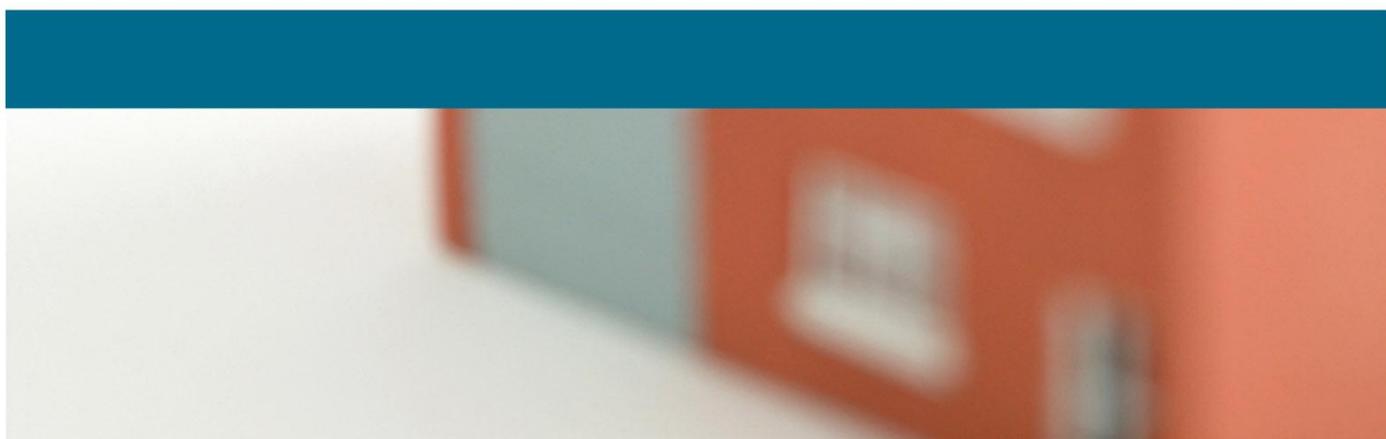
# East Lothian Council

Annual Audit Plan 2010/11

March 2011



 AUDIT SCOTLAND



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# Summary plan

## Summary of planned audit activity

Based on our analysis of the risks facing East Lothian Council, our planned work in 2010/11 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2010 Code, of the financial position of the council as at 31 March 2011 and its income and expenditure for the year then ended
  - the financial statements have been prepared in accordance with the Local Government (Scotland) Act 1973
- a shared risk assessment (SRA) summary and scrutiny plan updated for changes, and a cover note. Our risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland and work undertaken to identify issues and risks which are unique to the local situation
- a review and assessment of East Lothian Council's governance and performance arrangements in a number of key areas including review of Internal Audit, ICT reviews and follow up of national studies
- a review of the IFRS 2009/10 shadow accounts
- a follow up on the impact of the national performance audit: "Improving public sector purchasing"
- provision of an opinion on a number of grant claims and returns, including Housing & Council Tax Benefits Subsidy, Criminal Justice Social Work Services, Education Maintenance Allowance, Non Domestic Rate Income and Whole of Government Accounts
- a review of National Fraud Initiative arrangements throughout 2010/11.

## Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to East Lothian Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in East Lothian Council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of East Lothian Council, and sets out the audit work that we propose to undertake in 2010/11 to address these. Our annual audit plan reflects:

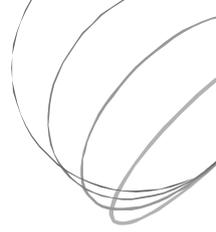
- the risks and priorities facing East Lothian Council
- current national risks relevant to local circumstances



- 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
  - issues brought forward from previous audit reports.
2. In addition to this annual audit plan, we will prepare an updated shared risk assessment (SRA) summary, scrutiny plan and cover note.

## **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 East Lothian 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 provides 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 2011 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 2010 Code of practice on local authority accounting in the United Kingdom (the Code)
  - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulations
  - proactively manages and reviews its performance in line with its strategic and operational objectives
  - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.



## Our approach to the audit of the accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of East Lothian Council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the business of East Lothian 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 East Lothian 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 2010/11 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
  - provision of IFRS shadow accounts
  - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
  - completion of the internal audit programme for 2010/11.
  
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 in-house at East Lothian Council. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.

