

# East Ayrshire Council

Annual Audit Plan 2010/11

February 2011



 AUDIT SCOTLAND



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# Summary plan

## Summary of planned audit activity

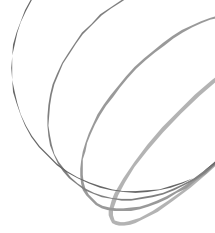
Based on our analysis of the risks facing East Ayrshire Council, our planned work in 2010/11 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the financial position of East Ayrshire Council as at 31 March 2011 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 2010 Code of Practice on Local Authority Accounting in the United Kingdom
- reporting the findings of our shared risk assessment process in an Assurance and Improvement Plan. This will consist of examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2011/12 to 2013/14 for East Ayrshire Council
- provision of annual report on the audit addressed to the members of East Ayrshire Council and the Controller of Audit
- a review and assessment of East Ayrshire Council's governance and performance arrangements in a number of key areas including: internal audit, key financial controls, statutory performance indicators, Best Value, national studies follow-up, annual governance statement and prevention and detection of fraud
- provision of an opinion on a number of grant claims and returns, including the Whole of Government Accounts consolidation pack
- review of National Fraud Initiative arrangements.

## Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to East Ayrshire 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 specific governance and other risks that may affect the financial statements of the council and sets out the audit work that we propose to undertake in 2010/11 to address these risks. Our annual audit plan reflects:

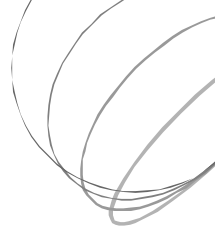
- the risks and priorities facing the council
- current national risks relevant to local circumstances



- 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 and the Accounts Commission
  - issues brought forward from previous audit reports.
2. In addition to this annual audit plan which focuses on those risks which may impact on the financial statements, we will prepare an Assurance and Improvement Plan which will update the Local Area Network's joint assessment of the strategic and performance risks facing East Ayrshire Council and set out the planned scrutiny activity at the council for the period April 2011 to March 2014.

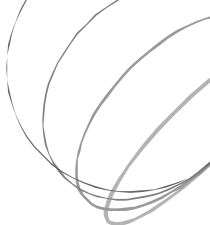
## **Our responsibilities**

3. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that 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 provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
  - prepares financial statements which give a true and fair view of the financial position at 31 March 2011 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other relevant statute and regulation, including the 2010 Code of Practice on Local Authority Accounting in the United Kingdom
  - 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 and statutory requirements
  - proactively manages and reviews its performance in line with its strategic and operational objectives
  - has made proper arrangements for securing best value in its use of resources and is fulfilling 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, 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 them
  - 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 the audit of the council's 2010/11 financial statements 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 agreed working papers
  - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
  - management representations on key areas of the financial statements
  - completion of the internal audit programme for 2010/11.
  
8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Based on our preliminary review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.

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9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.
  10. At the completion of the audit we will provide the members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit.

## **Responsibility for the preparation of accounts**

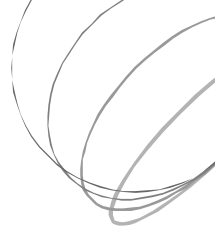
11. It is the responsibility of East Ayrshire Council and the Executive Director of Finance and Corporate Support, as proper officer, to prepare the financial statements in accordance with the 2010 Code. This means:
  - acting within the powers set out in statute and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
  - maintaining proper accounting records
  - preparing financial statements timeously which give a true and fair view of the financial position of East Ayrshire Council as at 31 March 2011 and its expenditure and income for the year then ended
  - preparing an explanatory foreword to the financial statements.

## **Format of the accounts**

12. The financial statements should be prepared in accordance with the 2010 Code which, in our view, constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
13. The council completes an annual whole of government accounts (WGA) consolidation pack for the Scottish Government. The Scottish Government requires the council to complete its (WGA) consolidation pack using common accounting principles and standard formats for summarisation.

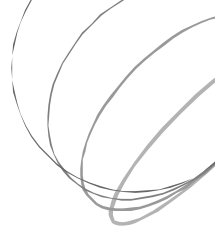
## **Audit issues and risks**

14. This annual audit plan focuses on governance and other risks specific to the financial statements of East Ayrshire Council. Our Assurance and Improvement Plan will provide a broader analysis of wider risks and issues the council faces and set out our planned work in relation to performance and other governance issues in more detail.
15. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the main financial statements risk areas for East Ayrshire Council.



