

The Moray Council

Annual Audit Plan 2009/10

March 2010



 AUDIT SCOTLAND



The Moray Council

Annual Audit Plan 2009/10

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Summary plan

Summary of planned audit activity

Based on our analysis of the risks facing The Moray Council, our planned work in 2009/10 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of The Moray Council as at 31 March 2010 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 2009 SORP
- reporting, in the assurance and improvement plan (AIP), the findings of the shared risk assessment undertaken with other scrutiny bodies, including the key risks faced by the council and the audit / scrutiny response planned to address these
- a review and assessment of the 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, the corporate governance statement and prevention and detection of fraud (including the National Fraud Initiative)
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts

Introduction

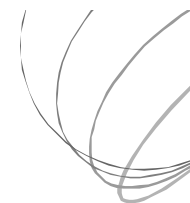
1. Our audit is focused on the identification and assessment of the key challenges and risks to the council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the council, and sets out the audit work that we propose to undertake in 2009/10 to address these. Our annual audit plan reflects:
 - the risks and priorities facing The Moray 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 Accounts Commission for Scotland
 - issues brought forward from previous audit reports.



2. In addition to this annual audit plan, we will report the findings of the shared risk assessment undertaken with other scrutiny bodies in an assurance and improvement plan (AIP), including the key risks faced by the council and the audit / scrutiny response planned in response to these. The risk assessment is informed by the Priorities and Risks Framework published by Audit Scotland, Best Value reports, outcome performance reports and reports produced by the other scrutiny bodies.

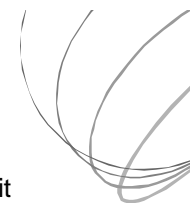
Our responsibilities

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 the 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 2010 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2009 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - 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 complying with its community planning duties.



Our approach to the audit of the accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the council's business and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation, understanding how the council will include these in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2009/10 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for provision of accounts and working papers
 - delivery of the unaudited accounts to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2009/10.
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 which is provided by an in-house team within the council. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.
9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.



10. At the completion of the audit we will provide the Chief Executive with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

11. It is the responsibility of the council and the Chief Financial Officer, as Accountable Officer, to prepare the financial statements in accordance with the SORP. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the council's financial position as at 31 March 2010 and its income and expenditure for the year then ended
 - preparing an Explanatory Foreword
 - reviewing assurances on the main components of the system of internal financial control in advance of the preparation of the corporate governance statement. This should include consideration of issues identified as part of the audit process.

Format of the accounts

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

Audit issues and risks

14. This annual audit plan focuses on governance and other risks specific to the financial statements of the council. The assurance and improvement plan (AIP) will provide a broader analysis of wider risks and issues the council faces, setting out the planned scrutiny work in relation to performance and other governance issues.
15. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for the council.

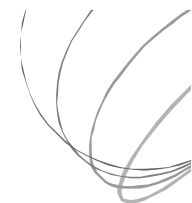


Financial management

16. The council continues to face significant financial pressures on its revenue and capital budgets in 2009/10. The latest revenue monitoring report projects an overspend of £1.1 million as at 31 March 2010 due mainly to the November flooding and severe winter weather. In addition, the change in government funding available for the council's flood alleviation schemes continues to put pressure on its capital programme with the council facing a £12 million shortfall in funding for the period to 31 March 2011. The council plans to address this through additional borrowing, which will in turn impact on its future revenue budgets. Current estimates indicate that the council will need to make savings of around £20 million in order to balance its budget over the next four years.
17. The council had £2 million on short term deposit with Landsbanki when it collapsed in October 2008 and this investment, together with accrued interest, has been frozen by the bank's receivers. Although the council has recently been awarded preferential creditor status, it remains uncertain how much of its investment will be recovered.
18. Landowners who suffer depreciation in the value of their property and/or suffer damage by being disturbed in the enjoyment of their land as a consequence of flood alleviation schemes are entitled to compensation under the Flood Prevention (Scotland) Act 1961. The council has received two significant claims for compensation from local landowners who claim to have been affected by one of its flood alleviation schemes. Although the settlement values cannot be assessed with any accuracy at this time, there is a risk that they will exceed the budget set aside to pay for these claims and so increase the pressure on the council's budget.
19. The council has experienced slippage against its capital plan for a number of years. It acknowledges that attempts to address this slippage by undertaking additional works in any one year may impact on contractors' ability to deliver the existing programme.