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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. Upon completion of the audit, we will provide the Chief Executive 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**

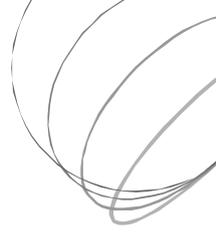
11. It is the responsibility of East Lothian Council and the Head of Finance as Proper Officer to prepare the financial statements in accordance with the Code of Practice. This means:
  - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control 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 East Lothian Council as at 31 March 2011 and its expenditure and income for the year then ended
  - preparing an explanatory foreword.

## **Format of the accounts**

12. The financial statements should be prepared in accordance with the Code of Practice which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
13. East Lothian Council prepares a consolidation pack annually for the Scottish Government under the requirements of the Government Resources and Accounts Act 2000. The Act requires East Lothian Council to prepare its accounts using common accounting principles and standard formats for summarisation.

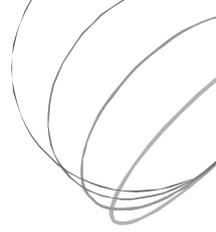
## **Audit issues and risks**

14. This annual audit plan focuses on governance and other risks specific to the financial statements of East Lothian Council. Our SRA summary (updated for changes in the risk assessments) will provide a broader analysis of wider risks and issues your council faces, setting out our planned work in relation to performance and other governance issues in more detail.
15. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the main financial statements' risk areas for your organisation.



## Financial management

16. The council has a number of financial pressures to manage during the coming financial year.
17. The announcement of the Comprehensive Spending Review by the UK Government is a central factor in determining the funding available to the Scottish Government for local government funding. The settlement for local government in Scotland reflects national pressures and the Scottish Government's objectives including their policy on freezing council tax. These pressures have been reflected in the council's financial strategies, looking three years ahead, while Scottish Government Grant funding has only been confirmed for the next year.
18. The council has set tight financial budgets, which have been reviewed in light of the current economic climate. The 2010/11 General Services budget includes £4.2 million of efficiency measures, savings and increased income. The overall position at the end of September 2010 was a surplus for the second quarter of £1.8 million. Although the council is running a surplus in 2010/11, which will increase its reserve levels, the council recognises that despite this positive position, it faces severe financial challenges over the next three years, with potential deficits amounting to £11m in 2011/12, £15m in 2012/13 and £17m in 2013/14.
19. Two new trading operations commenced in April 2009 - Older People Care Homes and Domiciliary Care Services. Both trading operations posted a loss in their first full year of operation. There is a risk that these trading operations will not meet the statutory requirement to break even over a three year rolling period.
20. The Property Asset Management Plan 2010-2014 was approved by Council on 26<sup>th</sup> October 2010 and the Corporate Asset Strategy 2010-2014 was approved by Council on 7<sup>th</sup> December 2010. The Corporate Asset Strategy document will be finalised shortly and lodged in the Members' Library. East Lothian Council also has in place a number of individual asset management plans for the school estate, roads and IT. With full implementation of the Corporate Asset Strategy and planning, the council will soon be able to more fully demonstrate the achievement of Best Value.
21. East Lothian Council implemented single status on 1 June 2008 and this is in place for all staff. A significant amount of work has been done in terms of job evaluation and the council is at present working through the single status appeal process. Until this is finalised there is a continuing but low risk in estimating the costs to the council.
22. Other financial pressures include the downturn in the economy, fluctuating energy costs and a reduction in capital receipts, developer contributions and other income streams, all of which are likely to affect the council's ability to achieve budget projections and will impact upon future investment plans.

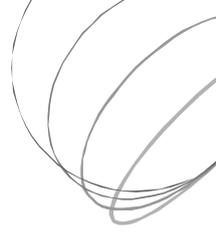


## Accounts presentation and disclosure

23. A number of changes are required by the 2010 Code, including:
- a greater emphasis on depreciation of asset components and a new classification of assets held for sale
  - changes in the classification of leases and a new requirement to account for arrangements containing a lease
  - a change in accounting treatment for grants and contributions used to fund capital expenditure
  - a requirement to recognise a liability for untaken annual leave etc
  - new disclosure requirements for accounting standards not yet developed, changes in respect of prior period adjustments and operating segments.
24. The council needs to ensure that the financial statements work programme and templates have been updated to reflect these changes.
25. Following the 2007 Best Value and Community Planning Report and the subsequent implementation of the Best Value Improvement Plan, we have seen a significant improvement in many areas of the council's business, including those relating to the final accounts audit process e.g. the timely provision of good quality draft accounts and supporting working papers and the faster resolution of audit queries.
26. The current economic climate means that some vacancies are not being filled and there is a risk that adequate resources are not in place to facilitate the timely production of good quality draft accounts and supporting working papers or to resolve audit queries timeously. This is a more critical issue for 2010/11 given the move to International Financial Reporting Standards (IFRS) and the need to prepare shadow accounts.

