Grant Thornton

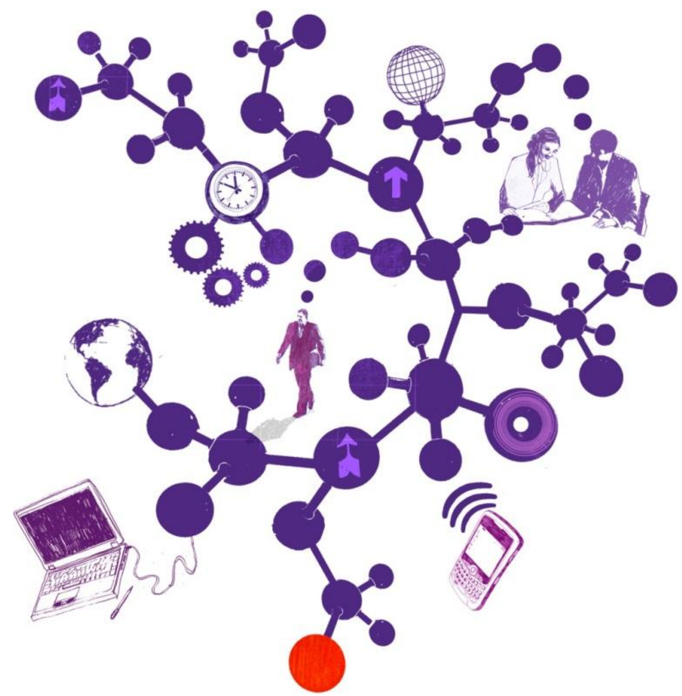
Audit Committee
Tuesday 18 March 2014
Item No. 6

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Plan for Midlothian Council

Year ended 31 March 2014

11 March 2014



Gary Devlin
Director
T 0131 659 8554
E gary.j.devlin@uk.gt.com

Grace Scanlin
Senior Manager
T 0131 659 8526
E grace.scanlin@uk.gt.com

Claire Gardiner
Assistant Manager
T 0131 659 8563
E claire.l.gardiner@uk.gt.com

Contents

Introduction

Introduction

Our annual audit plan is prepared for the benefit of discussion between Grant Thornton UK LLP and Midlothian Council (the Council).

We are required to conduct our audit in accordance with the Code of Audit Practice (the Code) issued by Audit Scotland. The Code requires our audit to cover aspects of the Council's arrangements for the preparation of financial statements, governance and performance management. Our audit approach is based on an annual integrated assessment of risk across the Code responsibilities.

The Code requires that we undertake our audit in accordance with:

- relevant legislation (the Local Government (Scotland) Act 1973)
- Statements of Auditing Standards and applicable Practice Notes issued by the Auditing Practices Board
- the CIPFA Code of Practice on Local Authority Accounting
- other guidance issued by Audit Scotland.

This Plan summarises our approach to the audit of the Council for the year ended 31 March 2014 to ensure compliance with the Code, and other legislative and audit practice requirements.

Our Responsibilities

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Annual Governance Statement has been prepared in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.

The Council's responsibilities

The Council is responsible for the preparation of the financial statements which show a true and fair view of the Council's affairs, and for making available to us all the information and explanations we consider necessary for the purposes of our audit.

Management are responsible for putting proper arrangements in place to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Assurance and Improvement Plan

The Local Area Network (LAN) of external scrutiny bodies continues to work together to develop a shared risk assessment and Assurance and Improvement Plan (AIP) for the Council. The AIP 2013-16 was published in May 2013 and outlined planned scrutiny for the period to 2016.

We are currently engaged in a refresh of the Council's AIP. The shared risk assessment and scrutiny plan is being reviewed based on all recent work undertaken by scrutiny partners, including our findings within our Annual Report to Members 2012-13.

Fraud and Irregularity

It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

We work with the Council's internal audit team to review specific areas of fraud risk. We also examine the Council's policies, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

Our work with Internal Audit

Each year, we work with the Council's internal auditors to ensure that our audit approach takes account of the risks identified and the work they have conducted, subject to our review of the internal audit function.

We also seek to ensure that we co-ordinate our work and avoid duplication of effort. The internal audit plan for 2014-15 covers key areas including:

- Business Transformation
- Housing Benefit
- Sickness Absence
- Accounts Receivable
- House Rents
- Arrears
- Annual Governance Statement.

