



# East Ayrshire Council

*Annual Service Plan 2002/03*

*February 2003*

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**Statement of Responsibilities of Auditors and of Audited Bodies**

In July 2001, Audit Scotland issued a revised version of the Statement of Responsibilities of Auditors and Audited Bodies. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist 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 the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

On 17 January 2003, the partnership previously known as PricewaterhouseCoopers transferred responsibility for the audit of East Ayrshire Council to PricewaterhouseCoopers LLP

## I Introduction to Governance

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

Every local government body is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Elected Members and Officers, and is then 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 through the development, promoting and monitoring compliance with standing orders and financial instructions; developing and implementing strategies to prevent and detect fraud and other irregularity; and receive and investigate 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 2002/03 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 Interim Management Letter and Final Report to Members. The work in this area will enable us to form an opinion on the Council’s financial statements.

### Corporate 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 irregularity;
- standards of conduct and arrangements in relation the prevention and detection of fraud and corruption; and
- the financial position of the Council.

## II External Audit and the Code of Audit Practice (Continued)

### Performance

It is the responsibility of the Council to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources and collect, record and publicise statutory performance indicators. 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, report on the Council's progress on performance management, and reviewing evidence relevant to statutory performance indicators.

We are required by Audit Scotland to undertake national performance reviews. The studies we are scheduled to undertake in 2002/03 relate to:

- Following the Public Pound;
- Early Retirement;
- Youth Justice;
- Commissioning Community Care Services for Older People
- Community Equipment and Adaptations;
- Performance Management and Planning; and
- Statutory Performance Indicators.
- Overall Management Arrangements

### III Our Audit Approach

Against a background change throughout the local government environment, our audit approach has evolved to place more emphasis on the way in which you manage the range of key risks affecting your business – while still focusing on the impact of these risks on the Code objectives.

Our approach recognises that, in running the business, your management team does many things to get comfort that the information systems are robust, generating reliable data and information for use in managing the business, meeting statutory duties and for reporting to stakeholders. We concentrate our attention on assessing how effectively management have gained this comfort.

This involves stepping back from transaction processing, to focus instead on the activities that drive your business. Our approach mirrors the way in which you manage the business, which means we align our work to your management structure and your business activities, rather than financial statement balances.

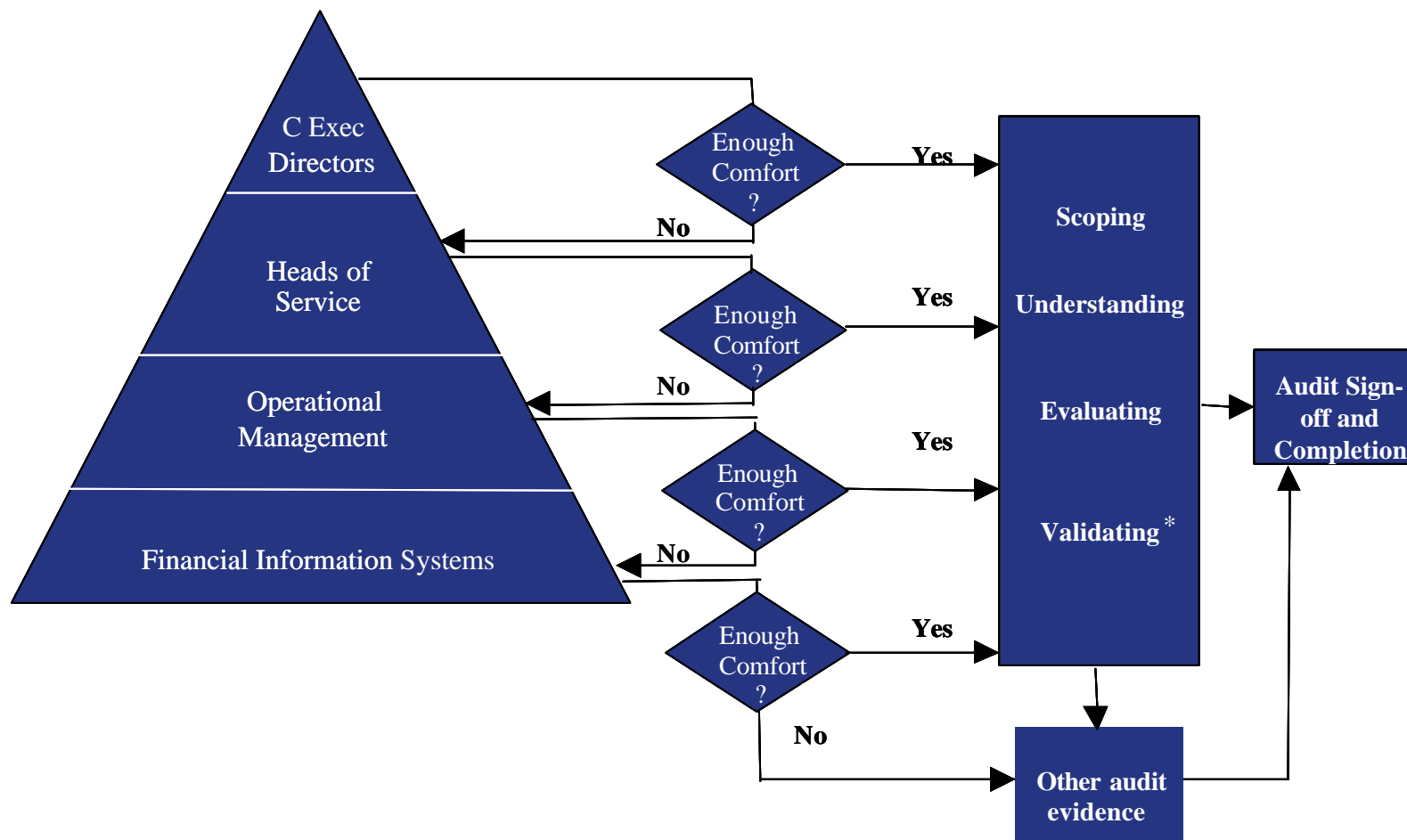
#### How does this work in practice?

