Grant Thornton

Audit Committee
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Item No. 6

The Audit Plan for Midlothian Council

Year ended 31 March 2015

March 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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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 and the Local Government (Scotland) Regulations 2014)
- 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 2015 to ensure compliance with the Code, and other legislative and audit practice requirements.

Our Audit Strategy

Our key audit objectives are as follows:

- to audit the financial statements of the Council within agreed timescales
- to ensure the Council complies with applicable enactments and regulations
- to consider aspects of performance and governance arrangements
- to deal with any formal complaints
- to produce a concise and constructive report of key issues to the Audit Committee of the Council and the Controller of Audit.

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.

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. Programme of investment	2. Leadership	3. Continuing financial pressures	4. Transformation Programme
• The Midlothian Community Planning Partnership adopted a Single Midlothian Plan (including Single Outcome Agreement) in March 2013. The Plan sets out an ambitious programme of investment to support economic growth in Midlothian. • Partnership working will be key to ensure that the Council capitalises on developments such as the Borders Railway, City Deal and the Shawfair development. • The Council also continues to respond to the impact of public safety concerns relating to the Newbyres housing development. The decision, taken in 2014, to demolish the estate will have financial implications for the Council's housing strategy and capital programme.	• Leadership capacity, and supporting governance arrangements during an ongoing period of change will be a key challenge for the Council. • The Council introduced a revised management structure in 2014 to better align responsibility and accountabilities for delivering the Single Midlothian Plan. • The Council recently appointed a new Leader, the third since the last local government elections in May 2012. The Council Leader has recently been selected as a candidate for the Westminster elections in May 2015. • There is a fine political balance in Midlothian, and by-elections therefore have the potential to impact on future political leadership of the Council.	• When the budget for 2014-15 was set in February 2014, it highlight a shortfall of £2.6m, which was to be met through business transformation activities and service savings. Budget monitoring reports suggest that the Council has bridged the budget gap and is likely to achieve a surplus during 2014-15. • The Council approved the budget for 2015-16 at its meeting on 17 February 2015. The budget identifies a continuing short fall of £4.9 million by 2017-18. • The Council has approved a Financial Strategy for the period to 2017-18 but faces a significant challenge to deliver planned and future savings while maintaining Council Tax at current levels and without impacting service delivery.	• The Transformation Programme is the key mechanism through which the Council will identify, monitor and address its core financial challenges. • In previous audits, we have identified that the Transformation Programme has not been delivering savings of sufficient scale, or with sufficient speed, to address the budget challenge. • In response, the Council has taken steps to improve the governance arrangements and level of financial scrutiny. The council must now ensure that these new arrangements support the delivery of cost reduction and service re-design effectively.

Our response

1. Programme of investment	2. Leadership	3. Continuing financial pressures	4. Transformation Programme
• 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 progress in developing a planning and performance management framework to support the Single Midlothian Plan. • We will monitor the financial impact of the Newbyres housing development on the Council's Housing Revenue Account.	• We will continue to review leadership capacity and effectiveness as part of our governance and performance responsibilities. • We will review the governance arrangements put in place by the Council to support the new senior management structure, and delivery of the Single Midlothian Plan. • We will continue to monitor the effectiveness of political governance arrangements.	• We will review the Council's approach to budgeting for both capital and revenue to assess the robustness of the budget setting, monitoring and reporting processes.	• We will continue to monitor progress in delivering business transformation and efficiency projects to meet budget challenges. • We will review the robustness of the reporting and monitoring process for the Transformation Programme, including the process for validating confirmed savings.

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 and associated guidance.

Developments and other requirements

1.Financial reporting

- The CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) has been updated for changes in 2014-15. The most significant change relates to the adoption of new group accounting standards (IFRS 10, 11 and 12).
- A ruling from the Employment Appeal Tribunal indicates that holiday pay should include overtime in calculations of holiday pay owed to employees.
- The CIPFA Code will be updated in 2016-17 to adopt the requirements of the *Code of practice on transport infrastructure assets*. This is likely to have a significant impact on the value of local authority balance sheets and will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement.

2. Legislation

- The Local Authority Accounts (Scotland) Regulation Act 2014 applies to the financial reporting period 2014-15. There are a number of significant implications arising from the Act. The most significant are:
- The regulations require the Annual Accounts of the Council to include a Management Commentary in line with the Central Government Financial Reporting Manual.
- There are changes to the requirements for publishing the unaudited and audited financial statements including a revised timetable.
- Those charged with governance are required to meet by 30 September to consider approval of the audited annual accounts. The accounts are required to be signed immediately after approval.