## Financial management and budgetary control

16. The UK government published its comprehensive spending review (CSR) on 20 October 2010. Subsequently the Scottish Government published the results of its own review in late November. The Executive Director of Finance and Corporate Support has presented a number of papers to cabinet clearly setting out the impact of the anticipated changes in central funding to the council. The council has responded to the new funding climate by formulating its forward financial strategy to address constraints to funding including the necessity to build an adequate level of reserves to facilitate a significant reduction in the number of employees.
17. The settlement for local government, as a whole, was widely trailed to be “an average” cash reduction of 2.6%. In common with other Scottish councils East Ayrshire Council drafted its budget on the basis of a 2.6% reduction in central financial support. The actual settlement for East Ayrshire Council was a reduction of 2.8%. As a consequence further savings of some £0.600 million had to be identified. For 2011/12 the council again froze the council tax in accordance with the concordat with the Scottish Government. In doing so some £8 million of savings were factored into the year’s revenue budget. The most recent Finance and Service Strategy Report, covering the period to 12 December 2010, indicates that a budget underspend of some £4.7 million is being forecast, including £1.3 million of in-year recurring savings identified as part of the Strategic Review of the Revenue Budget 2 project.
18. In common with other organisations East Ayrshire Council is facing a number of budgetary pressures including increased national insurance and pension contributions, contract inflation indexing, energy, transport and carbon commitment costs. Costs associated with the continued increase in demand for social services is a continuing area of pressure as are other areas, for example, winter roads maintenance. The council’s general approach to budget setting is that further demands in all its services must be accommodated from a redesign of existing service models combined with a refocusing of resources to the highest priority areas whilst ensuring that statutory services are maintained.
19. The keystone of the council’s response to the funding constraints is its Efficiency Strategy 2001/12-2013/14. This approach is well embedded in the council and is a reprise of the council’s previous Strategic Review of the Revenue Budget 2 (SRRB2) on which we have previously made favourable comment. This approach will also draw on the good practice and checklists highlighted in Audit Scotland’s Improving Public Sector Efficiency report.
20. The forecast level of the council’s general fund balance as at 31 March 2011 is £27.371 million (uncommitted £12.712 million). This level is set to fall to a forecast level of some £14.912 million (uncommitted £3.912 million). The council’s reserves strategy is to maintain a balance of uncommitted reserves between 2% and 4% of gross expenditure. The forecast reserve as at 31 March 2012 is somewhat below this minimum figure. Uncommitted reserves will be used to fund severance costs associated with a reduction in the council’s workforce.



## Social Services sustainability

21. The Social Work Service, in particular children and older people's services, continue to present resourcing challenges to the council. During 2008/09 a "sustainability board" was constituted to identify resource issues and address service challenges, the board has continued in operation and has brought forward a number of changes to ensure sustainability into the future. A number of reviews into providing social work services have been undertaken and various challenges, including organisational capacity, workforce planning, workforce development and professional practice, were identified. A programme of change and improvement is underway within the Social Work Service. The work on redesigning services will remain under continual review to ensure that efficiencies and improvements are realised.

## Icelandic banks

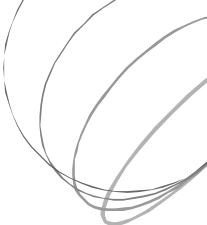
22. In October 2008 Kaupthing, Singer & Friedlander Limited (a UK subsidiary of Kaupthing Bank hf, the largest bank in Iceland) and Heritable Bank plc (a UK subsidiary of Landsbanki Islands hf, the national bank of Iceland), two banks in which the council had placed three short term investments totalling £5m, were placed in administration. Administrators have made a series of announcements over the past year updating the expected quantum of recovery. Of the initial deposit of £5 million, and based on the mid-point range of percentages indicated by the administrator, the expected recovery is some £3.890 million of which £2.182 million has already been received.