Understanding the Council

In planning our audit we consider the key governance challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Business challenges/opportunities

1. Partnership Working	2. Leadership	3. Continuing financial pressures	4. Workforce Planning
• The Midlothian Community Planning Partnership adopted a Single Midlothian Plan (including Single Outcome Agreement) in March 2013. • We understand that the Council is working with partners to develop a planning and performance management framework to support the Single Midlothian Plan. • The Council continues to work with partners to embed local governance arrangements for Police and Fire Services within Midlothian. • The Council continues to work with NHS Lothian to agree governance arrangements for integrated health and social care from 1 April 2015.	• Leadership capacity during such a significant period of change will therefore be a key challenge for the Council. • In October 2013, the Council appointed a new Leader, the third since the last local government elections in May 2012. • The Council has also recently concluded a review and restructure of the senior management team, which has effectively reduced the number of Heads of Service from 10 to 8. The review supports revised management structures, including Integrated Service Support, in line with the Business Transformation Strategy.	• The Council approved the budget for 2014-15 at its meeting on 4 February 2014. • The budget identified a shortfall of £2.6m. which is to be met through a combination of business transformation activities and service savings. • The Council has approved a Financial Strategy for the period to 2016-17. The Strategy identifies a shortfall of £12.7m by 2016-17. • This represents a significant challenge for the Council to deliver the savings while maintaining Council Tax at current levels and without impacting service delivery.	• A management review is underway to consider staff structures below Heads of Service level. • The review is being supported by an enhanced Voluntary and Early Retirement Severance Scheme.

Our response

• We will review the Council's Community Planning Partnership, drawing on Audit Scotland's findings within the CPP audit programme • We will continue to monitor the Council's arrangements for the implementation of integrated health and social care, under the Public Bodies (Joint Working) (Scotland) Bill.	• We will continue to review leadership capacity and effectiveness as part of our governance and performance responsibilities. • We will review the arrangements put in place by the Council to support the new senior management structure.	• We will monitor progress throughout 2013-14 and 2014-15 to generate efficiencies in order to meet the budget requirements. • We will review the Council's approach to budgeting going forward.	• We will review the Council's governance processes to ensure that good practice within Audit Scotland's May 2013 report *Managing Early Departures from the Scottish Public Sector* is adopted.

Developments relevant to the Council and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1.Financial reporting

- Changes to the CIPFA Code of Practice.
- Clarification of Code requirements around PPE valuations. The clarification focuses around the frequency of valuations and ensuring that the figures in the accounts are materially correct.
- Revised LASAAC guidance on Statutory Trading Operations (STOs) state the Council should focus on activities that are external to the local authority.

2. Legislation

- Local Government Finance settlement 2013-14.
- Under section 106 of the Local Government (Scotland) Act 1973 all charitable trusts require an auditor's report. This applies to all charitable trusts registered with the Office of the Scottish Charities Regulator and where the Council, or members of the Council are the sole trustee.
- There are on-going implications of the Welfare Reform Act 2012, including the effects of the size criteria on council housing and universal credit.

3. Corporate governance

- The Scottish Government has issued a consultation paper on changes to the Local Authority Accounts Regulations from 2013/14. Key changes would include a move from the explanatory foreword to a management commentary and a requirement for the committee whose remit includes audit or governance, to formally meet by 30 September to consider approval of the statement of accounts.
- The Annual Governance Statement is now compulsory for all Local authorities.

4. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion.
- The Council completes grant claims and returns on which audit certification is required
- The Council submits returns to the National Fraud Initiative.
- Preparation of performance indicators under the new SOLACE Benchmarking indicator regime.

Our response

1. Financial reporting

- We will ensure that the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing.
- We will work with the Council as it identifies further areas for improvement in clarity in the financial statements.
- We will review the STO's in place at the Council and ensure they meet the revised definition in LASAAC guidance.

2. Legislation

- We will discuss the impact of the legislative changes with the Council and provide a view where appropriate.
- We will plan and carry out full audits of the Council's s106 Charities.
- We will review the effects of the welfare reform on income generated from housing and the level of arrears.
- We will monitor the processes in place for the implementation of the universal credit.

3. Corporate governance

- We will monitor the consultation on the Local Authority Accounts Regulations and discuss any actions arising from this guidance with the Council.
- We will review the arrangements the Council has in place for the production of the AGS.

4. Other requirements

- We will carry out work on the WGA pack in accordance with requirements.
- We will certify grant claims and returns in accordance with Audit Commission requirements.
- We will review the Council's arrangements for complying with the National Fraud Initiative requirements.
- Working with internal audit, we will assess the Council's systems and processes for collecting and correctly reporting performance data.