Our approach is intentionally simple. As in the previous year, we start at the top of the business, 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** the Council's risks and exposures – *what do you need to get comfort on?*
- **understanding** the Council's business, how it is managed and how its results are monitored – *how do you get comfort?*
- **evaluating** whether the Council's approach is appropriate – *are you entitled to that comfort?*
- **validating** our understanding by gathering audit evidence – *can we share in that comfort?*

The diagram overleaf demonstrates our approach:

III Our Audit Approach (continued)



\*Opinion on financial statements and targeted audit work only

### III Our Audit Approach (continued)

Throughout the audit we pool and share our understanding among the team and with you and decide how much more comfort we need to obtain. We carry out detailed testing on financial transactions and targeted audit work on governance and performance only when we consider this is necessary to complete any gaps in the comfort.

#### IV Business Risks and areas of audit attention in 2002/03

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 work in each of these areas.

It is the responsibility of the Authority to identify and address its 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 produce our Annual Service Plan that properly tailors the nature and conduct of audit work to the circumstances of the Authority. It is not designed to identify all risks affecting the operations of the Authority or all internal control weaknesses.**

In our discussions with officers of the Council during 2001/02 we have sought to identify the key business and audit risks to which the local government sector and the Council is exposed and identify the associated actions taken by management to mitigate their potential impact. As in 2001/02, our findings in this area will be reported in our report on business and control risks.

The categories in which the business and audit risks can be considered include, for example:

- Corporate Governance requirements of the CIPFA/SOLACE framework
- Meeting the Government's modernisation targets
- Schools PPP/PFI Schemes
- Fixed assets and capital accounting
- Provision of Social Services in accordance with the Regulation of Care (Scotland) Act 2001
- Consideration of Housing Stock Transfer
- Partnership working arrangements
- Implementing Audit Committee principles

**VI 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 to the 2002/03 financial year onwards. This is a revision of an existing standard. The original SAS 610, “Reports to directors or management”, was issued in March 1995 and had as its focus the reporting of material weaknesses in accounting and internal controls. However, best practice and expectations of auditors have moved on since then, hence the need for revision. Also, the recent debate on aggressive earnings management initiated by APB and the uncertain economic environment lend weight to the need for a careful focus on communications with clients.