## Data handling and security

27. The council recently experienced a Data Protection breach in uploading confidential information on to their web site. The council made early contact and sought the advice of the UK Information Commissioner in support of their recovery arrangements. The Commissioner decided that it was not appropriate to take formal action at this time and closed the case.



## Risk Management

28. A Risk Management Strategy was approved by Council in December 2009. Local Risk Working Groups have been set up council wide and are working towards the completion of Service Risk Registers. Council also agreed to support the establishment of a Corporate Risk Management Group that includes representatives from all service departments within the council. The Group (chaired by the Emergency Planning & Risk Manager) is the lead group overseeing the development, implementation and maintenance of risk management across all services.
29. The Corporate Risk Management Group met on both 27 January and 28 February 2011 to consider the development of the Corporate Risk Register. It is intended that a first draft of the Corporate Risk Register will be submitted to the Board of Directors at the end of March 2011, with the final, approved version going to the Audit & Governance Committee on 26 April 2011. Until the Corporate Risk Register is in place, the council cannot fully demonstrate that it is aware of all high-level risks to the achievement of its core priorities and how it intends to manage these risks.

## Audit & Governance Committee

30. The council have recently reviewed their Policy and Performance Review Panels (PPRPs) and Audit Committee to improve the effectiveness of the council's scrutiny and review functions. A large number of recommendations were made to strengthen their effectiveness, which included an expanded remit for the renamed Audit & Governance Committee and a reduction in the number of the PPRPs to one committee, concentrating knowledge and experience to conduct challenge and scrutiny.
31. In response to recommendations made, greater balance was achieved by only drawing members for these committees from non-Cabinet members of the council. The council have provided additional training for members on the role and function of audit, scrutiny, review of performance and policy review using Audit Scotland and the Improvement Service. The council have also finalised 'A Guide to Scrutiny and Review' to aid members and support the training they have received.
32. The remit of the Audit & Governance Committee includes the promotion of policies on risk management, the review and monitoring of internal controls, the development of an anti-fraud culture and approval of the annual Internal Audit assurance report.

## Enjoy East Lothian Ltd

33. The council excluded Enjoy East Lothian Ltd from the 2009/10 Group Financial Statements on its interpretation of the council's 'interest' in the company. The council satisfies all the major requirements for treating Enjoy East Lothian Ltd as an associate in their Group Accounts. The six months' accounts figures omitted from the 2009/10 Group Accounts were significant, but did not result in a material error. A full year's figure may breach the accounts' materiality level in 2010/11.

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34. We have asked the Head of Finance to reconsider the inclusion of Enjoy East Lothian Ltd in the Group Financial Statements for 2010/11. The Head of Finance's response to this recommendation in the 2009/10 Financial Statements Management Letter indicates that the 2010/11 Group Accounts treatment of Enjoy East Lothian Ltd will be assessed as part of the council's compliance with International Financial Reporting Standards.

## **IFRS adoption**

35. The council's financial statements from 2010/11 will be prepared in accordance with the IFRS-based local authority accounting code. A restated balance sheet as at 1 April 2009 and shadow accounts for 2009/10 will be required. The transition to IFRS will entail a considerable amount of work, by council officers, to manage and implement the process. Our proposed audit fee assumes a smooth transition to IFRS financial statements.

## **National performance audit studies**

36. 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 one study at a local level. In 2010/11 this will involve the completion of a template and local report about the consideration by East Lothian Council of the national performance report "Improving public sector purchasing".

## **Summary assurance plan**

37. 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 is 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**

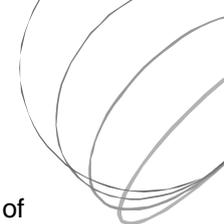
38. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.



39. International Standard on Auditing 320 states that, *“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 item or error judged in the particular circumstances of its omissions 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.”*
40. When considering, in the context of a possible qualification, 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.
41. 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**

42. 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.
43. 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 Chief Executive, Executive Director of Corporate Resources, Head of Finance and relevant senior managers to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.
44. A copy of all final agreed reports will be sent to the Chief Executive, Executive Director of Corporate Resources, Head of Finance, relevant senior managers, Internal Audit and Audit Scotland’s Performance Audit Group.
45. We will provide an independent auditor’s report to East Lothian 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 East Lothian Council’s management of key risks.

