

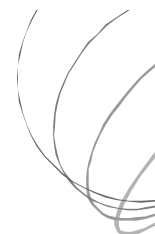
West Lothian Council

Annual Audit Plan 2008/09



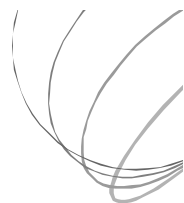
January 2009





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Summary Plan

Summary of planned audit activity

Based on our analysis of the risks facing West Lothian Council, our planned work in 2008/09 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of the council as at 31 March 2009 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2008 SORP
- reporting the findings of our audit risk assessment process in a strategic audit risk analysis, highlighting the key risks being faced by the council, the action under way or planned in response to these and the work we plan to undertake in relation to these. 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 the council's governance and performance arrangements in a number of key areas including: internal audit, key financial controls, ICT, statutory performance indicators, Best Value follow-up work, national studies follow-up, statement on the system of internal financial control and prevention and detection of fraud (including National Fraud Initiative)
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts.

Introduction

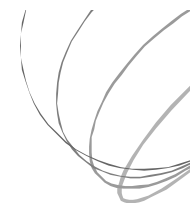
1. Our audit is focused on the identification and assessment of the key challenges and risks to the council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the council's financial statements. This report summarises the key challenges and risks facing the council and sets out the audit work that we propose to undertake in 2008/09. Our plan reflects:
 - the risks and priorities facing the council
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.



2. In addition to this annual audit plan, the first audit report of the year we will prepare is a strategic audit risk analysis which will focus on the key performance risks being faced by the council, along with other governance risks highlighted through our work. The analysis will identify the action under way or planned in response to these risks, and the work we plan to undertake in relation to these. This risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland, along with work undertaken to identify issues and risks which are unique to the local situation.

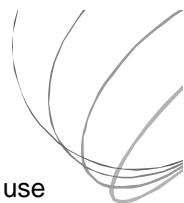
Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, 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, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that the council
 - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which 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 2009 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 2008 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
 - 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
 - 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 the council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of the council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation, understanding how the council will include these in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2008/09 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for the provision of accounts and agreement to provide working papers requested by audit staff
 - delivery of unaudited accounts to agreed timescales with the comprehensive working papers package
 - completion of the internal audit programme for 2008/09
 - management representations on key areas of the financial statements
 - representations from the auditors of the council's associates and subsidiaries within the group boundary.



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. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.
9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.
10. At the completion of the audit we will provide 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 the council and the Head of Finance as Accountable Officer to prepare the financial statements in accordance with the SORP. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of the council as at 31 March 2009 and its expenditure and income for the year then ended
 - preparing an explanatory foreword
 - reviewing the main components of the system of financial control, including the arrangements for internal audit and group entities. This should include issues identified as part of the audit process.

Format of the Accounts

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

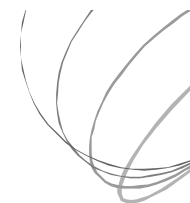


Audit issues and risks

14. This annual audit plan focuses on governance and other risks specific to the financial statements of the council. Our strategic audit risk analysis will provide a broader analysis of wider risks and issues the 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, consideration of your own risk management arrangements and a review of supporting information, we identified the main financial statements risk areas for your organisation

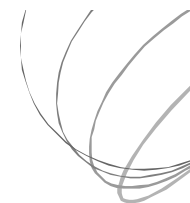
Financial management

16. The council approved £6.086 million of efficiencies as part of the revenue budget for 2008/09. It is now considered that only £5.778 million of efficiencies is considered achievable during 2008/09. In order to balance the current year budget compensating savings have been identified. This is a challenging target and if efficiencies and savings are not delivered there is a risk of overspending.
17. The council's reserves strategy is to maintain a minimum unallocated general fund balance of £2 million. Taking into account the challenging planned efficiencies and savings, the financial pressures facing the council, and the current economic volatility the council should keep its target level of unallocated general fund balance under review to ensure it remains adequate for the council's future needs.
18. The council has a high level of short term investments. At 31 March 2008, the council held short term investments of £108 million, and the forecasted balance on temporary investments at 31 March 2009 is £81million. As a result of the current economic volatility, the council is reviewing its Treasury Management Policy, and clarified guidance will be included on which institutions the council can deposit funds with.
19. The council has reviewed actual and potential claims in relation to equal pay legislation and included a provision of £1.313million in the 2007/08 financial statements to settle the present obligation as at 31 March 2008. However, there remain uncertainties over the actual costs that will be incurred to settle these cases, and any future unquantifiable claims that may be made. We note that the council has sought to limit its exposure to the financial risk associated with equal pay claims by paying equal pay compensation.
20. A Group accountant post is currently vacant in Finance Services. There is a risk that the financial statements could be delayed if the post is not filled timeously. In addition, there is over reliance on one key officer for preparation of the financial statements.