Our audit approach

We will use Voyager, our audit software package to document, evaluate and test, where appropriate, internal controls over the financial reporting process in order to reduce our detailed testing. We also tailor the software to incorporate the governance, regularity and performance risks identified at the planning stages.

Our approach will be to report all findings to management so that the Council can choose to secure any improvement opportunities. We report only those findings that represent a control weakness to the Audit Committee and make formal recommendations.

In all cases, we invest time with management in understanding the basis of the weakness identified and what the options are, for example mitigating controls and system modifications, for improving the system.

Planning

- Updating our understanding of the Council through discussions with management and review of reports presented to the Council and Audit Committee
- Work with the Council's internal auditors to ensure that key risks are addressed by audit, but that we do not duplicate areas of work.

Interim Audit Work

- Reviewing the design, implementation and effectiveness of internal financial controls including IT, where they impact the financial statements
- Assessing audit risk and developing and implementing an appropriate audit strategy
- Reviewing governance and performance management arrangements against good practice standards
- Reporting the findings of our interim work to the Audit Committee through our Interim Audit Report.

Substantive Procedures

- Reviewing and advising on material disclosure issues in the financial statements
- Performing analytical review
- Performing sample testing of income and expenditure balances
- Verifying all material income, expenditure and balances, taking into consideration whether audit evidence is sufficient and appropriate
- Reviewing the Annual Governance Statement for compliance with Scottish Government guidance and whether disclosures are consistent with information gathered from our audit work

Completion

- Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to those charged with governance through our Audit Findings Report and Annual Report to Members and attendance at the Audit Committee

An audit focused on risks

We undertake a risk based audit, focussing audit effort on those areas where we have identified a risk of material misstatement in the financial statements. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant	Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. The International Standards on Auditing identify two overall significant risks inherent in any financial statements. These are separately disclosed in the significant risks table on page 12.
Other reasonably possible	Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. For reasonably possible risks, we undertake controls testing to reduce the level of substantive testing we require to gain assurance over the balance. We describe the reasonably possible risks further on page 13.
None	Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of any material balances. Where an item in the financial statements is not material we do not carry out detailed substantive testing.

Section of the financial statements	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk identified?	Description of Risk	Will substantive testing be carried out?
Net cost of services operating expenditure	Yes	Operating expenses	Medium	Other reasonably possible	Creditors understated or not recorded in the correct period	✓
Net cost of services employee remuneration	Yes	Employee remuneration	Medium	Other reasonably possible	Employee remuneration accrual understated	✓
Net cost of services housing benefit	Yes	Welfare expenditure	Medium	Other reasonably possible	Welfare benefit expenditure improperly computed	✓
Net cost of services other revenues (fees & charges)	Yes	Other revenues	Low	None	We have not identified a risk of material misstatement	✓
Net cost of services-housing rents	Yes	Housing revenues	Medium	Other reasonably possible	Revenue transactions are not recorded	✓

An audit focused on risks (continued)

Section of the financial statementsz	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk identified?	Description of Risk	Will substantive testing be carried out?
Surplus/deficit on the revaluation of non-current assets	No	Property, plant and equipment	Low	None	We have not identified a risk of material misstatement	×
Gains/ losses on trading operations	No	Operating expenses	Low	None	We have not identified a risk of material misstatement	×
Interest payable and similar charges	Yes	Debt	Low	None	We have not identified a risk of material misstatement	✓
Interest receivable and similar income	No	Investments	Low	None	We have not identified a risk of material misstatement	×
Actuarial pension gains, losses and pension Interest cost	Yes	Employee remuneration	Low	None	We have not identified a risk of material misstatement	✓
Taxation and non-specific grant income	Yes	Grant revenues, council tax revenue and NDR revenue	Low	None	We have not identified a risk of material misstatement	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	Significant	We have not identified a risk of material misstatement	✓
Heritage assets	No	Property, Plant & Equipment	Low	None	We have not identified a risk of material misstatement	×
Intangible assets	No	Intangible assets	Low	None	We have not identified a risk of material misstatement	×
Long term investments	No	Investments	Low	None	We have not identified a risk of material misstatement	×
Inventories	No	Inventories	Low	None	We have not identified a risk of material misstatement	×
Debtors (long & short term)	Yes	Other revenues	Low	None	We have not identified a risk of material misstatement	✓
Assets held for sale	No	Property, Plant & Equipment	Low	None	We have not identified a risk of material misstatement	×