Accounts presentation and disclosure

20. The changes included in the 2009 SORP are not as significant as in recent years but the council still needs to review its processes and working papers to ensure that they are reflected in the 2009/10 financial statements. In particular, the change in accounting for Non Domestic Rates will require a number of amendments to the financial statements including disclosure of a change of accounting policy and a prior period adjustment.



21. Local authorities with registered charitable bodies (registered trust funds) need to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect this means a full set of financial statements is required for each charitable trust once the regulations are fully implemented. The Office of the Scottish Charity Regulator (OSCR) has set out the steps councils need to take towards full compliance and this is currently expected to be with effect from 2010/11. Until then, OSCR will continue to place reliance on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
22. With effect from 2010/11, Local Government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). 2009/10 is a key year in the transition to IFRS and considerable work is required by finance staff in order to restate the 2008/09 balance sheet on an IFRS basis. Once completed, we will review the restated balance sheet and working papers to ensure that the procedures put in place are sufficient to enable the preparation of fully compliant IFRS financial statements for 2010/11.

Summary assurance plan

23. 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

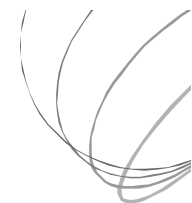
24. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
25. International Standard on Auditing 320 states that, *"information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."*
26. 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.



27. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting arrangements

28. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned audit committee dates and audit resources.
29. 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 responsible director and appropriate senior officer to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.
30. A copy of all final agreed reports will be sent to the Chief Executive, Chief Financial Officer, responsible director and senior manager, Team Leader (Internal Audit) and Audit Scotland.
31. We will provide an independent auditor's report to the council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the controller of audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the council's management of key risks.
32. All annual reports produced by Audit Scotland are published on our website: www.audit-scotland.gov.uk.



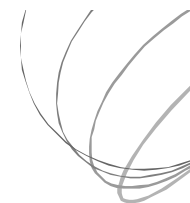
33. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
Governance	
National Fraud Initiative Questionnaire	28 February 2010
Annual Audit Plan	31 March 2010
Internal controls management letter	30 June 2010
Review of Internal Audit	31 October 2010
Financial statements	
Matters Arising from the audit of the financial statements	20 August 2010
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	26 August 2010
Independent auditor's report on the financial statements	30 September 2010
Audit opinion on Whole of Government Accounts	30 September 2010
Annual report to the Members and the Controller of Audit	31 October 2010
Grants	
Audit opinions on up to 4 DWP/Scottish Government grant claims	As required

Quality control

34. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that the council receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is Fiona Mitchell-Knight, who is responsible for ensuring that our work is carried out on time and to a high quality standard.

35. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.



Fees and resources

36. Our fee for the 2009/10 audit is £271,000 comprising a local audit fee of £184,600 and a fixed charge of £86,400. 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 Audit and Performance Review Committee and key council/committee meetings
- access to advice and information on relevant audit issues
- access to workshops/seminars on topical issues
- travel and subsistence costs.

37. In determining the agreed fee we have taken account of the council's risk exposure, 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 28 June 2010. 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.

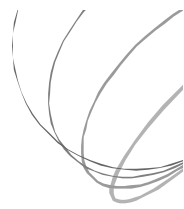
38. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.

39. Lynn Bradley, Director, Audit Services (Local Government) is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For The Moray Council the Assistant Director is Fiona Mitchell-Knight.

40. The local audit team will be led by Maggie Bruce 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

41. 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.



42. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

Client engagement across Audit Scotland

43. Due to the wider scope of public sector audit, business groups in Audit Scotland other than Audit Services Group, such as Audit Strategy and the Best Value teams, may have studies ongoing in your organisation in the course of the audit year.

44. The planned national studies that are relevant to the council over the next year (with expected reporting dates) include:

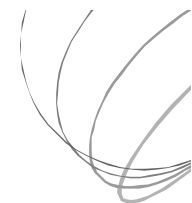
- roads maintenance follow-up (the study is likely to involve collection of a small amount of information from all 32 councils around summer / autumn 2009 and be reported in 2009/10)
- looked after children in a residential setting (2009/10)
- best value and resource management series: topic 1 (spring 2010)
- managing unit costs (spring 2010)
- delivering efficiencies (2009/10)
- councillors and officers working together in local government (summer 2010)
- community health partnerships (2009/10 and/or 2010/11)
- community planning (summer 2011)
- impact of liquor licensing (summer 2011)
- physical planning services in local government (summer 2011).

