

EAST AYRSHIRE COUNCIL

CORPORATE GOVERNANCE COMMITTEE – 31 MARCH 2004

EXTERNAL AUDIT SERVICE PLAN

Report by Director of Finance

1 PURPOSE

- 1.1 This report advises Members of the External Auditor's Audit Service Plan.

2 BACKGROUND

- 2.1 External auditors are appointed by Audit Scotland to provide an independent and objective appraisal of the discharge of responsibilities of stewardship placed upon the Members and Officers of the Council.

3 AUDIT SERVICE PLAN

- 3.1 PricewaterhouseCoopers have prepared their Audit Service Plan. The document is designed to advise Members and Officers about their responsibilities as the Council's External Auditor and how they plan to discharge these.
- 3.2 The plan highlights the objectives of the audit work and the approach to be taken which will be similar to last year. The auditor intends to meet with Directors and Heads of Service to assess our business risks and how these are controlled. They will co-ordinate their efforts with those of Internal Audit.
- 3.3 The plan also includes a timetable, a list of key outputs, the audit fee and the key audit staff and their respective responsibilities.

4 KEY RISK AREAS

- 4.1 The plan highlights five areas where the auditor will be seeking assurance on actions being taken to mitigate the potential impact of apparent risks. These are;

Financial Management	Capital Accounting, Level of Reserves, Pension Fund Position
Governance	Audit Committee Principles, Council Restructure, New Chief Executive
Performance Management	Performance Indicators, Best Value, Public Performance Reporting
Strategic Developments	Delivery of the Community Plan, Partnership Working, Joint Futures Initiative
Operational Management	Schools PPP, Risk Management Arrangements

5 RECOMMENDATIONS

5.1 It is recommended that Members note the contents of this report.

Alex McPhee
Director of Finance

AMcP/JP
24 February 2004

LIST OF BACKGROUND PAPERS NIL

Members wishing further information should contact Alex McPhee, Director of Finance, Telephone (01563) 576300.



East Ayrshire Council
2003/04 Audit Service Plan
January 2004

PRICEWATERHOUSECOOPERS 

Contents

Section	Page
I Introduction	1
II Code of Audit Practice	2
III Our Audit Approach	4
IV The key business and audit risks	5
V Communication of Audit Matters to those charged with Governance	6
VI Audit Timetable and Communication Plan	7
VII Audit Fees	9
VIII Audit Team	10
Appendix A: Other Engagement Information	

Statement of Responsibilities of Auditors and of Audited Bodies

Audit Scotland's Statement of Responsibilities of Auditors and Audited Bodies assists auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to Members or Officers are prepared for the sole use of East Ayrshire Council and no responsibility is taken by auditors to any Member or Officer in their individual capacity, or to any third party.

I Introduction

Our Audit Service Plan is an annual document that has been prepared to inform the Members and Officers of East Ayrshire Council (“the Council”) about our responsibilities as your external auditors and how we plan to discharge them.

The external auditor is appointed to provide an independent and objective appraisal of the discharge by management of their stewardship responsibilities. Our principal objective is to perform our audit in accordance with Audit Scotland’s Code of Audit Practice (“the Code”). The Code essentially sets out the way in which an auditor appointed by the Auditor General or the Accounts Commission should carry out functions under the Public Finance and Accountability (Scotland) Act 2000 or the Local Government (Scotland) Act 1973. We will provide an appropriate mix of experienced and specialist staff and work to the highest professional standards. We also aim to perform our work in a way which is locally tailored to respond to the Authority’s own objectives. The responsibility for the stewardship of the Council’s funds is placed upon the Members and Officers of the Council, and is discharged by managing the Council’s affairs in order to:

- Ensure the regularity of transactions by putting in place systems of internal control, including risk management and systems of financial, operational and compliance controls to ensure that financial transactions are in accordance with the appropriate authority;
- Maintain proper accounting records;
- Prepare financial statements which present fairly the financial position of the Council and its expenditure and income in accordance with the relevant financial reporting framework;
- Establish arrangements to prevent and detect fraud and other irregularity by developing, promoting and monitoring compliance with standing orders and financial instructions; developing and implementing strategies to prevent and detect fraud and other irregularity; and receiving and investigating allegations of breaches of proper standards of financial conduct or fraud and irregularity;
- Conduct its affairs and put in place proper arrangements to ensure its financial standing is soundly based;
- Ensure that adequate and appropriate arrangements are in place to secure economy, efficiency and effectiveness in the discharge of its functions;
- Develop a performance management and planning framework in order to establish clear standards and targets for all of the Council’s activities, identifying where and how improvements can be made, and reporting on performance; and
- Establish adequate arrangements for the collection, recording and publication of statutory performance indicators.