Accounts presentation and disclosure

21. A number of changes are required by the 2008 SORP. These are less significant than in recent years, but we will expect the council to incorporate the changes in its 2008/09 financial statements. These include:
- FRS 17 Retirement benefits. Additional disclosures are required for:
 - the principle actuarial assumptions used at the balance sheet date
 - an analysis of opening and closing scheme liabilities and scheme assets
 - an analysis of liabilities arising from schemes that are wholly unfunded.
 - the amendment of the section on events after the balance sheet date to clarify how the date the Statement of Accounts is 'authorised for issue' should be interpreted by local authorities
 - a new section on Area Based Grant which is a new Government grant that came into force in April 2008
 - a new sentence prohibiting the revaluation of fixed assets on disposal.
22. Following the publication of CIPFA Guidance Delivering good governance in local government references to the statement on internal control have been amended to refer to an annual governance statement. The expectation is that the council will be in a position to move to an audited annual governance statement within the 2008/09 financial statements.
23. Matters arising from our audit of the financial statements are reported to the relevant officers via a matters arising letter. The 2007/08 matters arising letter should be reviewed as part of the financial statements preparation process for 2008/09 to ensure that all issues are addressed.
24. The 2007/08 findings included the council's approach to enhancement expenditure, which is to add all capital spend to the value of fixed assets, even though it is not certain whether the value of the asset has increased by the amount spent. When the assets are revalued as part of the council's rolling programme, the values will be updated at that time to reflect the impact of capital spend. With this approach, there is a risk that asset values are too high. Officers have agreed to consider requesting the valuer to undertake a revaluation in 2008/09 of assets on which there is a material capital spend. However, the cost of such surveys can be prohibitive and therefore, value for money will be taken into account when considering whether to revalue in the year of spend.
25. During 2008/09 the council has implemented a new budgetary control system. With all new systems there is an increased risk of controls not operating effectively or errors being made. Audit will seek assurances that this system has operated effectively throughout the year.



Summary Assurance Plan

26. 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

27. 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.
28. 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.”*
29. 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.
30. 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 be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

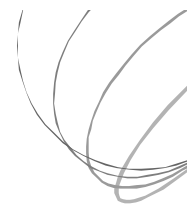
Reporting Arrangements

31. 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. A timetable is included at Appendix B of this plan, which takes account of submission requirements, planned audit committee dates and audit resources.



32. Matters arising from our audit will be reported on a timely basis and will include agreed actions. Draft management reports will be issued to the nominated senior officer to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission, although our experience has been that the council responds quicker than this.
33. A copy of all final agreed reports will be sent to the Chief Executive, Head of Finance, responsible Director or Head of Service, Internal Audit manager and Audit Scotland's Public Reporting Group. All formal reports, or a summary thereof, will be made available to the Audit Committee for its consideration.
34. We will provide an independent auditor's report to the council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about [the council's] management of key risks.
35. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).
36. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
Governance	
Strategic audit risk analysis	31 March 2009
Review of Internal audit	30 June 2009
Internal controls management letter	30 June 2009
Performance	
PRF position statements	28 February 2009
Statutory PIs	31 August 2009
Financial statements	
Financial statements matters arising letter	21 August 2009
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	22 September 2009
Independent auditor's report on the financial statements	30 September 2009
Annual report to the Members and the Controller of Audit	31 October 2009
Audit opinion on Whole of Government Accounts	31 October 2009
Grants	
Audit opinions on DWP grant claim and 3 Scottish Government grant claims	As required

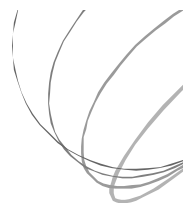


Quality control

37. We are committed to ensuring that our audit reflects best practice and demonstrates best value to West 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, Fiona Mitchell-Knight, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
38. 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

39. Our agreed fee for the 2008/09 audit of the council is £365,600 comprising a local audit fee of £228,800 and a fixed charge of £136,800. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at Audit Committee meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.
40. In determining the agreed fee we have taken account of the risk exposure of the council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 8 June 2009. If the draft accounts and papers are late, or 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.
41. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
42. Lynn Bradley, Director, Audit Services (Local Government) 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 West Lothian Council the Assistant Director is Fiona Mitchell-Knight.