45. Further details of the proposed studies can be found on Audit Scotland's website:

<http://www.audit-scotland.gov.uk/work/forwardwork.php>.

46. As part of our move to a more streamlined audit process, your Assistant Director for the local audit in their capacity as the Audit Scotland engagement lead will keep you informed of all Audit Scotland planned audit projects at the council. These are in addition to the audit work described in this annual audit plan.

47. If you have any queries on any planned work by Audit Scotland in any area, please contact Fiona Mitchell-Knight or Maggie Bruce who will coordinate a response to your queries with colleagues as appropriate.



Appendix A

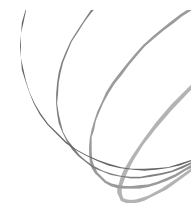
Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of The Moray 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 Moray Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
Financial management		
<p>The council continues to face significant financial pressures on its revenue and capital budgets. The most recent revenue monitoring report shows a projected overspend of £1.1 million at 31 March 2010, whilst the change in funding available for the council's flood alleviation schemes will result in additional borrowing to fund the £12 million shortfall in its 2008-2011 financial settlement for these schemes. In addition, the council estimates that savings of around £20 million are required over the next four years.</p>	<ul style="list-style-type: none"> ▪ well established financial monitoring procedures ▪ regular monitoring of efficiency savings achieved ▪ the 2010/11 budget has been agreed and includes £5 million of savings, including £0.7 million expected to be generated by the council's Designing Better Services Project ▪ work is underway to identify a further £15 million savings for the period 2011/14. 	<ul style="list-style-type: none"> ▪ monitor the effectiveness of financial monitoring procedures ▪ report results in the annual report to members.
<p>The council has £2 million in a frozen account with the collapsed Icelandic bank, Landsbanki. It is unclear whether all of this money will be recovered from the bank's administrators.</p>	<ul style="list-style-type: none"> ▪ COSLA is representing the council on this matter, through the Local Government Association, who are coordinating the efforts of all UK authorities with Icelandic investments ▪ the council followed the guidance set out in LAAP Bulletin 82 '<i>Guidance on the Impairment of Deposits with Icelandic Banks</i>' in the preparation of its 2008/09 accounts and will reflect any revised guidance in its 2009/10 financial statements. 	<ul style="list-style-type: none"> ▪ monitor progress and report results in the annual report to members.



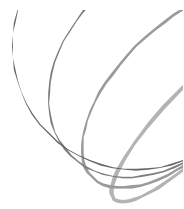
Risk	Source of assurance	Planned audit action
<p>The council has received two significant claims for compensation from landowners who claim to have been affected by one of its flood alleviation schemes. Although the settlement values cannot be assessed with any accuracy at this time, there is a risk that they will exceed the budget set aside to pay for these claims.</p>	<ul style="list-style-type: none"> ▪ the District Valuer is acting for the council in negotiating the compensation claims received from landowners. ▪ current indications are that the budget will not be materially different from the final payment. 	<ul style="list-style-type: none"> ▪ monitor progress of negotiations ▪ report results in the annual report to members.
<p>The council experienced slippage against its capital plan in 2008/09. It acknowledges that attempts to address this slippage by undertaking additional works in any one year may impact on contractors' ability to deliver the existing programme.</p>	<ul style="list-style-type: none"> ▪ well established capital monitoring procedures 	<ul style="list-style-type: none"> ▪ monitor the effectiveness of capital monitoring procedures ▪ report results in the annual report to members.
<h2>Accounts presentation and disclosure</h2>		
<p>The financial closure planning process does not take account of the changes set out in the 2009 SORP.</p>	<ul style="list-style-type: none"> ▪ the council is aware of the changes to the 2009 SORP and is making the required amendments to its closedown procedures and financial statements template. 	<ul style="list-style-type: none"> ▪ early financial statements planning meeting ▪ review issues during the financial statements work.
<p>The council will not be prepared for the full implementation of the requirements of the Charities Accounts (Scotland) Regulations 2006 in 2010/11.</p>	<ul style="list-style-type: none"> ▪ the council has plans in place to fully implement the new Charity regulations in 2010/11 ▪ options for reorganising a number of inactive charities and those with outdate purposes are currently being considered. 	<ul style="list-style-type: none"> ▪ review the council's plans for full implementation of the Regulations.
<p>The council will not be prepared for the introduction of International Financial Reporting Standards (IFRS) in 2010/11.</p>	<ul style="list-style-type: none"> ▪ the council has plans in place to prepare for the introduction of IFRS ▪ the review of leases is complete and the comparative balance sheet is expected to be completed by 31 March 2010 ▪ the council has engaged Ernst & Young to provide technical advice throughout this transition period. 	<ul style="list-style-type: none"> ▪ review the council's plans for ensuring the smooth introduction of IFRS ▪ review the restated balance sheet and supporting working papers.