## Buildings maintenance

23. As part of a plan (pre-dating the internal investigation of 2009) to improve the efficiency and effectiveness of the Building and Works Service the council determined that maintenance work on public buildings was to be put out to the private sector and housing maintenance was to be administered and managed by Housing Services. A contract for the maintenance work on non-council housing was let to a private sector provider in October 2009, since then that contractor has gone into administration. After a period of negotiation the contract was subsequently novated to Lovell Partnerships Ltd, one of the entities which purchased some of the assets of the original contractor. The provision of in-house council house maintenance has been brought under the management of Housing Services and improved performance reported. In accordance with our previously notified intentions we will carry out, in conjunction with the Scottish Housing Regulator, a review of selected aspects of the council's council house maintenance function.

## Equal Pay

24. In common with other UK councils the ultimate cost to the council of claims in respect of equal pay remains uncertain. It is likely that resolution of the issue will take some time. The picture will become clearer as tribunal claims are decided. What is highly probable, based on previously decided cases and advice we have received from legal and human resource practitioners, is that the council will be



required to pay compensation to a proportion of claimants. The Executive Director of Finance and Corporate Support provided for a sum within the 2009/10 accounts in anticipation of a proportion of the claims being successful. This estimate was prepared using assessments of likely outcomes provided by the council's legal and human resources officers. In addition a note to the accounts indicates the existence of a contingent liability in the event of further claims arising.

25. We anticipate that the council will continue to need the provision in respect of Equal Pay this year, along with an appropriate disclosure of an ongoing but contingent liability. We will review the provision in the 2010/11 accounts, in the light of any legal developments which have occurred during the year.

## Procurement

26. In 2009 a procurement capability assessment (PCA) was carried out by Scotland Excel to assess procurement performance in public sector bodies. Overall East Ayrshire Council scored an average of 25% which places it on the cusp of conformance. In relative terms the council is, overall, operating marginally above the average for local government sector (22.6%). This score ranks it 9<sup>th</sup> of the 32 Scottish councils. However, it remains some way below the average for the Scottish public sector as a whole. The council needs to build on the solid foundations that it has in place to achieve better value. During 2010/11 we will review the progress which has been made in improving the position.

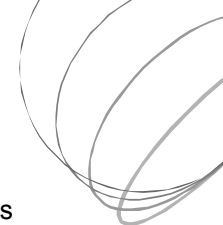
## Common Good assets

27. In accordance with LASAAC guidance, a separate account for the common good is disclosed in East Ayrshire Council's financial statements and a separate fixed asset register is also maintained. Further work is being carried out to ensure the completeness of common good assets. A process has been put in place to review assets to determine whether any common good assets are held on the council's asset register. At a recent meeting with the Corporate Accounting Manager it was determined that the council have made excellent progress in this exercise. We will review the position again during our main financial statements work and comment accordingly. Further discussions will be held with the Executive Director of Finance and Corporate Support as to the proper accounting treatment of arrangements where the council makes use of common good assets for the provision of services.

## The introduction of International Financial Reporting Standards (IFRS)

28. Local government will move from UK Generally Accepted Accounting Principles (UKGAAP) to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. Indeed, the Corporate Finance team at East Ayrshire Council have been proactive in engaging with the transition and have appended to the 2009/10 financial statements a set of accounts prepared on an IFRS basis, although it should be noted that these accounts were not subjected to the statutory

audit process. We will review and report on the re-stated balance sheet and “shadow” accounts as part of our audit work for 2010/11.



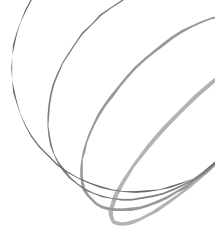
## Accounts presentation and disclosure

29. 2011 is the first year that the local authority accounting code is based on international financial reporting standards (IFRS). The move to an IFRS based Code from a UK GAAP based SORP has resulted in a number of significant changes in accounting practice. The key changes include:
- a greater emphasis on depreciation of asset components, and a new classification of assets held for sale
  - changes in the classification of leases, and a new requirement to account for arrangements containing a lease
  - a change in accounting treatment for grants and contributions used to fund capital expenditure
  - a requirement to recognise a liability for leave outstanding at the year end
  - new disclosure requirements for accounting standards not yet adopted , key assumptions and judgements, changes in respect of prior period adjustments, and operating segments.

We have already noted that the council is well advanced in its preparations for IFRS, nevertheless it is important to emphasise that, in this the first “live” year, work scheduling and templates are up to date to ensure that statutory publication dates are met.