- 46. All annual reports produced by Audit Scotland are published on our website, ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).
- 47. The full range of outputs to be delivered by the audit team are summarised below:

<b>Planned outputs</b>	<b>Target delivery date</b>
<b>Governance</b>	
Review of the adequacy of Internal Audit	31 March 2011
Partnership working (shared risk assessment (SRA) summary and scrutiny plan)	30 April 2011
Internal controls and governance management letter including an assessment of the adequacy of shadow accounts	30 June 2011
ICT computer services reviews	30 June/31 October 2011
<b>Performance</b>	
PRF notes	31 March 2011
Improving public sector purchasing	30 August 2011
<b>Financial statements</b>	
Report to Audit & Governance Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	September 2011
Independent auditor’s report on the financial statements	30 September 2011
Audit opinion on Whole of Government Accounts	30 September 2011
Annual report to Members and the Controller of Audit	31 October 2011
Financial statements management letter	31 October 2011
<b>Grants</b>	
Audit opinions on grant claims and other returns	As required

## Quality control

- 48. We are committed to ensuring that our audit reflects best practice and demonstrates best value to East Lothian 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 Gillian Woolman, who is responsible for ensuring that our work is carried out on time and to a high quality standard.

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49. 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**

50. Our agreed fee for the 2010/11 audit of East Lothian Council is £265,900 comprising a local audit fee of £186,500 and a fixed charge of £79,400. 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 the Audit and Governance Committee and key council/committee meetings
- access to advice and information on relevant audit issues
- access to workshops/seminars on topical issues
- travel and subsistence costs.

51. In determining the agreed fee we have taken account of the risk exposure of East Lothian 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 30 June 2011. If the draft accounts and papers are late or not of a good standard, agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.

52. 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.

53. 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 East Lothian Council the Assistant Director is Gillian Woolman.

54. The local audit team will be led by Allister Perston who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills 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**

55. 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.
  
56. 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.



**March 2011**

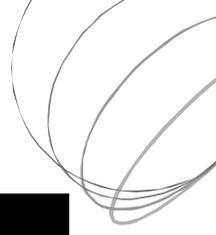
# Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of East Lothian 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 East Lothian 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.

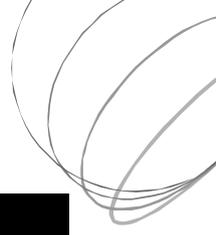
Risk	Source of assurance	Planned audit action
<b>Financial management</b>		
<p>The current economic climate means that some vacancies are not being filled within Finance and there is a risk that adequate resources are not in place to facilitate the timely production of good quality draft accounts and supporting working papers or resolve audit queries timeously. This is a more critical issue for 2010/11 given the move to International Financial Reporting Standards (IFRS) and the need to prepare shadow accounts.</p>	<ul style="list-style-type: none"> <li>▪ Timetable for delivery of shadow accounts and financial statements and supporting documentation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor delivery and quality of shadow accounts and financial statements and supporting documentation</li> </ul>
<p>There is a clear indication that the council will have significantly less income in 2011/12 and there is a high degree of risk that this will continue in future years. Although the council is running a surplus in 2010/11, which will increase its reserve levels, the council recognises that despite this positive position, it faces severe financial challenges over the next three years, with potential deficits amounting to £11m in 2011/12, £15m in 2012/13 and £17m in 2013/14.</p>	<ul style="list-style-type: none"> <li>▪ Daily monitoring of actuals to budget</li> <li>▪ Monthly FRx Reports</li> <li>▪ Quarterly Financial Forecast Reports to Cabinet</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review 2011/12 budget</li> <li>▪ Review Finance Reports</li> </ul>



