

Argyll and Bute Council

Annual Audit Plan 2011/12



Prepared for Argyll and Bute Council
February 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Summary plan

Summary of planned audit activity

Based on our analysis of the risks facing Argyll and Bute Council, our planned work in 2011/12 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 Argyll and Bute Council as at 31 March 2012 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 are presented in accordance with International Financial Reporting Standards (IFRS)
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2012/13 to 2014/15 for the council
- provision of the annual report on the audit addressed to the council and the Controller of Audit
- a review and assessment of the council's governance and performance arrangements in a number of key areas including internal controls; the adequacy of internal audit; Statutory Performance Indicators; national study follow-up work; and ICT computer service reviews
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements throughout 2011/12
- undertaking other work requested by Audit Scotland.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Argyll and Bute Council (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 2011/12 to address these. 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 issue, on behalf of the Local Area Network, an Assurance and Improvement Plan Update which will update the LAN's joint assessment of the strategic and performance risks facing the council and set out the planned scrutiny activity in the council for the period April 2012 to March 2015.

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 2012 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 2011 Code of practice on local authority accounting in the United Kingdom (the Code). The 2011 Code applies to reporting periods commencing 1 April 2011.
 - 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.
6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of the council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation, understanding how the council will include these in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2011/12 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 being agreed
 - delivery of unaudited accounts to agreed timescales
 - a comprehensive working papers package and supporting records to demonstrate full compliance with the requirements of IFRS
 - completion of the internal audit programme for 2011/12.
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. Internal audit is provided by the internal audit section 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 Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

11. It is the responsibility of the council and the Head of Strategic Finance as proper officer to prepare the financial statements in accordance with the Code. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of the council as at 31 March 2012 and its expenditure and income for the year then ended
 - reviewing the main components of the system of internal control, including the arrangements for internal audit and group entities. This should include consideration of issues identified as part of the audit process
 - preparing an explanatory foreword.

Format of the accounts

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

Audit issues and risks

13. 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 your organisation.
14. **Budget Savings and Financial Pressures:** Local Government faces substantial reductions in financing in the coming years as the UK Government seeks to reduce the deficit in the country's finances. At the same time pressures are building on demand led services, costs are increasing and income from sources such as asset sales and fees and charges are reducing. Strong financial management will be required to ensure that services are delivered within the financial constraints. The local government finance settlement was announced on 8 December 2011. The funding for Argyll and Bute Council sees an increase of 1.1% from 2011-12 to 2012-13 followed by reductions of 0.9% for 2013-14 and 0.8% for 2014-15.
15. **Changes to the Code:** The 2011/12 Code has introduced some additional reporting requirements for local authorities. The most significant of these are the inclusion of heritage assets in the balance sheet and the disclosure of the number and cost of exit packages paid during the year. The historic and cultural nature of heritage assets means that accurate valuation can be difficult to achieve however the council is required to include all known

assets in the balance sheet or provide specific reasons why these have been excluded. The new requirements will inevitably be an increased burden on the finance service and we will liaise with the service and provide what assistance we can.

16. **Capital Programme:** The council has a number of ongoing capital projects including the CHORD programme to re-develop the waterfronts at Campbeltown, Helensburgh, Oban, Rothesay and Dunoon and a 3 year Roads reconstruction recovery programme. Completion of these projects has been made more difficult by reductions in Central Government financial support however the capital plan is fully funded within the reduced/agreed levels of Scottish Government funding.
17. **Asset Management - Management of the Schools Estate:** Argyll and Bute Council has considerable surplus capacity in its primary schools and the current backlog of maintenance in all schools is estimated at some £25 million. The council formally ended its schools closure consultation process in June 2011. The council will need to develop a clear way forward on addressing the strategic issues related to the school estate taking into account the Scottish Government's legislative response and consideration of funding for rural education arising from the findings of the Commission on Rural Education and other national policy drivers related to the Education Service. The Commission's findings are not expected until autumn 2012.
18. **Asset Management - Roads Maintenance:** The Council faces many challenges in maintaining its road network, including the dispersed geography and extremities of weather within the area. Argyll and Bute Council has the highest proportion of roads in need of maintenance treatment (56.8%). Additional capital funding has been allocated by the Council to roads maintenance to address these challenges. We are planning a follow up review of a national study "Maintaining Scotland's Roads" which will look at the action the council is taking in response to these challenges.
19. **Local government elections:** The May 2012 local government elections may change the political composition of the council. The new council, regardless of its political composition, may wish to review the council's priorities and the structure of political governance. The possibility of a different administration with a different approach to the issues facing the council entails a degree of uncertainty. The local audit team will monitor the impact on council business of the forthcoming election and comment as necessary in our annual report to members and the Controller of Audit.
20. **Equal Pay:** The council has a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcome of all these applications is unknown at this time. There is also the potential for other equal pay claims whose cost may be met by the council.
21. **Governance issues:** The chief executive has issued a statement outlining how the authority intends to investigate recent allegations of inappropriate covert surveillance of social media by a Council employee. We will review the outcome of the council's investigation, when it is concluded.