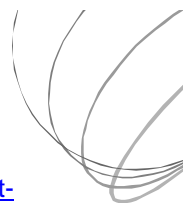
43. The local audit team will be led by Patricia Fraser who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

Independence and objectivity

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

Client engagement across Audit Scotland

46. Due to the wider scope of public sector audit, business groups in Audit Scotland other than Audit Services Group, such as Audit Strategy, the Performance Reporting Group and Best Value teams, may have studies ongoing in your organisation in the course of the audit year.
47. The planned national studies that are relevant to the council over the next year (with expected reporting dates) include:
- asset management in councils (April 2009)
 - review of expenditure on drugs and alcohol services (March 2009)
 - mental health overview (April 2009)
 - strategic procurement (spring 2009)
 - review of civil contingencies planning (May/June 2009)
 - leisure services (physical recreation) (late 2009 / early 2010).
 - roads maintenance follow-up (the study is likely to involve collection of a small amount of information from all 32 councils around summer / autumn 2009 and be reported in 2009/10)
 - looked after children in a residential setting (2009/2010)
 - best value and resource management series: topic 1 (spring 2010)
 - managing unit costs (spring 2010)
 - management of local government pension funds (summer 2010)
 - delivering efficiencies (2009/10).



48. Further details of the proposed studies can be found on Audit Scotland's website (<http://www.audit-scotland.gov.uk/work/forwardwork.php>).
49. As part of our move to a more streamlined audit process, your Assistant Director for the local audit in their capacity as the Audit Scotland engagement lead will keep you informed of all Audit Scotland planned audit projects at the council. These are in addition to the audit work described in this annual plan.
50. If you have any queries on any planned work by Audit Scotland in any area, please contact Fiona Mitchell-Knight or Patricia Fraser who will coordinate a response to your queries with colleagues as appropriate.



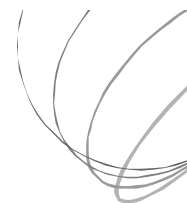
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Appendix A

Summary assurance plan

In this section we identify a range of operational risks facing West 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 the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
Financial Management		
Taking into account the challenging planned efficiencies and savings, the financial pressures facing the council, and the current economic volatility there is a risk that the council's target level of unallocated general fund balance is inadequate for the council's future needs.	<ul style="list-style-type: none"> The level of unallocated general fund balance is currently under review by the council. 	<ul style="list-style-type: none"> Track progress. Report in the annual report to members.
Achievement of the 2008/09 revenue budget is challenging but essential if the council is to maintain its target level of unallocated general fund balance of £2million.	<ul style="list-style-type: none"> The latest 2008/09 revenue budget monitoring report confirms the council is on target to achieve the budget. 	<ul style="list-style-type: none"> Monitor progress Report in the annual report to members.
The council has a high level of short term investments.	<ul style="list-style-type: none"> The balance will be reduced in line with planned capital expenditure in the capital programme. A review is being undertaken of the Treasury Management Policy as a result of the current economic volatility. 	<ul style="list-style-type: none"> Review and assess the revised Treasury Management Policy. Review short term investments as part of the financial statements audit.
Financial Statements The preparation and audit of financial statements is delayed as a result of lost staff expertise in key financial posts.	<ul style="list-style-type: none"> Recruitment is currently underway to ensure all key posts are filled by suitable qualified staff. A project plan is currently being drafted to ensure delivery of the draft financial statements by 8 June 2009. 	<ul style="list-style-type: none"> Agreement of timetable by 31 January 2009. Early review of project plan Consider during financial statements audit. Reporting through ISA 260 letter.
Accounts presentation and disclosure Financial accounts may not reflect changes to the SORP.	<ul style="list-style-type: none"> Experienced and qualified staff are responsible for preparing the accounts. A quality review period has been built into the accounts preparation timetable. 	<ul style="list-style-type: none"> Consider during the financial statements audit. Reporting through the ISA 260 letter.
Budgetary Control There is a risk that the controls in the new system are inadequate or do not operate satisfactorily to mitigate risks identified by the audit team.	<ul style="list-style-type: none"> The system is fully in place and is operating satisfactorily. 	<ul style="list-style-type: none"> Perform full systems review of the system between January and May 2009.