An audit focused on risks (continued)

Section of the financial statements	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk identified?	Description of Risk	Will substantive testing be carried out?
Cash & cash Equivalents	Yes	Cash	Low	None	We have not identified a risk of material misstatement	✓
Borrowing (long & short term)	Yes	Debt, Financial instruments	Low	None	We have not identified a risk of material misstatement	✓
Creditors (long & Short term)	Yes	Operating expenses	Medium	Other reasonably possible	Creditors and accruals misstated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provisions	Low	None	We have not identified a risk of material misstatement	✓
Pension liability	Yes	Employee remuneration	Low	None	We have not identified a risk of material misstatement	✓
Reserves	Yes	Equity	Low	None	We have not identified a risk of material misstatement	✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle may include fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	• Review and testing of revenue recognition policies. • Testing of material revenue streams.
Management over-ride of internal controls may result in material misstatement	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgements and decisions made by management. • Testing of journal entries. • Review of unusual significant transactions.

Reasonably possible risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description of risk	Work Planned
Operating expenses	**Creditors understated or not recorded in the correct period** The main business of the Council is to provide services to the local area. To achieve this the Council incurred expenditure of £257 million in 2012-13. The expenditure covers a number of key service lines, with the most significant being Education and Adult and Community Care. Purchasing is decentralised over services lines and there is therefore a reliance on the systems of internal control to ensure monies are recorded correctly.	• We will use our interim visit to review and walkthrough the processes and controls in place over the payment and recording of expenditure • Sample testing of key controls over the purchasing process • Sample testing of expenditure to invoice • Sample testing of year end transactions to test for unrecorded liabilities • Sample testing of creditors to ensure they are accounted for correctly.
Employee remuneration	**Employee remuneration accrual understated** Employee costs accounted for 46% of expenditure in 2012-13. There are a large number of transactions processed throughout the year and the Council relies on numerous controls to ensure that the employee costs are recorded correctly in the financial statements.	• Review and walkthrough the processes and controls in operation for payment of staff • Random sample testing of 25 staff members to contract and recalculation of PAYE, NI and pension contributions • Analytically review payroll expenses in comparison to expectations and investigate any significant variances • Review the relevant disclosures relating to staff costs within the financial statements • Review the treatment and associated disclosures in relation to the pension schemes
Welfare Expenditure	**Welfare benefit expenditure improperly computed** In 2012-13 the Council paid £27m for housing and council tax benefits. The systems to establish entitlement to housing and council tax benefit are complex and rely on a number of controls to provide assurance that the benefits are awarded and recorded correctly.	• Review and walkthrough of the processes and controls in place to calculate, pay and record benefit expenditure • Analytically review the benefit expenditure in comparison to auditor expectations and investigate any significant variations • Sample testing of housing benefit payments using the HB Count module • Testing the reconciliation between the benefits system and the amounts recorded in the financial statements.

Reasonably possible risks identified

Other reasonably possible risks	Description of risk	Work Planned
Housing Rent Revenue Account	**Revenue transactions not recorded** At the year end 31 March 2013 the Council had total HRA reserves of £14.7m. The Council prepares a housing rental strategy on an annual basis which sets the level of rent required to meet the expenditure requirements of the Housing Revenue Account.	• Detailed analytical review of revenues in comparison to expectations and investigation of any significant variances • Sample testing of 25 payments to check analysis and calculation • A review of the completeness of the billing list compared to number of properties on the system • Sample testing of the debtors balances at the year end • Cut-off testing around year end billed amounts • Review of the bad debt provision calculation and the assumptions underpinning the methodology

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

In 2013-14 the Council will no longer consolidate a share of Lothian and Borders Police or Fire Services as a result of the Police and Fire Reform changes effective from 1 April 2013. International Financial Reporting Standard 1 gives entities an option to only include information in the financial statements which they judge to be material. The Council is considering whether some associates are material, and we will consider the judgements management make to come to a conclusion regarding whether consolidation of these associates is required as part of our interim audit procedures. The table below sets out the entities that are fully or partially controlled by the Council.

Component	Risks identified	Planned audit approach
Non-Significant Components		
• Lothian Valuation Joint Board • Pacific Shelf 826 Limited	No risks identified other than the two standard ISA significant risks of fraud in revenue recognition and management override of controls	We will agree the figures in the group accounts to the audited financial statements of the individual bodies and perform analytical procedures to identify any risk areas.