Interaction with those charged with governance is clearly a key component of audit quality. Auditors often act as an additional conduit for information passing between officers and elected Members. The focus of the original SAS has, in particular, been extended to provide standards in relation to the wider range of important communications that take place between external auditors and the Members. The Auditing Practice Board (APB) intends that the new guidance should assist elected Members and management in understanding issues raised by the auditors, thus enabling them to fulfil their corporate governance and financial reporting responsibilities.

The minimum new 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.

**VI Communication of audit matters to those charged with governance (continued)**

In order to comply with the auditing standard, we intend to communicate with the Policy and Resource Committee:

- 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 the Members of the Council on any audit matters that we consider to be of sufficient importance.

**Findings from the audit**

We will communicate to the Policy and Resource Committee, the following issues arising from our audit :

- unadjusted misstatements in the financial statements, ie, those misstatements identified as part of the audit that management have chosen not to adjust;
- expected modifications to the audit report;
- material weaknesses in the accounting and internal control systems identified as part of the audit;
- our views about the qualitative aspects of the Council's accounting practices and financial reporting; and
- any other relevant matters relating to the audit

**V Communication of audit matters to those charged with governance (continued)**

With regard to the first point above, we are now required to communicate “unadjusted misstatements” to those charged with governance. This will include all misstatements identified during the course of our audit assuming those are not trivial. Trivial is determined as being a value that could be addressed by simple rounding in the financial statements. In most public organisations, rounding is to the nearest £1,000 and therefore any “unadjusted misstatement” in excess of this value would need to be communicated formally. These misstatements should be categorised as:

- “Factual” differences/errors;
- judgemental issues; and
- quality of results issues.

**What does this mean to East Ayrshire Council?**

By way of example, in a local authority context, this means that we need to consider the matters which have come to our attention during the audit and assess whether they should be included in a report to the Council or Management. The SAS requires that, when material weaknesses in the accounting and internal control systems are identified during the audit, we should report them in writing to the officers and the Policy and Resource Committee, on a timely basis. There is an expectation that this is reported not only to executive management. Those matters raised and unadjusted misstatements need to be considered and responded to before the annual accounts can be approved and certified.

## VI Audit Timetable and Outputs

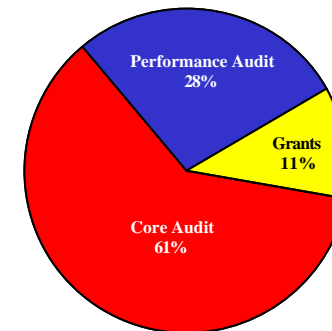
Key Outputs	Timescale
Following the Public Pound data return to Audit Scotland	November 2002
An <b>Annual Service Plan</b> , providing an outline of the audit process including a timetable of outputs	February 2003
A <b>Follow-up Report</b> , summarising the Council's progress to date in implementing the recommendations made in the 2001/02 Interim Management Letter and Final Report to Members	February 2003
An <b>Interim Management Letter</b> , including feedback on the internal control environment and recommendations for individual systems	March 2003
Reports to officers and members on the results of our <b>PMP</b> reviews	March 2003
Early Retirement local report	May 2003
Community Equipment and Adaptations local report	July 2003
A <b>Report on selected Business Issues</b> , including feedback on the business risks faced by the Council and the controls in place to mitigate them	July 2003
Youth Justice local report	August 2003
Completion of the audit of the Council's <b>Statutory Performance Indicators</b>	August 2003
Commissioning Community Care for Older People local report	August 2003
An <b>opinion</b> on a range of grant claims	August 2003 onwards
An <b>opinion</b> on the Council DLO/DSO's Statement of Accounts	September 2003
An <b>opinion</b> on the Council's Statement of Accounts	September 2003
A <b>Final Report to Members</b> , summarising our audit activities and detailing significant matters that have arisen.	October 2003

**VII Audit Fees**

Audit Scotland provide a maximum fee level for local authority bodies, depending on the level of expenditure and potential risk involved. The maximum fee for the Council excluding Audit Scotland central charges for 2002/03 is £200,200. The fee includes non-recurring work of £7,300 in relation to HMI of Educations review of the Authority The fee is exclusive of VAT and out of pocket expenses and will be billed to you by Audit Scotland. In addition to the work we assess is required, Audit Scotland instruct us, on an annual basis, to undertake certain additional work at each local authority. This additional work mainly relates to performance and grant work..