Appendix B

Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	31 May 2009
Provision of closedown procedures to audit	31 March 2009
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2009
Planned committee approval of unaudited financial statements	June 2009
Latest date for submission of unaudited financial statements with working papers package	8 June 2009
Progress meetings with lead officers on emerging issues	Weekly during audit process
Latest date for submission of matters arising letter on financial statements audit	21 August 2009
Latest date for final clearance meeting with Corporate Finance Manager	28 August 2009
Agreement of unsigned financial statements for audit committee agenda, and issue of report to the audit committee on the audit of financial statements (ISA 260)	22 September 2009
Latest date for Audit committee	28 September 2009
Independent Auditors Report signed	30 September 2009
Latest date for submission of unaudited whole of government accounts return to external audit	5 October 2009
Latest date for signing of WGA return	31 October 2009
Annual report and certified accounts presented to Council	31 October 2009



Appendix C

Audit team

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

Lynn Bradley BSc CPFA CA

Director

Lynn took up post as Director of Audit in January 2005. Originally trained as an auditor with National Audit Office, Lynn has worked in various senior posts in the public and private sectors in Scotland and England. She spent several years working with local authorities on housing and regeneration projects. Before joining Audit Scotland, she was the Section 95 officer in a Scottish Council. Lynn was the co-author of CIPFA guidance on audit committee principles. She is currently a CIPFA council member and the past chair of CIPFA in Scotland.

Fiona Mitchell-Knight BA (Hons) FCA

Assistant Director

Fiona took up post as Assistant Director of Audit in August 2007, following six years as the Senior Audit Manager for a number of local authority clients including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has 16 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sectors.

Patricia Fraser BSc PgDipp Acc CPFA

Audit Manager

Patricia has 22 years experience of working in the public sector, 15 years of which have been in public sector audit with Audit Scotland, covering local government, central government and health sectors. Patricia trained as an accountant and worked post qualification as an accountant for 3 years in local government before moving to work in audit. This is Patricia's second year of managing the audit of the West Lothian Council audit team.

Ann-Marie McLaughlin FMAAT CPFA ACMI

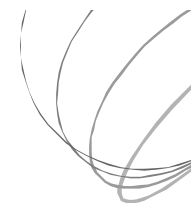
Senior Auditor

Ann-Marie has 11 years public sector audit experience covering local government, health and central government. Prior to this Ann-Marie spent 5 years in various accountancy roles within the public sector and one year in private practice. Ann-Marie was a member of the CIPFA Scottish Branch executive committee for the period 2005 to 2008.

Keira Shepperson BSc (Hons) CPFA

Senior Auditor

Keira joined Audit Scotland in October 2001 as a professional trainee and qualified in January 2005. Keira has worked on various audits in the health, local government and central government sectors. Keira has recently returned from secondment to our public reporting group where she helped to produce national reports on free personal care, asset management and the NHS overview.



John Jordan BSc PGDip

Auditor

John joined Audit Scotland in 2008, having previously worked as a contract compliance officer in the criminal justice sector. John has been involved with a number of council audits in 2008 and intends to re-continue his studies this year to obtain the CIMA qualification.

Pauline Thompson BSc (Hons)

Auditor

Pauline recently joined Audit Scotland in 2008 after gaining experience as a property administrator in the private sector, researcher for major charity, policy support for the Northern Constabulary and as a member of the Glasgow Housing Association finance team. Pauline is in her first year studying towards the CIPFA qualification.

Adrian Kolodziej, MA

Auditor

Adrian joined Audit Scotland in August 2008, having worked previously as a volunteer for Citizen Advice Bureau. Adrian is currently studying towards the CIPFA qualification.

Allan JG Lapsley BA (Hons), MSc

Auditor

Allan joined Audit Scotland in 2008, having previously worked for a small private metal fabrication company as part of the management and sales team. Allan is currently studying towards his CIPFA qualification.

Neil W Robb

Senior Auditor ICT

Neil has 16 years experience of public sector ICT audit with Audit Scotland, covering local government, health and central government sectors. Over the past 4 years he has provided technical assistance for data analysis to support the automated housing benefit grant claim methodology. Prior to working for Audit Scotland, Neil spent 19 years in various IT management, security and operational roles in financial services.



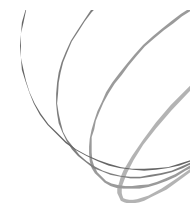
Appendix D

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 function concluded that it operates in accordance with the CIPFA code of practice for internal audit in local government. We therefore plan to place reliance on the work of internal audit in the following areas:

- Systems testing of key controls for payroll, non-domestic rates and treasury management
- Statutory Performance Indicators.

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 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.