Risk	Source of assurance	Planned audit action
<p>Planned efficiency savings need to be achievable to avoid further pressure on the financial position. It is unclear to what extent savings comply with the definitions of efficiency. Savings achieved may impact on service quality and outputs to a greater extent than intended.</p> <p>There is a risk that unplanned actions such as service reduction or a significant increase in council tax levels may be necessary to control expenditure within the approved budget.</p>	<ul style="list-style-type: none"> <li>▪ Consideration of efficiency savings during 2011/12 budget setting process</li> <li>▪ Daily monitoring of actuals to budget</li> <li>▪ Monthly FRx Reports</li> <li>▪ Quarterly Financial Forecast Reports to Cabinet</li> <li>▪ Project Board reviews procurement arrangements</li> <li>▪ Adult Social Care has a dedicated departmental resource to support financial management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review 2011/12 budget</li> <li>▪ Review Finance Reports</li> <li>▪ Monitor service delivery</li> <li>▪ Monitor the measurement of efficiencies</li> </ul>
<p>Two new trading operations commenced in April 2009 - Older People Care Homes and Domiciliary Care Services. Both trading operations posted a loss in their first full year of operation. There is a risk that these trading operations will not meet the statutory requirement to break even over a three year rolling period.</p>	<ul style="list-style-type: none"> <li>▪ Daily monitoring of actuals to budget</li> <li>▪ Monthly FRx Reports</li> <li>▪ Quarterly Financial Forecast Reports to Cabinet</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review Finance Reports</li> <li>▪ Review position during final accounts</li> </ul>
<p>Reserves remain under pressure in the long term because of the economic recession. However, it is forecast that the under-spend noted for the second quarter of 2010/11 will continue and result in a smaller demand on the council's reserves than planned for 2010/11 (a continuation of 2009/10).</p> <p>Contributing factors include the non-filling of certain staff vacancies, reduced debt charges, on-going under-spends in Adult Social Care and a windfall receipt in relation to energy overpayments.</p>	<ul style="list-style-type: none"> <li>▪ The 2011/12 budget will consider these areas</li> <li>▪ Level of reserves is deemed to represent an appropriate balance between the need to hold funds due to the risk of emergency demands for funding and the requirement to avoid taxing in advance of need</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review 2011/12 budget</li> <li>▪ Review Finance Reports</li> <li>▪ Review level of reserves during final accounts</li> </ul>
<p>Other financial pressures include continuing economic challenges, fluctuating energy costs and a reduction in capital receipts, developer contributions and other income streams which are likely to affect the council's ability to achieve budget projections, and will impact upon future investment plans.</p>	<ul style="list-style-type: none"> <li>▪ The 2011/12 budget will consider these areas</li> <li>▪ Daily monitoring of actuals to budget</li> <li>▪ Monthly FRx Reports</li> <li>▪ Quarterly Financial Forecast Reports to Cabinet</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review 2011/12 budget</li> <li>▪ Monitor the effectiveness of the budgetary control process</li> <li>▪ Review Finance Reports</li> </ul>



Risk	Source of assurance	Planned audit action
<b>Financial systems</b>		
<p>The council recently experienced a Data Protection breach in uploading confidential information on to their web site. The council made early contact and sought the advice of the UK Information Commissioner in support of their recovery arrangements. The Commissioner decided that it was not appropriate to take formal action at this time and closed the case.</p>	<ul style="list-style-type: none"> <li>▪ Implementation of improvements /remedial steps agreed with the UK Information Commissioner</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor developments for 2010/11</li> </ul>
<b>ICT</b>		
<p>The council's ICT strategy covers the period 2007-2010 and has effectively expired. New technologies may not be adequately addressed in the absence of an up to date strategy.</p>	<ul style="list-style-type: none"> <li>▪ Work on the strategy will start following the publication of the McClelland report into ICT within the public sector, which is expected for early 2011. The strategy will be developed in 2011.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor developments for 2010/11</li> </ul>
<b>Accounts presentation and disclosure</b>		
<p>In the event of insufficient preparation, the 2010/11 financial statements may not comply with additional accounting requirements set out in the 2010 Code.</p> <p>International financial reporting standards are to be introduced fully in 2010/11.</p> <p>There is a risk that significant changes will not be anticipated. This will include considering establishing a corporate record of untaken leave and flexitime, examining the impact on lease accounting and increasing awareness and training generally.</p> <p>The council may be unable to adequately value assets to ensure a correct valuation.</p>	<ul style="list-style-type: none"> <li>▪ Staff training and early preparation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial statements planning meeting</li> <li>▪ Agreed timetable of early work</li> </ul>
<p>There is a risk that 2009/10 financial statements' issues are not fully addressed in advance of the accounts closure process.</p>	<ul style="list-style-type: none"> <li>▪ Preparation of accounts meeting – issues are identified and tackled</li> <li>▪ Accounts closure instructions will address issues where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial statements planning meeting</li> <li>▪ Review issues during final accounts work</li> </ul>