## National performance audit studies – impact and follow up

30. Audit Scotland’s Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland’s strategy to support improvement through the audit process, and to maximise the impact of national performance audits, we will follow up a number of studies at a local level. In 2010/11 this will involve the completion of impact assessment templates for relevant national performance reports as well as a more targeted review of *Improving public sector purchasing* ([http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_090723\\_improving\\_purchasing.rtf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_090723_improving_purchasing.rtf))
31. The Performance Audit Group is also undertaking a review of *Scotland’s public finance: planning for the challenges ahead*, to look at how well significant public bodies are planning for potential budget reductions. To provide evidence for this review, a data return on arrangements within the council is being completed.
32. In addition, the local audit team will also review the council’s progress in addressing issues raised in the national report *Sustainable waste management* (published September 2007). ([http://www.audit-scotland.gov.uk/docs/central/2007/nr\\_070920\\_waste\\_management.rtf](http://www.audit-scotland.gov.uk/docs/central/2007/nr_070920_waste_management.rtf))



## Summary assurance plan

33. 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

34. 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.

35. 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 the 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” .

36. 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.

37. 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). We use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph rather than as a qualification to the audit opinion.

## Reporting arrangements

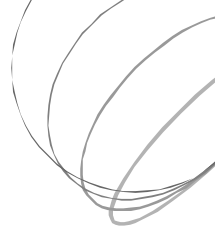
38. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end, in effect the 30 June each year. The (non-statutory) target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is



agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned audit committee dates and audit resources.

- 39. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the Executive Director of Finance and Corporate Support and, where appropriate Heads of Service, to confirm factual accuracy. In accordance with previous agreed practice, responses to draft reports are expected within two weeks of submission to ensure the timeously issue of the final report. Audit staff will be happy to meet to discuss draft reports as necessary.
- 40. A copy of all final agreed reports will be sent to the Chief Executive, the Executive Director of Finance and Corporate Support, the Chief Internal Auditor and Audit Scotland's Performance Audit Group. It is expected that final reports will be submitted, by the Executive Director of Finance and Corporate Support, to the appropriate committee, normally this would be the council's Governance and Scrutiny Committee.
- 41. We will provide an independent auditor's report to East Ayrshire 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.
- 42. All annual reports produced by Audit Scotland are published on our website, ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).
- 43. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
<b>Governance</b>	
Shared Risk Assessment (SRA)/Assurance and Inspection Plan (AIP)	30 April 2011
Overview of internal audit	30 April 2011
Internal controls management letter	30 June 2011
IT follow up of information management and business continuity	31 August 2011
<b>Financial statements</b>	
Financial statements matters arising schedule	By 8 September 2011
ISA 260 report to Governance and Scrutiny Committee	23 September 2011
Independent auditor's report on the financial statements	30 September 2011
Annual report to members and the Controller of Audit	31 October 2011
Audit opinion on whole of government accounts	1 October 2011
<b>Grant Claims</b>	
Certification of grant claims and other returns	As required

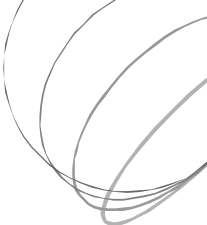


## Quality control

44. We are committed to ensuring that our audit reflects best practice and demonstrates best value to East Ayrshire 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, Peter Tait, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
45. 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 performance.

## Fees and resources

46. Following discussions with the Executive Director of Finance and Corporate Support we agreed to reduce our fee for 2010/11 in line with the 2.8% reduction in central funding suffered by the council. Our agreed fee for the 2010/11 audit of East Ayrshire Council is £316,875 comprising a local audit fee of £219,475 and a fixed charge of £97,400. Our fee covers:
  - all of the work and outputs described in this plan
  - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
  - attendance at the Governance and Scrutiny Committee and key council/committee meetings as appropriate
  - access to advice and information on relevant audit issues
  - access to workshops/seminars on topical issues
  - travel and subsistence costs.
47. 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 30 June 2011. If the draft accounts and papers are late, 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.
48. 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.

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49. Fiona Kordiak, Director, Audit Services is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For East Ayrshire Council the Assistant Director is Peter Tait.
  50. The local audit team will be led by Dave Richardson 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**

51. 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.
52. 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.