In agreeing the audit fees for 2002/03 we are pleased to report that we have held our increase to an inflationary increase of 3% as opposed to professional salary and insurance cost increases of over 7%. Audit Scotland has also increased the amount of work they require from us this year, this is mainly attributable to performance audit reviews. Our fee (excluding provision for pensions audit) is detailed below: -

	£
PricewaterhouseCoopers element	199,300
Audit Scotland “top slice” overhead	51,900
<b>Total audit fee 2002/03</b>	<b>251,200</b>



The fee also assumes an efficient audit process, specifically:

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

This fee has been agreed with the Director of Finance.

**VIII Audit Team**

Engagement Leader	Cameron Revie (Partner)	Responsible for agreeing audit strategy, quality of outputs, presenting final report and opinions. Also responsible for liaison with the Chief Executive and Board members and the Policy and Resource Committee.
Engagement Manager	Mark Thomson (Manager)	Management of the audit of financial systems, financial statements and fraud and corruption issues, ensuring delivery to timetable. Review of the report on financial systems. Completion of the audit strategy and final report. Co-ordinating role for regularity specialists in computer audit, PAYE and VAT. Responsible for liaison with Director of Finance and Policy and Resource Committee throughout the audit cycle.
VFM Manager	Wendy O'Neill (Manager)	Responsible for VFM audit reports, ensuring delivery of outputs within the agreed timescale.
PMP Manager	Ranald Brown (Manager)	Responsible for managing the PMP4 follow up review, ensuring delivery of outputs within the agreed timescale.
Statutory Performance Indicators Manager	Wendy O'Neill (Manager)	Responsible for managing the audit of the Statutory Performance Indicators, ensuring Delivery of outputs within the agreed timescale.
Field Team Leader	Gareth Thomson (Executive)	Day to day supervision of and liaison point for regularity audit work, preparation of draft outputs.
Core Field Staff	Shona McGhie (Associate) Joanne McWilliams (Associate) Kirsten Tollerton (Associate)	Detailed audit work.

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## Appendix A – Client Engagement Plan

### CLIENT ENGAGEMENT PLAN

Contact – Alex McPhee

Client – East Ayrshire Council

Assignment – External Audit

#### Specific Objectives for this Assignment

Objective 1 - To be kept sufficiently informed of planning and progress

Objective 2 - External audit are thorough in their approach to this assignment

Objective 3 - To explain what and why external audit are doing areas of work and to deal with problems in the relationship openly and quickly

Objective 4 - To add value through sharing best practice and innovative ideas and to provide high quality advice

We would like you to consider the importance of each aspect of our service. Please indicate below (from 1 to 10) how important each aspect of our service is to you. Where you would like to make note of a specific deliverable, space is provided. At the completion of our work, you will normally be sent a Client Satisfaction Survey to score how PricewaterhouseCoopers' performance measured up against your expectations indicated below.

<b>1. Overview: What is the relative importance to you of the way..</b>	<b>Relative importance to your client</b>  1 = least 10 = most	<b>Use space provided to note any specific action, deliverable or expectation</b>
A. We execute the work	10	
B. We add value through sharing best practice and innovative ideas	8	
C. Our people work with you	6	
<b>2. Our Dealings with You: What is the relative importance to you that we...</b>		
A. Understand your business	8	
B. Make you feel that you are an important client to us	4	
C. Deal with problems in the relationship openly and quickly	10	
D. Provide high quality advice	7	
E. Respond quickly and effectively to your requests	6	

<b>3. Assignment Management: What is the relative importance to you that we...</b>	<b>Relative importance to your client</b>  <b>1 = least</b> <b>10 = most</b>	<b>Use space provided to note any specific action, deliverable or expectation</b>
A. Agree in advance with you what we are going to do	10	
B. Listen well to what you have to say	8	
C. Keep you sufficiently informed of progress	7	
D. Are thorough in our approach to the assignment	6	
E. Keep our promises on deadlines	5	
<b>4. Relationship and Communications: What is the relative importance to you of...</b>		
A. The way our people relate to your people	8	
B. The ease with which you can get in touch with us	7	
C. The promptness with which we return your calls	6	
D. Explaining what we are doing and why	10	
E. The clarity of our communications	5	

## **Appendix B – 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 Council and PricewaterhouseCoopers (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 before approving the Audit Plan or, if arising subsequently, at any point during the year.