Governance

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Council is responsible for putting in place arrangements for:

- the conduct of its affairs
- including compliance with applicable guidance
- ensuring the legality of activities and transactions and
- monitoring the adequacy and effectiveness of these arrangements in practice.
- The Council's Audit Committee has a key role in monitoring these arrangements.

The Code of Audit Practice gives the auditor a responsibility to review and, where appropriate, report findings on the Council's corporate governance arrangements as We will review and, where appropriate, report findings to financial governance, strategic financial planning and financial control. Specifically we will review:

- the systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- the standards of conduct, and arrangements in relation to the prevention and detection of corruption
- risk management procedures
- the financial position of the Council

This section sets out our approach to auditing key governance developments.

Annual Governance Statement

The Council has prepared an Annual Governance Statement (AGS) as part of their financial statements since 2011-12. This statement is a key document for conveying the governance framework within the Council and providing assurance around the achievement of key objectives. During 2012-13 we noted that good practice was in place to ensure the disclosures in the AGS were meaningful, concise and in line with guidance.

Under the Code of Audit Practice we are required to review and report on the AGS annually. We will assess the Council's reporting of governance, through the 2013-14 AGS and management commentary in the accounts against best practice.

Governance Arrangements

During 2013-14, the Council developed a revised approach to risk management. We will review the arrangements, as part of our annual programme of governance work to give assurance to the audit committee on the maturity of arrangements, and the extent to which risk management is embedded across services.

As we outline in page 6 the Council continues to work with partners to undertake the structural change necessary to deliver Police and Fire Reform and the requirements of the Public Bodies Joint Working Bill.

We will review the progress made to date, with a particular focus on the robustness of governance processes, including arrangements for internal audit. . In 2012-13 there was a change in the administration at the Council.

Performance and Best Value

Introduction

The Local Government in Scotland Act 2003 established Best Value as a statutory requirement for all councils. The Act defines Best Value as 'continuous improvement in the performance of the authority's functions'. The objective of Best Value is to ensure that councils deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent, by listening and responding to the local community achieving sustainable development in how the council operates
- ensuring equal opportunities in the delivery of services.

The Act also places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and meeting their community planning responsibilities.

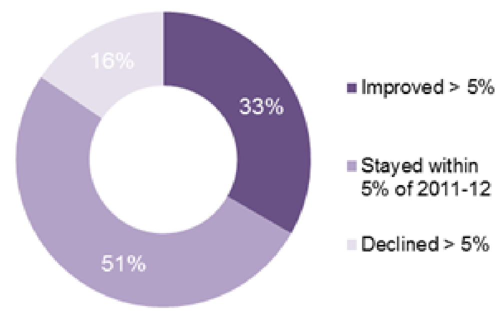
Our work on Best Value will be informed by the Local Area Network's Shared Risk Assessment and Assurance and Improvement Plan, due to be finalised in April 2014.

Performance information

Audit Scotland continues to stress the critical role of self-evaluation and good quality performance information in allowing Councils to demonstrate that they are delivering efficient and effective services.

Statutory Performance Indicators (SPIs) are one of the key ways that Council performance is measured and reported to the public.

In 2012-13 the Council's performance indicators showed performance was maintained or improved in 84% of indicators.



Source: Midlothian Council 2012-13 performance indicators

The SOLACE Benchmarking Project 'Improving Local Government' will be applicable from 2013-14. As part of this the Council will have to report on 149 key performance indicators. The Council undertook a review of key performance indicators in autumn 2013 with the aim of streamlining this process and removing duplication.

We will work with internal audit to consider whether the SPI procedures meet the requirements of the SOLACE benchmarking and give sufficient evidence that the Council are achieving Best Value in their performance.

Major Capital Investments in Councils

Councils invest large sums of money every year on property and other assets they will use over many years to provide public services. Audit Scotland published a report, *Major Capital Investment in Councils,* which reviewed a number of major capital projects over £5 million each.

Key recommendations from the report were that councils should

- develop and confirm long term investment strategies to set out the needs and constraints for local capital investment and consult with stakeholders as they develop these strategies
- develop and use clearly defined project milestones for monitoring and reporting
- improve the quality of capital project and programme information that is routinely provided to elected members
- consider developing a continuing programme of training for elected members on capital issues
- actively look for opportunities for joint working with other councils.

During 2012-13 Midlothian Council incurred capital expenditure of £29.525m, the majority of this related to the Lasswade High School Project (£21.6m). The capital budget for 2013-14 is £25.7m.