Appendix B

Financial statements audit timetable

Key stage	Date
Provision of closedown procedures to audit	11 February 2010
Meetings with officers to clarify expectations of detailed working papers and financial system reports	19 February 2010
Testing and review of internal control systems and transactions	28 May 2010
Latest submission of unaudited financial statements with working papers package	28 June 2010
Submission of accounts to Controller of Audit	30 June 2010
Planned committee approval of unaudited financial statements	7 July 2010
Latest date for submission of unaudited whole of government accounts return to external audit	31 July 2010
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for submission of matters arising from the financial statements audit	20 August 2010
Latest date for final clearance meeting with Chief Financial Officer	24 August 2010
Issue of report to the Audit & Performance Review Committee on the audit of financial statements (ISA 260)	26 August 2010
Audit & Performance Review Committee meet to consider ISA 260 report	1 September 2010
Independent Auditors Report signed	30 September 2010
Latest date for signing of WGA return	30 September 2010
Annual audit report issued	31 October 2010
Annual report and certified accounts presented to Council	10 November 2010
Audit and Performance Review Committee consider certified accounts and annual audit report	19 January 2010



Appendix C

Audit team

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

Lynn Bradley BSc CPFA CA

Director

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

Fiona Mitchell-Knight BA FCA

Assistant Director

Fiona took up post as Assistant Director of Audit in August 2007, following six years as the Senior Audit Manager for a number of local authority clients including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has 17 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sectors.

Maggie Bruce MA CA

Senior Audit Manager

Maggie has over 19 years experience of public sector audit with Audit Scotland, covering the local government, health and further education sectors. Prior to joining Audit Scotland, Maggie trained as an auditor in the private sector.

Jim Convery MA CA CPFA

Senior Auditor

Jim has over 20 years experience of public sector audit with Audit Scotland, covering the local government, health and further education sectors. Jim is a member of Audit Service's Professional Standards Group and has been involved in the revision of our procedures to ensure they comply with International Auditing Standards. Prior to joining Audit Scotland, Jim worked for 4 years in internal audit in local government and for a private accountancy practice for 4 years.

Mark Johnstone BA, CPFA

Senior Auditor

Mark has 13 years public sector audit experience with Audit Scotland, across the health, central government and local government sectors.



Grietje Menger CISA

Senior Auditor (ICT)

Grietje joined Audit Scotland in October 2003. Since then, she has worked mainly in the local and central government sectors as an ICT audit specialist. Grietje trained as an auditor and ICT audit specialist with the Dutch Tax Authority and qualified as a Certified Information Systems Auditor in 2003.

James Lipscombe LLB

Professional trainee

James joined Audit Scotland in May 2007 as a professional trainee and is currently studying for the CIPFA professional qualification.

Michael Moir FMAAT

Auditor

Mike joined Audit Scotland in 1988 and has been involved in audits within the local government, health and further education sectors. Prior to this, Mike worked in the health service for 7 years.



Appendix D

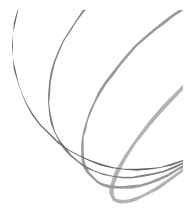
Reliance on internal audit

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 provided by the in-house team operates in accordance with the CIPFA code of practice for internal audit in local government. We therefore plan to place reliance on the work of internal audit in the following areas:

- payroll (substantive testing for financial statements assurances)
- creditor payments (substantive testing for financial statements assurances)
- housing and council tax benefits (substantive testing for financial statements and grant certification assurances)
- non domestic rates - billing & collection (full system review)
- council tax – billing & collection (full system review)
- council tax/non domestic rates – valuation (full system review)
- cash income & banking (full system review)

We will establish internal audit coverage in each area and confirm that testing has addressed the key controls / areas for reliance.



Appendix E

Independence and Objectivity

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

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

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Performance Review 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.