3. Health and Social Care Integration

- The Public Bodies (Joint Working) (Scotland) Act 2014 puts in place a framework for integrating health and social care . The Act requires the Council to jointly prepare an integration scheme setting out the model which is being adopted.
- Integration schemes must be submitted to Scottish Ministers by 1 April 2015 with arrangements in place by April 2016.
- The Council approved the decision to pursue the body corporate model of governance with NHS Lothian.
- This will require the establishment of an Integration Joint Board prior to April 2016.

4. Other requirements

- The Council completes the following grant claims and returns on which audit certification is required:
  - Criminal Justice Social Work
  - Education Maintenance Allowance
  - Non-Domestic Rates
  - Housing Benefit
- The Council submits a Whole of Government Accounts pack each year. In 2013-14 the Council was below the audit threshold.

Our response

1. Financial reporting

We will ensure that:

- the Council complies with the requirements of the CIPFA Code through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly
- the Council considers a provision for holiday pay claims where appropriate
- the Council appropriately includes holiday pay within any overtime accrual
- the Council is prepared for the changes with regard to infrastructure assets.

2. Legislation

- We will provide guidance to the Council outlining the requirements of the Government Financial Reporting Manual with regard to Management Commentary. We will review the new disclosures in the financial statements to ensure compliance.
- We will work with the Council to ensure the accounting and audit timescales in place comply with the revised requirements of the Act.

3. Health and Social Care Integration

- We will monitor progress towards integration.
- We will review and comment on financial plans associated with integration
- We will review and comment on the proposed governance arrangements for the Integration Joint Board.

4. Other requirements

- We will certify grant claims and returns in accordance with Accounts Commission requirements.
- We will review the Whole of Government Accounts guidance in the current year to establish the threshold. If the accounts of the Council exceed this threshold we will conduct a full audit in line with the Scottish Government guidance.

Financial Statements

Introduction

Local Authority financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

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 it's 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 requirement, or if the statement is misleading or inconsistent with our knowledge.

Materiality

Under ISA 320 the auditor is required to establish both an overall materiality and a performance materiality. Materiality is an auditing and accounting concept relating to the importance or significance of an amount, transaction or discrepancy in respect of an entity's financial accounts.

Overall materiality is set for the financial statements as a whole and is based on our perception of the needs of users of the financial statements. This is informed by the level of public scrutiny, key performance indicators used by management, management's view on materiality and specific risks identified to the firm.

An item would be considered material to the financial statements if, through omission or non-disclosure, the financial statements would no longer show a true and fair view. The assessment of what is material is a matter of professional judgement.

As the primary focus of Midlothian Council is to provide services to the community through use of public funds we use gross expenditure included in the surplus/deficit on provision of services as the benchmark for our overall materiality. In 2014-15 we have conducted a risk assessment and established planning materiality at 1.5% of 2013-14 resource expenditure. This means that cumulative unadjusted misstatements above £5.4 million would result in a qualified audit opinion.

Performance materiality as defined by ISA 320 is the amount set by the auditor, at less than materiality, for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality is the maximum amount of a misstatement that the audit team can accept in an individual account. We would therefore expect any individual misstatement detected above this level to be adjusted.

We also use this level to assess the risk of material misstatement and to plan the nature, timing and extent of our audit procedures.