As part of our audit work we will undertake a targeted follow up of the Audit Scotland report focusing on the processes in place for capital investment planning and reporting to the elected members. We will review whether the elected members are provided with sufficient information to support effective scrutiny and decision making.

National Studies

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them at a committee level and act on them accordingly. As external auditors, we are required to consider:

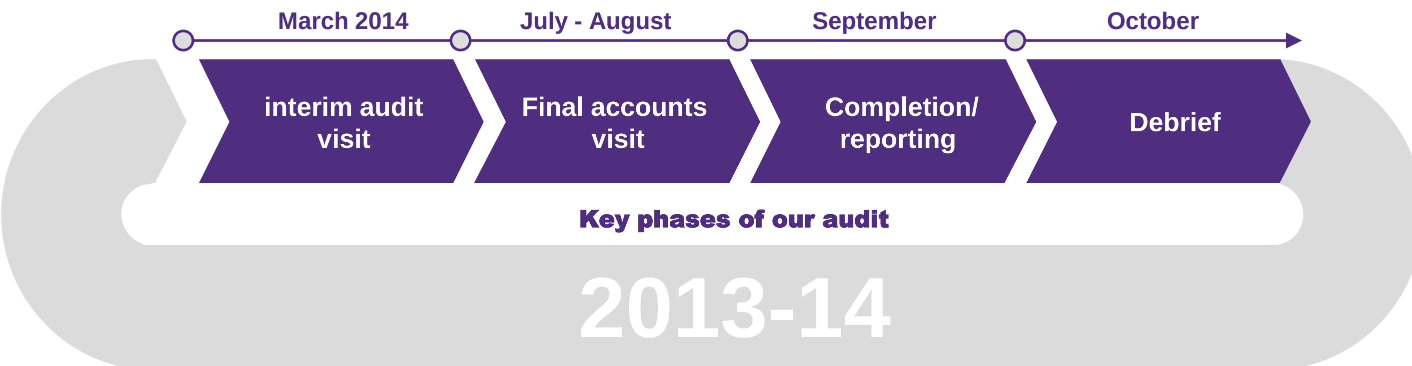
- whether the Council has discussed the national report at committee level
- whether the Council has carried out a self-assessment against the national report
- whether an action plan has been developed as a result of any self-assessment.

We will ensure that there are sufficient mechanisms in place for the Council to review and learn from the recent national studies.

Audit Scotland provide direction over which national reports we are required to follow up. In addition to our follow-up their work on Arms Length External Organisations and Major Capital Investment, Audit Scotland have asked us to do a follow-up on the impact of their report on health inequalities.

Logistics and our team

The audit cycle



Date	Activity
Jan 2014	Planning meetings
7 April 2014	Interim site work
18 Mar 2014	Audit plan presented to the Audit Committee
30 Jun 2014	Year end fieldwork commences
Sep 2014	Audit findings clearance meeting
16 Sep 2014	Audit Committee meeting to report our findings
30 Sep 2014	Sign financial statements and conclusion
30 Sep 2014	Finalise work on grant claims
31 Oct 2014	Issue Annual Report to Members

Our team

Gary Devlin Director **T** 0131 659 8554 **E** gary.j.devlin@uk.gt.com	**Nick Smith** In-charge Auditor T 0141 223 0780 E nicholas.smith@uk.gt.com
Grace Scanlin Senior Manager **T** 0131 659 8526 **E** grace.scanlin@uk.gt.com	**Rowena Roche** Audit Associate T 0131 659 8583 E rowena.roche@uk.gt.com
Claire Gardiner Assistant Manager **T** 0131 659 8563 **E** claire.l.gardiner@uk.gt.com	**Raul Rodriguez** IT Audit Specialist T 0131 659 8534 E raul.rodriguez@uk.gt.com

Fees and independence

Fees

	£
Council audit (including Grant Certification	237,000
Charitable Trusts audit	tbc
Total fees (excluding VAT)	**tbc**

2013-14 Audit Fee

The audit fee is calculated in accordance with guidance issued by Audit Scotland for determining the fee level for central government bodies. Audit Scotland requires that the agreed fee is within the limits of the indicative fee range.

Your external audit fee for 2013-14 is £237,000, representing no change compared to the prior year. We expect to make efficiencies in year three of the audit but this is offset by additional work required on governance and performance issues.

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

We have been appointed as the Council's independent external auditors by the Accounts Commission, the body responsible for appointing external auditors to Local Authorities in Scotland. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Audit Scotland Code of Audit Practice ('the Code') includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Grant Thornton

grant-thornton.co.uk