II External Audit and the Code of Audit Practice

The external auditor is appointed to provide an independent and objective appraisal of the discharge by management of their stewardship responsibilities. Our principal objective is to perform an audit in accordance with the Audit Scotland Code of Audit Practice (“the Code”). The Code essentially sets out the way in which an auditor appointed by the Auditor General or the Accounts Commission should carry out functions under the Public Finance and Accountability (Scotland) Act 2000 or the Local Government (Scotland) Act 1973. We will provide an appropriate mix of experienced and specialist staff and work to the highest professional standards. We also aim to perform our work in a way which is locally tailored to respond to the Council’s own objectives.

Financial statements

It is the responsibility of the Council and its Officers to prepare the Financial Statements in accordance with statutory and other relevant requirements. We are required to audit the financial statements and give an opinion whether they present fairly the financial position of the Council, and whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

The audit work we will undertake in 2003/04 relates to the stewardship of public funds and an assessment of the internal controls in the main financial systems. Our findings will be reported in our Internal Controls Report and Final Report to Members. The work in this area will enable us to form an opinion on the Council’s financial statements.

Governance

It is the responsibility of the Council to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body’s corporate governance arrangements, as they relate to:

- the Council’s systems of internal control and its reporting arrangements;
- the prevention and detection of fraud and other irregularities;
- standards of conduct and arrangements in relation to prevention and detection of fraud and corruption; and
- the financial position of the Council.

Performance

It is the responsibility of the Council to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the overall arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources, and report on the Council's progress on performance management.

We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

The performance audit work we are scheduled to undertake in 2003/04 relates to the following areas:

- Internal Audit;
- Corporate Governance;
- Overall Management Arrangements;
- Performance Management and Planning; and
- Statutory Performance Indicators.

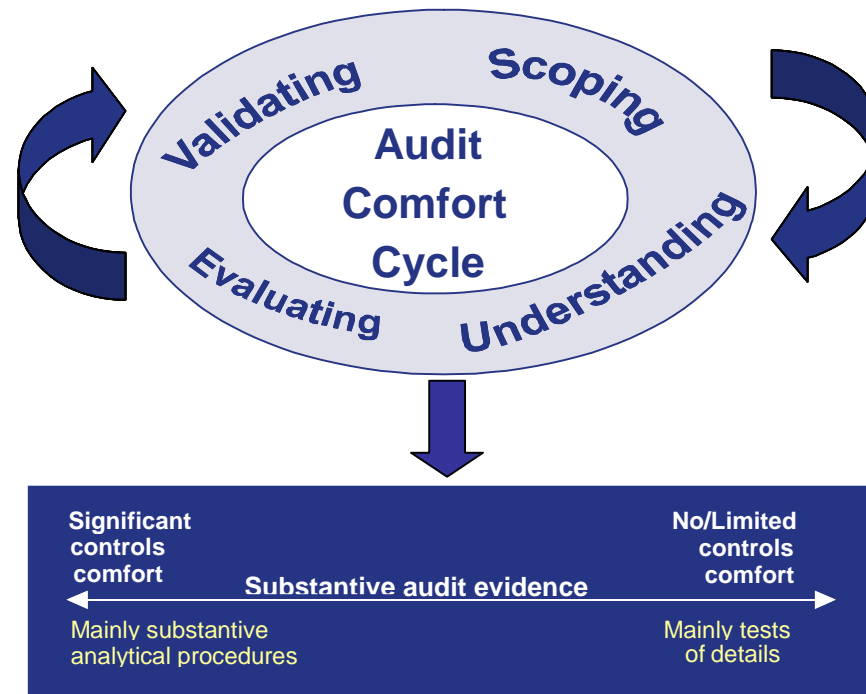
III Our Audit Approach

Our approach is intentionally simple and logical. We start at the top of your organisation, with key members of the management team, and work our way down through the organisation – meeting with the managers responsible for operational and compliance risks as well as financial management. At each level, we assess how management get comfort that business risks are effectively controlled and that management information reflects what is really happening. Our audit comfort comes from a cycle of:

- **Scoping** your risks and exposures – *what do you need to get comfort on?*
- **Understanding** your business, how it is managed and how its results are monitored – *how do you get comfort?*
- **Evaluating** whether your approach is appropriate – *are you entitled to that comfort?*
- **Validating** our understanding by gathering audit evidence – *can we audit that comfort?*

Internal Audit

In order to ensure a comprehensive and thorough review of the core systems, we will seek to establish effective co-ordination arrangements with the Council’s Internal Auditors in accordance with the Statement of Auditing Standards (SAS) 500 “Considering the Work of Internal Audit”

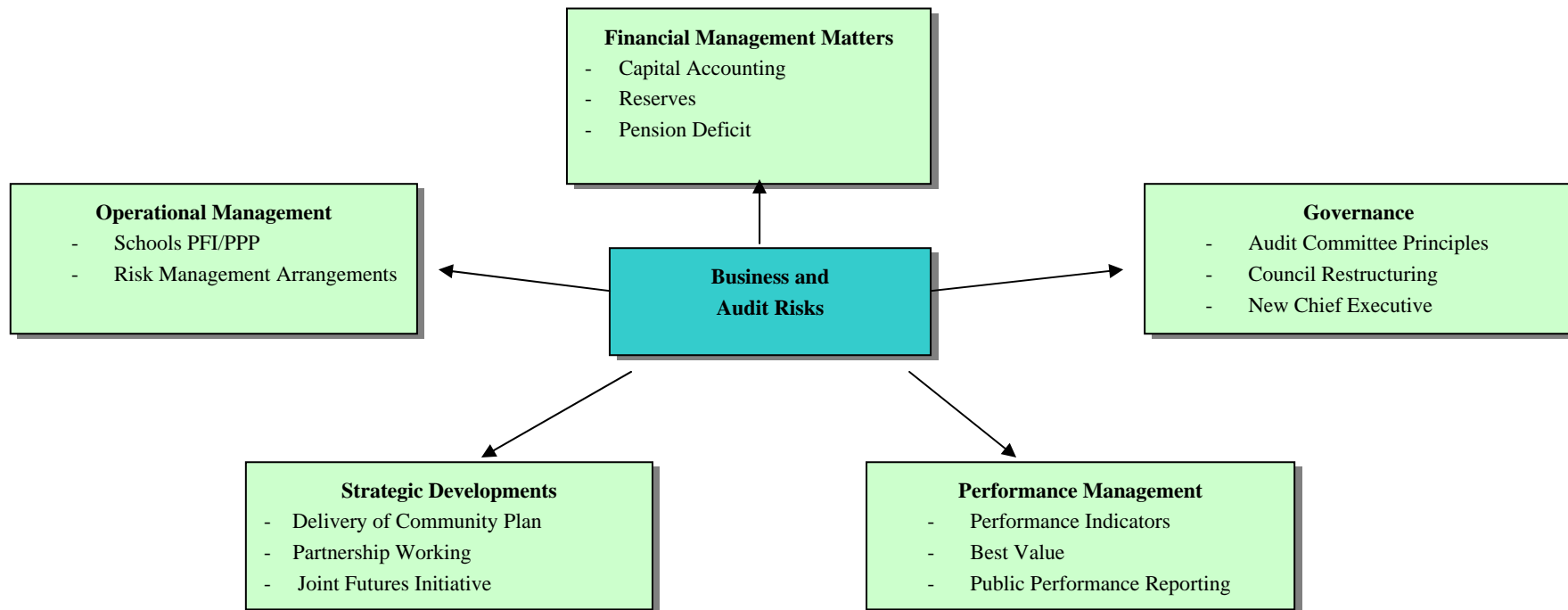


IV The key business and audit risks

To determine the nature and extent of the core audit work required we have considered each area of operations and assessed the extent that we believe there are potential business and audit risks that relate to one or more of our Code objectives. We have then considered our understanding of how management's control procedures mitigate these risks. Based on this assessment we have scoped our core audit work in each of these areas.

It is the responsibility of East Ayrshire Council to identify and address their operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we consider and assess the significant operational and financial risks that are relevant to our responsibilities under the Code. **This exercise is only performed to the extent required to prepare our Audit Plan that properly tailors the nature and conduct of audit work to the circumstances of the audited body. It is not designed to identify all risks or all internal control weaknesses.**

In our discussions with managers within East Ayrshire Council we have identified below a number of the key risk areas to which the Council may be exposed. The associated actions taken by management to mitigate their potential impact will be reported in our report on business and control risks.