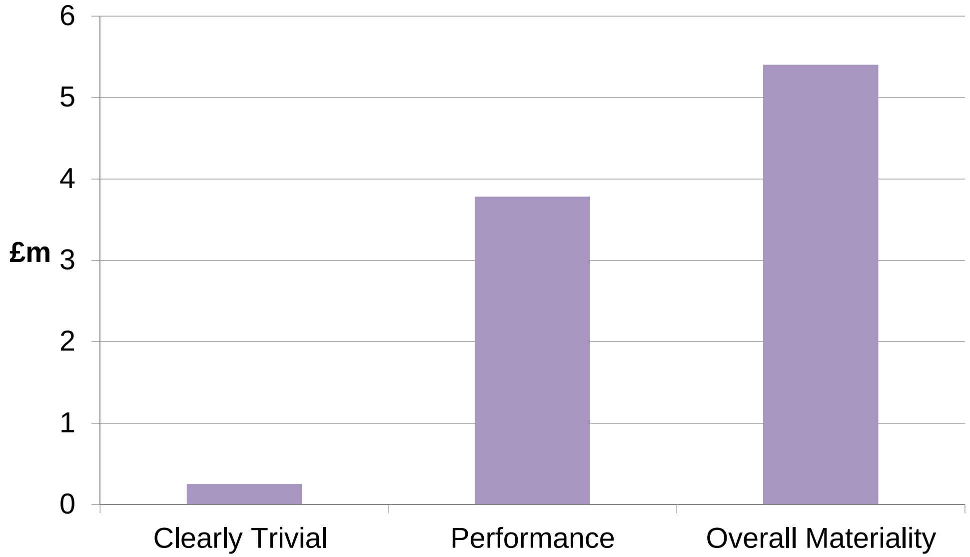
At the planning stages we have set our level of performance materiality at £3.8 million (this equates to 70% of overall materiality). This has been informed by our sector knowledge and prior experience, taking into consideration fraud risk indicators, prior year adjustments and accounting issues facing the sector.

In addition to the guidance on materiality ISA 450 requires auditors to accumulate misstatements identified during the audit, other than those that are clearly trivial. Any identified errors greater than £250k will be recorded on a schedule of immaterial misstatements, assessed individually and in aggregate, discussed with you and if not adjusted, signed off by you as part of your letter of representation to us.

We will review materiality at the reporting stage of the audit to assess its appropriateness in light of the revised financial statements. If total resource expenditure at year-end changes by more than 10% than the prior year figure the materiality thresholds will be revised.

At all times we will assess the impact of an item on the financial statements. An item of low value may be judged to be material by its nature (e.g. amounts disclosed in the remuneration report) and an item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

Our Materiality Levels



Overall materiality (1.5% of gross expenditure)	Level of cumulative, unadjusted misstatements that would result in a qualified audit opinion
Performance materiality (70% of materiality)	Level at which we undertake procedures to detect individual errors
Clearly trivial (5% of materiality)	Individual errors greater than 5% will be reported to the audit committee in our Audit Findings Report

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, approved by the Audit Committee in March 2014, covers key areas including:

- Business Transformation
- Statutory Performance Indicators
- Housing Rents
- Arrears
- Code of Corporate Governance and the Annual Governance Statement.

We have not identified any areas in the current year where we will seek to place specific reliance on the work of internal audit. We have, however, reviewed the internal audit reports issued to date and note that their work has not identified any weaknesses which would impact our audit approach.

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 (refer to Appendix A)
- 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

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 includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable, and standing orders, and fraud response measures are in place to respond.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgments 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. Our assessment for each area of the financial statements is attached at Appendix A.

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 £259 million in 2013-14. 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 over 45% of expenditure in 2013-14. 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 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 2013-14 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 2014 the Council had total HRA reserves of £18.4m. 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 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

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.

Approval and publication of the annual accounts

The Local Authority Accounts (Scotland) Regulations 2014 specify a revised specification for the format of the accounts for 2014-15. A summary of these regulation changes is included at Appendix A and summarised below:

- a requirement for the proper officer to submit signed annual accounts to the appointed external auditor no later than 30 June
- Changes to the requirements for publishing both the unaudited and audited annual accounts – particularly the requirement to publish the audited accounts on the council's website by 31 October and the auditor's annual report to members by 31 December
- The local authority (or relevant committee – e.g. the audit committee) is required to approve the audited accounts for signature no later than 30 September
- Following this approval, there is a requirement for the 'proper officer', Leader and Chief Executive to sign the following parts of the audited accounts:

  - Management commentary – proper officer, Chief Executive and Leader
  - Annual Governance Statement – Chief Executive and Leader
  - Remuneration Report - Chief Executive and Leader
  - Balance Sheets – proper officer (using form of words set out in the Code).

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 2013-14 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 2014-15 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 is working with partners to undertake the structural change necessary to deliver the requirements of the Public Bodies Joint Working Bill. We will assess progress in taking new integrated social and health care arrangements forward.

We note that political management arrangements within the council have been have been challenging in recent years, with 3 Leaders appointed during this period and a number of by-elections expected. We also note difficulties in member relations with a number of referrals to the Standards Commission..

We will continue to review the effectiveness of the council's governance processes, with a particular focus on the robustness of political governance arrangements.