Risk	Source of assurance	Planned audit action
<p>The Charity Accounts (Scotland) Regulations 2006, may in future, require the preparation of Charity SORP compliant accounts and a separate audit for each local authority trust fund that is registered as a charitable body.</p> <p>There is a risk that the council fails to account for charitable trusts in accordance with guidance.</p>	<ul style="list-style-type: none"> <li>▪ Discussions with OSCR</li> <li>▪ Corporate Finance business plan for 2010-11 includes a review and possible rationalisation of trusts</li> <li>▪ Staff training and early preparation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial statements planning meeting</li> <li>▪ Monitor progress/outcome of review</li> </ul>
<b>Governance</b>		
<p>Internal Audit may not allocate their resources optimally. If robust internal controls are absent, there may be an increased risk of fraud and corruption in some of the council's key areas.</p> <p>There remains a high level of reactive work. Our reliance on planned work will be compromised if the plan is not completed.</p>	<ul style="list-style-type: none"> <li>▪ Achievement of planned and reported Internal Audit work</li> <li>▪ Statements of Assurance on Internal Financial Control from senior management</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2010/11 Review of Internal Audit</li> </ul>
<b>Leisure trust</b>		
<p>Exclusion of Enjoy East Lothian Ltd from the 2010/11 Group Accounts may breach the 2010/11 financial statements materiality limits.</p>	<ul style="list-style-type: none"> <li>▪ 2010/11 Group Accounts treatment of Enjoy East Lothian Ltd will be assessed as part of the council's compliance with International Financial Reporting Standards</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial statements planning meeting</li> <li>▪ Agreed timetable of early work</li> <li>▪ Review of Group Accounts in relation to International Financial Reporting Standards</li> </ul>
<p>Service and financial performance may not meet the expectations of the council. The service may not provide value for money.</p>	<ul style="list-style-type: none"> <li>▪ Regular monitoring and reporting to trust board and back to council</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor reporting to council</li> <li>▪ Comment in Members' Report</li> </ul>

# Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January to June 2011
Provision of closedown procedures to audit	March 2011
Meeting with officers to clarify expectations of detailed working papers and financial system reports	March 2011
Planned committee approval of unaudited financial statements	June 2011
Latest submission of unaudited financial statements with working papers package, including Code checklist to external audit	30 June 2011
Progress meetings with lead officers on emerging issues	As required
Objection period	July 2011
Latest date for final clearance meeting with Head of Finance	Mid September 2011
Latest date for submission of unaudited Whole of Government Accounts return to external audit	Mid September 2011
Receipt of management representation letter from Head of Finance	By 30 September 2011
Agreement of unsigned financial statements for Audit & Governance Committee agenda, and issue of report to the Audit & Governance Committee on the audit of financial statements (ISA 260)	By 30 September 2011
Audit & Governance Committee	tbc
Independent Auditor's Report signed	30 September 2011
Latest date for signing of WGA return	30 September 2011
Annual report and certified accounts presented to Council	31 October 2011
Latest date for submission of management letter on financial statements audit	31 October 2011



# Appendix C - Audit team

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

***Gillian Woolman, MA FCA***

***Assistant Director***

After a ten year stint in external audit with the private sector Gillian led an NHS in-house Internal Audit consortium for five years. On joining Audit Scotland in 2001, she became the appointed auditor to a range of NHS and central government bodies. Gillian returned in 2007 from a two year secondment in the Public Service Reform and Efficiency Group in the Scottish Executive. Gillian now has a portfolio of NHS and local government bodies.

***Allister Perston, BA (Hons) CPFA***

***Audit Manager***

Allister has 30 years public sector audit experience and has been involved in the audit of many varied central government bodies including Justice and NHS Departments, Benefits Agency and Highlands and Islands Enterprise. As part of his role in auditing the NHS he was a member of the NHS Technical Accounting Group. Allister has broadened his audit experience by undertaking audits of local authorities and joint boards across the Lothians and Edinburgh.

***Michael Duff, BAcc (Hons) CA***

***Senior Auditor***

Michael worked for four years in the private sector before joining Audit Scotland in 2003. He has worked for eight years in the central government and local government sectors. Previous responsibilities include the audit of the Scottish Executive Consolidated Accounts, the Scottish Executive Justice Department, European Structural Funds and the Scottish Consolidated Fund.

***David Wightman, MAAT***

***Auditor***

David has worked in both private and public sectors, including six years within the Health Service. David has 12 years of experience gained from working in both internal and external auditing.



# 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 the internal audit service provided in-house at East Lothian Council 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:

- Benefits
- Debtors
- Non-Domestic Rates
- Procurement



# 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 of audit matters to those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as "*those persons entrusted with the supervision, control and direction of an entity*.'" In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit & Governance 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 has an overriding general requirement that appointed auditors 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.