**February 2011**

# Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of East Ayrshire 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
<b>Financial planning</b>		
<p>The council's projected uncommitted balances as at 31 March 2012 are forecast to fall below the minimum set out in its reserve strategy.</p>	<p>The forecast takes into account the requirement to fund severance packages from uncommitted balances. While these are estimated costs, the actual costs will become clear as the year progresses. Should the uncommitted balance fall below the minimum set out in the reserve strategy, a plan will be put in place to re-establish balances.</p>	
<p>The council will need to ensure that decisions to adjust levels of service provision in the light of public funding constraints are based on a robust and transparent assessment process. There is a risk that such decisions are challenged.</p>	<p>The SRRB2 will be the basis of ongoing financial planning, employing a refined process which takes forward the lessons learnt from the first strategic review. The council's well developed budget consultation process also provides opportunity for interested parties to make early challenges.</p>	<p>We will continue to monitor the council's financial plans in the light of developments in the public finances and the wider economy.</p>
<b>Social Services sustainability</b>		
<p>Social Work Services has for some time been facing significant budget pressures arising from, in the main, home care services, adult care packages, elderly care and foster care. Given the level of savings required by the council, there is a risk that this pressure will further increase.</p>	<p>A programme of change and improvement is underway within the Social Work Service. The work on redesigning services will remain under continual review to ensure that efficiencies and improvements are realised.</p>	<p>We will monitor developments and comment on the final outturn in our annual report for 2010/11.</p>



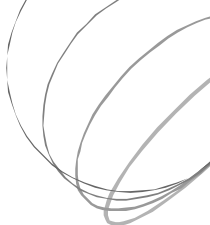
Risk	Source of assurance	Planned audit action
<b>Icelandic banks</b>		
<p>The council has exposure to loss from its investments in failed Icelandic banks. Despite recent positive news from the administrators there remains a risk that the banks' assets do not realise the amounts anticipated. This would result in the council recovering less of the lost investments than expected.</p>	<p>The council is acting on the advice provided by the banks' administrators, the Scottish Government, CIPFA/LAASAC and the LGA who are acting on behalf of all affected authorities in the UK.</p>	<p>We will review the accounting treatment and disclosure as part of our audit of the financial statements for 2010/11.</p>
<b>Council house maintenance</b>		
<p>The provision of in-house council house maintenance has been brought under the management of Housing Services. There is a risk that performance has not improved significantly from the previous low base.</p>	<p>Improved performance has been reported.</p>	<p>We will carry out a review of this area in conjunction with the Scottish Housing Regulator.</p>
<p>The council prepared an improvement agenda. It was reported that all elements of the improvement agenda had been completed by mid 2010. There is a risk that some of the work underlying the improvement agenda headings has not yet been adequately addressed.</p>	<p>The agenda envisaged a process of continuous improvement and it is the case that some elements will continue to be progressed into the future. Progress against the agenda is kept under review by the Depute Chief Executive/Executive Director of Neighbourhood Services and the Head of Housing Services.</p>	<p>We will carry out a review of this area in conjunction with the Scottish Housing Regulator.</p>
<b>Equal Pay</b>		
<p>Depending on the outcome of a number of cases at employment tribunals the council may face significant liabilities in respect of appeals and new claims arising from single status and equal pay cases. A provision based on best estimate of potential liabilities was made in the 2009/10 accounts. There is a risk that this will prove to be inadequate.</p>	<p>Disclosure in the 2010/11 accounts will be reviewed in accordance with the requirements of FRS12 and in the light of developments during the year. Any change to the level of provision, based on changes individual employee's circumstances, will be discussed with management and Audit Scotland's Technical Services Unit.</p>	<p>We will review the provision and contingent liability during our annual accounts work.</p>