Internal audit

An effective internal audit service is a key element of the Council's assurance framework.

We note that in 2015, one of the Internal Audit Managers will have a period of maternity leave. Additional resources have been allocated to internal audit, including the secondment of a qualified accountant from elsewhere in the Council to provide additional audit days. The other Internal Audit Manager has also agreed to fulfil the role on a full time basis. We will, however, continue to monitor the effectiveness of the service, and any impact on the progress of the Annual Audit Plan.

Budget Management and the Transformation Programme

The Council currently faces a significant financial challenge which is being partly met through the Council's budget management arrangements and through its Transformation Programme. The council introduced revised arrangements for monitoring and reporting progress within the Financial Strategy in 2013-14.

As part of our 2014-15 audit we will review the effectiveness of financial scrutiny arrangements and the robustness of the reported targets and savings achieved.

Newbyres Crescent

In April 2014, the Council's Cabinet received a report outlining significant concerns relating to one of the Phase 1 new build council housing developments in Newbyres Crescent, Gorebridge had been affected by high levels of carbon dioxide inside and outside some properties on the estate. The properties were built from 2007 – 2009 without protective barriers, known as gas membranes.

The Council has asked the Scottish Government to call a public inquiry to review the procurement and building process, to fully understand why the gas membranes were not installed in the homes.

In November 2014, the Council accepted officers' recommendations to demolish the site and to rebuild the social housing, with the required gas membranes, on the site, at an estimated cost of £12 million.

This outcome will have a significant impact on the residents of Newbyres Crescent who have had to be re-housed, and the council's housing strategy as the council's house-building programme has been delayed.

The Council will be required to review it financial strategy for the Housing Revenue Account as a result, potentially impact on rent increases for council tenants as a whole.

As part of our 2014-15 audit, we will review the Council's progress to identify the causes and lessons learned, and we will continue to monitor the financial impact of the decision.

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.

Best Value and the Audit Improvement Plan

Under the National Scrutiny Plan for Local Government, Scotland's scrutiny agencies work together to develop a shared risk assessment and Assurance and Improvement Plan (AIP) for each council area.

In 2014-15, we followed up the progress made by the Council against specific areas of risk or uncertainty identified by scrutiny partners. No key risk areas for further scrutiny have been identified through this process for Midlothian Council.

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.

As part of revised Statutory Performance Indicators (SPIs) requirements, we will support Audit Scotland's review of Public Performance Reporting arrangements during 2014-15.

In 2013-14, we recommended that the council review its approach to performance management. Our audit in 2014-15, will therefore review the council's progress in improving its service performance and in revising it approach to performance management.

National Studies

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

Audit Scotland provide direction over which national reports we are required to follow up.

Logistics and our team

The audit cycle

Date	Activity
5 Mar 2015	Interim site work commences
17 Mar 2015	Audit Plan presented to the Audit Committee
19 Mar 2015	Grant Thornton Audit Technical Update session
21 May 2015	Audit update including interim findings presented to the Audit Committee
1 July 2015	Year end fieldwork commences
Early Aug 2015	Audit findings clearance meeting Audit Findings Report and Annual Audit Report issued to officers
Sept 2015	Audit Committee sign accounts and report our findings

Our team

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Fees and independence

Fees

	£
Council audit (including Grant Certification)	239,370
Total fees (excluding VAT)	**239,370**

Fees for other services

Service	Fees £
None	Nil

2014-15 Audit Fee

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

Your external audit fee for 2014-15 is £239,370, representing a 1% increase on the prior year, a real term decrease of 0.6%. We expect to make efficiencies in year three of the audit but this is offset by additional work required on the financial statements and governance 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.

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.

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		✓

Appendices

Appendix A: An audit focused on risks

We undertake a risk based audit, focussing audit effort on those areas where we have identified the highest 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.