V Communication of audit matters to those charged with governance

Statement of Auditing Standard (SAS) 610 : “Communication of audit matters to those charged with governance” is applicable from 2002/03 financial year onwards. The minimum requirements of SAS 610 in relation to public bodies are summarised below:

- Auditors should communicate relevant matters relating to the audit of the financial statements to those charged with governance of the entity, sufficiently promptly to enable them to take appropriate action;
- Auditors should plan with those charged with governance the form and timing of communications to them and determine whether there are particular persons to whom they should communicate certain matters; and
- Auditors should communicate to those charged with governance an outline of the nature and scope of (including, where relevant, any limitations on) the work they propose to undertake and the form of the reports they expect to make.

In order to comply with the auditing standard, we intend to communicate with Council Members:

- Any relationships that may bear as our independence and objectivity of the audit engagement partner and audit staff and how we will deal with these issues;
- The key issues in relation to planning our audit; and
- The key findings from the audit.

We reserve the right to communicate directly with Council Members on any audit matters that we consider to be of sufficient importance.

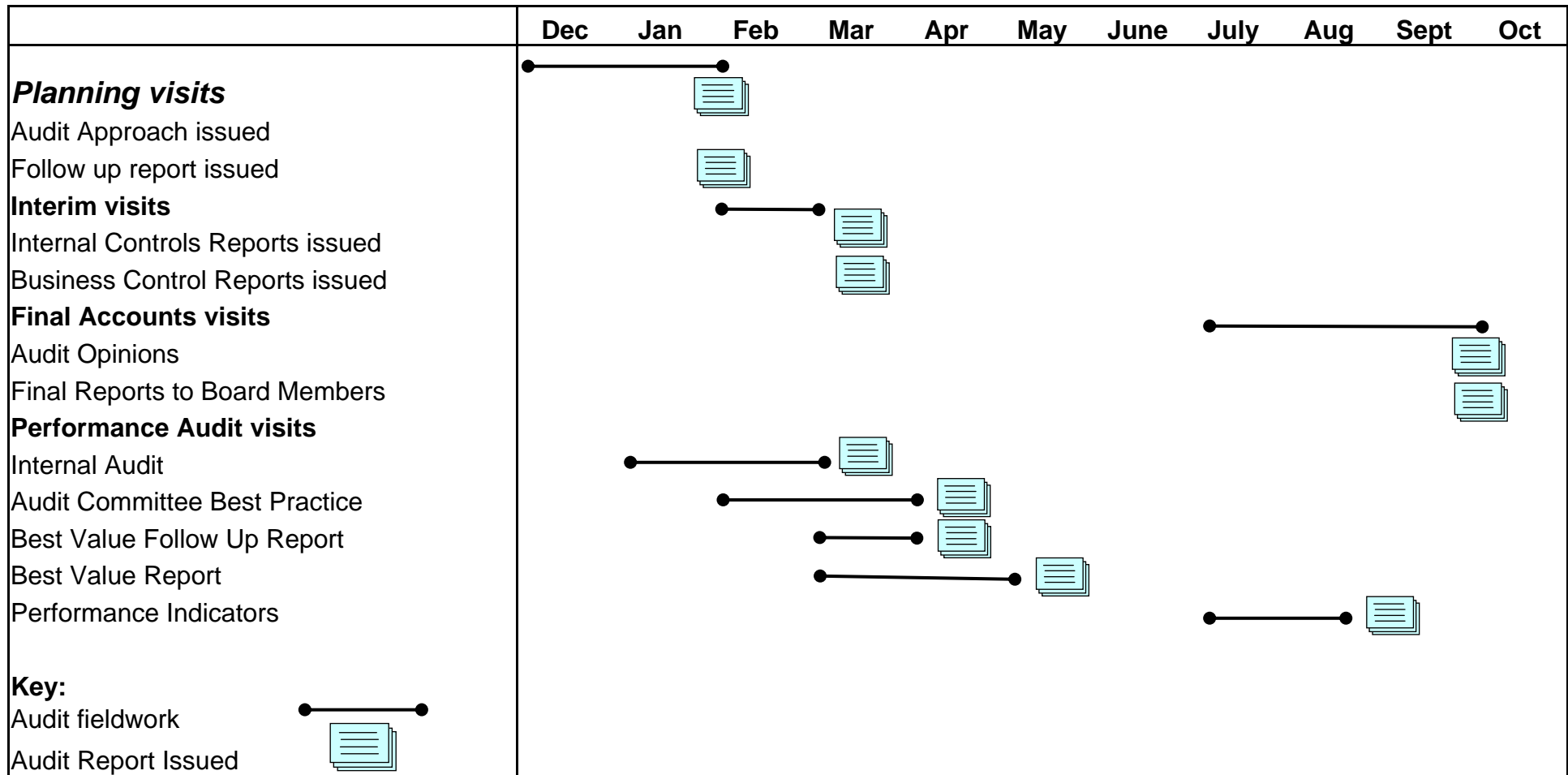
Findings from the audit

We will communicate to the Members the following issues arising from our audit :