Risk	Source of assurance	Planned audit action
<b>Procurement</b>		
<p>The 2009 procurement capability assessment (PCA) scored East Ayrshire Council at an average of 25% conformance. In relative terms the council is, overall, operating marginally above the average for local government sector (22.6%). There is a risk that the council is not obtaining best value from its purchasing.</p>	<p>The PCA for 2010 shows an improved score of 34% which remains above the average for the local government sector (32%)</p>	<p>During 2010/11 we will review the progress which has been made in improving the position.</p>
<b>Common good assets</b>		
<p>Further work is being carried out to ensure the completeness of common good assets. There is a risk that the common good asset register is incomplete and that the council are open to legal challenge on matters relating to common good assets.</p>	<p>Significant progress has been made in reviewing and identifying common good assets. It is the intention to include a common good balance sheet with identifiable assets in the 2010/11 financial statements.</p>	<p>We will review the accounting treatment and disclosure as part of our audit of the financial statements for 2010/11.</p>
<b>The introduction of International Financial Reporting Standards (IFRS)</b>		
<p>The council is required to publish its financial statements for 2010/11 on an IFRS basis. There is a risk that failure to fully engage with the requirements of IFRS could lead to difficulties during the audit of the annual accounts.</p>	<p>The Corporate Accounting Section has demonstrated a firm grasp of IFRS developments and recognises that significant effort will be required to deliver the necessary changes. Good progress has already been made and IFRS compliant accounts were published alongside the UK GAAP accounts for 2009/10.</p>	<p>We will continue to monitor progress, through continuous discussions with the Corporate Accounting Manager.</p>

# Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January – May 2011
Provision of closedown procedures to audit	31 March 2011
Meetings with officers to clarify expectations of detailed working papers and financial system reports	Throughout the year as required.
Planned committee approval of unaudited financial statements	15 June 2011
Latest submission of unaudited financial statements with working papers package	30 June 2011
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for submission of management letter on financial statements audit	5 September 2011
Latest date for final clearance meeting with director of finance	8 September 2011
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)	12 September 2011
Audit committee date	24 September 2011
Independent Auditors Report signed	30 September 2011
Latest date for submission of unaudited WGA return to external audit	29 July 2011
Latest date for signing of WGA return	30 September 2011
Annual report and certified accounts presented to Council	25 November 2011



# Appendix C - Audit team

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

***Peter Tait CPFA***

***Assistant Director of Audit Services (certifying auditor)***

Peter's career has given him an excellent breadth of experience covering public finance within Scotland, including Local Government, Agencies, Non-Departmental Public Bodies, the NHS and Central Government. With over 30 years experience of public sector audit including 19 years at a senior management level, Peter has a strong understanding of the role of the finance function in large public sector organisations and a commitment to achieving best value.

He has assisted public sector bodies with a range of issues including governance, risk management, frameworks of control, financial systems, PFI/PPP schemes, staffing structures, financial reserves, arms length organisations, pension funds, financial planning, capital expenditure schemes, major IT developments and performance management.

***Dave Richardson FCCA***

***Audit Manager***

Dave worked in both the public and private sector prior to joining the Accounts Commission 22 years ago. In his time with the Accounts Commission and Audit Scotland, Dave has been involved in the audit of many local authorities and central government bodies.

***Louisa Yule CPFA***

***Senior Auditor***

Louisa has 6 years experience of public sector audit, covering the local government, central government and health sectors.

***Gordon McAllister BA (Hons)***

***Auditor (Professional Trainee)***

Gordon is a professional trainee working towards the CIPFA qualification. He has worked in local government audit for two years.

***Neil Robb***

***Senior Auditor (ICT)***

Neil has 19 years experience of public sector audit with Audit Scotland, covering local government, health and the central government sectors. Prior to working for Audit Scotland Neil spent 19 years in various IT management, security and operational roles in the financial services industry.



# Appendix D - Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit service concluded that the internal audit service operates in accordance with the CIPFA code of practice for internal audit in local government.

We plan to place reliance on the work of internal audit in the following areas:

- Income control
- Purchasing
- Payroll
- Contractor payment controls
- Year-end stock counts

In terms of our Code of Audit Practice responsibilities in relation to governance and performance, we also plan to review and consider internal audit work in a number of areas including:

- Asset management
- ICT controls
- Performance indicators
- National Fraud Initiative
- External funding compliance
- Public Private Procurement charges
- Procurement



# Appendix E - Independence and Objectivity

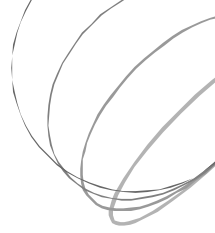
Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication with those charged with governance) requires that the appointed auditor communicates:

- A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the APB's Ethical Standards for auditors.
- All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor.
- The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines "those charged with governance" as "the person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process." In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance and Scrutiny 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.