Reasonably Possible – Reasonably Possible 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. We will assess controls and undertake extended substantive testing. Cycles where we have identified a reasonably possible risk of material misstatement are outlined in full on page 13 along with full details of the proposed testing

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of 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?	Description of Risk	Inherent risk	Material misstatement risk identified?	Inherent Risk Assessment	Will substantive testing be carried out?
Net Cost of Services Operating Expenditure	Yes	Operating expenses are understated	Medium	Reasonably Possible	Net cost of services was in 2013-14 was £258m (including staff costs) with a high volume of transactions being processed through the system. We have therefore assessed the inherent risk as medium.	✓
Net Cost of Services Staff Costs	Yes	Employee Remuneration accruals are understated	Medium	Reasonably Possible	In the 2013-14 accounts the Council reported staff costs of around 45% of the net cost of services. There is therefore a high number of monthly transactions which represents a significant proportion of running costs. Based on this information we have assessed the inherent risk as medium.	✓
Net Cost of Services Housing Benefit	Yes	Welfare benefit improperly computed	Medium	Reasonably Possible	During 2013-14, we identified a relatively high number of inaccuracies in the processing of housing benefit claims. We have assessed the inherent risk as medium.	✓

An audit focused on risks (continued)

Section of the financial statements	Material (or potentially material) balance?	Description of Risk	Inherent risk	Material misstatement risk identified?	Inherent Risk Assessment	Will substantive testing be carried out?
Net cost of services and other revenues	Yes	Revenue is fraudulently recognised	Low	None	We have considered the nature of the revenue streams at the Council and concluded that risk of fraud arising from revenue recognition can be rebutted.	✓
Net Cost of Services Housing Rents	Yes	Operating expenses are misstated	Low	None	Housing Rents are made up of a high volume of transactions at a low value. The inherent risk of material misstatement is therefore deemed to be low.	✓
Surplus/ Deficit on the revaluation of non-current assets	Yes	Revaluation measurements not correct	Low	None	The values of fixed assets are updated as part of the year end processes which comprises a low volume of high value transactions. We have therefore assessed inherent risk of material misstatement as low.	✓
Return on Pension Assets	Yes	Fair value measurements not correct	Low	None	Actuarial valuations are provided at the year end and are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	×
Actuarial losses on Pension Assets and Liabilities	Yes	Fair value measurements not correct	Low	None	Actuarial valuations are provided at the year end and are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	✓
Property, Plant and Equipment	Yes	Allowance for depreciation not adequate	Low	None	The depreciation balance is comprised of a low volume of high value transactions. We have therefore assessed the inherent risk associated with revenue recognition as low.	✓
Heritage Assets	No	Valuation measurements are not correct	Low	None	The balance is below materiality therefore risks are deemed to be low.	×
Intangible Assets	No	Allowance for amortisation not adequate	Low	None	The balance is below materiality therefore risks are deemed to be low.	×
Long term investments	No	Fair value measurements not correct	Low	None	The balance is below materiality therefore risks are deemed to be low.	×

An audit focused on risks (continued)

Section of the financial statements	Material (or potentially material) balance?	Description of Risk	Inherent risk	Material misstatement risk identified?	Inherent Risk Assessment	Will substantive testing be carried out?
Inventories	No	Inventory prices and quantities are not valid	Low	None	In the 2013-14 accounts the balance disclosed was below materially and therefore the risk is deemed to be low.	×
Debtors (long and short term)	Yes	Recorded debtors are misstated	Low	None	Debtors is comprised of a high volume of routine low value transactions. We therefore assess the inherent risk associated with debtors to be low	✓
Assets held for sale	No	Revaluation measurements are not correct	Low	None	The balance is below materiality therefore risks are deemed to be low.	×
Cash and cash equivalents	Yes	Cash misappropriated	Low	None	Handled cash is comprised of a high volume of low value transactions therefore we have deemed inherent risk to be low.	✓
Borrowing (long and short term)	Yes	Debt obligations not reflected accurately	Low	None	Borrowing is comprised of a low volume of high value transactions. We therefore assess the inherent risk of material misstatement to be low.	✓
Trade and Other Payables	Yes	Creditors understated or not recorded in the correct period	Medium	Reasonably Possible	Creditors and short term borrowing in 2013-14 totalled £68m with number of transactions occurring around the year-end. The creditors figure is comprised of a number of accruals with a high value and requiring management judgements. We have therefore deemed the inherent risk to be medium.	✓
Provisions	No	Provision is not adequate	Low	None	In the 2013-14 accounts, the amount disclosed for provisions was below materiality, with the risk deemed to be low.	×
Pension Liability	Yes	Fair Value measurements are not correct	Low	None	Actuarial valuations are provided at the year end and are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	✓
Reserves	Yes	Reserves are not correctly recorded	Low	None	The balance is comprised of a very low volume of high value transactions therefore inherent risk is deemed to be low.	✓