- Expected moderations to the audit report;
- Unadjusted misstatements, ie, those misstatements identified as part of the audit that management have chosen not to adjust. We will require specific representation from the Authority of the reason why these misstatements have not been adjusted, e.g. due to their immateriality;
- Material weaknesses in the accounting and internal control systems identified as part of the audit;
- Our views about the qualitative aspects of the Authority’s accounting practices and financial reporting; and
- Any other relevant matters relating to the audit.

VI Audit Timetable and Communication Plan

During the year, we will continue to liaise closely with the management teams, to provide an efficient and effective audit process that adds value to East Ayrshire Council. The proposed timing of our visits and the audit outputs arising from these visits, are documented below.



Note: The timetable for completion of the Performance Audit reviews is subject to revision if Audit Scotland revise the indicative timetables for these projects.

VI Audit Timetable and Communication Plan

Key Outputs	Timescale
An Annual Service Plan , providing an outline of the audit process including a timetable of outputs	February 2004
A Follow-up Report , summarising the Council's progress to date in implementing the recommendations made in the 2001/02 Interim Management Letter and Final Report to Members	February 2004
An Interim Management Letter , including feedback on the internal control environment and recommendations for individual systems	March 2004
Reports to officers and members on the results of our PMP reviews	March 2004
Internal audit follow up report	May 2004
Audit Committee training and Best Practice review	July 2004
A Report on selected Business Issues , including feedback on the business risks faced by the Council and the controls in place to mitigate them	July 2004
Completion of the audit of the Council's Statutory Performance Indicators	August 2004
Commissioning Community Care for Older People local report	August 2004
Opinions on a range of grant claims	August 2004 onwards
An opinion on the Council DLO/DSO's Statement of Accounts	September 2004
An opinion on the Council's Statement of Accounts	September 2004
A Final Report to Members , summarising our audit activities and detailing significant matters that have arisen.	October 2004

VII Audit Fees

We anticipate that the audit fee for 2003/04 will be £187,000 for the audit of the Council. The fee is quoted exclusive of VAT and out of pocket expenses. This assumes an efficient audit process, namely:

- Management meeting the timetable of deliverables, which we will agree in writing;
- That we are able to place reliance, as planned, upon the work of internal audit; and
- That we are able to draw comfort from the management controls within the Council.

In addition to our audit fee, Audit Scotland also charge a central overhead. The total audit fee has been summarised in the table below:

	£
PwC Audit Fee	187,000
Audit Scotland Overhead	77,100
Total audit fee	264,100

VIII Audit Team

Our team consists of specialist public sector staff with significant experience of working with East Ayrshire Council, as detailed below:

Engagement Leader	Cameron Revie	Responsibility for agreeing audit strategy, quality of outputs, presenting final report and opinion. Also responsible for liaison with the Members, and the Head of Finance.
Engagement Manager	Mark Thomson	Management of the audit, ensuring delivery to timetable. Review of the reports to the Members. Co-ordinating role from any specialists used. Responsible for liaison with the Head of Finance throughout the audit cycle.
Team Leader	Joanne McWilliams	Preparation of reports to the Members. Day to day supervision of audit team members, and key liaison point.
Team Members		Team members responsible for the completion of audit work.

Appendix A – Other Engagement Information

1. Electronic communication

During the engagement, we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We recognise that systems and procedures cannot be a guarantee that transmissions will be unaffected by such hazard.

We confirm that we each accept the risks of and authorise electronic communications between us. We each agree to use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically. We shall each be responsible for protecting our own systems and interests in relation to electronic communications and the Authority and PricewaterhouseCoopers LLP (in each case including our respective partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information.

2. Events arising between signature of accounts and their publication

Statement of Auditing Standard (SAS) 150 includes a number of requirements on us in the event of material events arising between the signing of the accounts and the publication. For us to fulfil these requirements, management need to inform us of any such matters that arise.

If you have any queries on the above, please let us know as soon as possible.