National performance audit studies – impact and follow up

22. In addition to the above work, 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 2011/12 this will involve the completion of templates about the consideration of relevant national performance reports by the council as well as a more targeted review of Audit Scotland's report, *Maintaining Scotland's roads: a follow up report* (published February 2011).

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 are 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, "Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered."
26. When considering, in the context of a possible qualification to the audit opinion, 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 head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission.
30. A copy of all final agreed reports will be sent to the Chief Executive, Head of Strategic Finance, relevant senior managers, Internal Audit and Audit Scotland's Best Value & Scrutiny Improvement Group.
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 in Exhibit 1.

Exhibit 1: 2011/12 Planned Outputs

Planned outputs	Target delivery date
Governance	
Assurance and Improvement Plan Update (jointly prepared with other local government scrutiny bodies)	31 May 2012
Review of the Adequacy of Internal Audit	29 February 2012
Internal controls management letter (final agreement)	31 July 2012
Computer services review (final agreement)	31 August 2012
Performance	
Maintaining Scotland's Roads: a follow up report (final agreement)	31 August 2012
Financial statements	
Annual Audit Plan	29 February 2012
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	21 September 2012
Independent auditor's report on the financial statements	30 September 2012
Audit opinion on Whole of Government Accounts	30 September 2012
Annual report to Members and the Controller of Audit	31 October 2012
Grants	
Audit opinions on Education Maintenance Allowance, Criminal Justice Social Work Services, Non Domestic Rates, Housing Benefit & Council Tax Benefit Subsidy	All within 3 months, or the stipulated deadline of receiving certified claim and full supporting schedules.

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 your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is Fiona Mitchell-Knight, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
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. The agreed fees for 2011/12 are summarised in Exhibit 2 below.

Exhibit 2: Audit Fee

Description	Audit Fee	Audit Fee	% Change
	2010/11	2011/12	
Total audit fee	£286,500	£266,160	7.1% reduction

37. Our fee covers:

- all of the work and outputs described in this plan
- a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
- attendance at Audit Committee meetings as necessary
- access to advice and information on relevant audit issues
- access to workshops/seminars on topical issues
- travel and subsistence costs.

38. 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 2012.

39. Subject to the final passing of the Autumn Budget Revision Order you will receive a one off rebate equivalent to around 8% of the 2010/11 indicative fees. This is in addition to the reduction above.

40. We reserve the right to charge an additional fee for further audit work in such instances as late receipt of the draft financial statements, the lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. An additional fee may be required if our audit cannot proceed as planned.

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

42. 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 Argyll and Bute Council the Assistant Director is Fiona Mitchell- Knight.

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

Independence and objectivity

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

Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of Argyll and Bute 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 Argyll and Bute 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
<p>Budget Savings and Financial Pressures</p> <p>Local Government faces substantial reductions in financing in the coming years as the UK Government seeks to reduce the deficit in the country's finances.</p> <p>There is a risk that the council is unable to deliver the efficiency savings required to respond to the reductions in their financial settlement.</p>	<ul style="list-style-type: none"> • The council has a good track of financial management. • The council has adopted a three year budget planning cycle and set a target of maintaining a balanced budget over this term. • 3 year programme of service reviews with robust methodology for identifying, implementing and monitoring savings. • Quarterly revenue monitoring reports. 	<ul style="list-style-type: none"> • Budget setting and monitoring arrangements reviewed as part of the annual risk assessment. • Comment on the council's financial position included in the annual Report to Members.
<p>Changes to the Code</p> <p>Councils are required to include heritage assets in the balance sheet and disclose the number and cost of exit packages paid during the year.</p> <p>There is a risk that the Financial Statements do not comply with the Code.</p>	<ul style="list-style-type: none"> • The council are taking steps to identify its heritage assets. • Discussions will take place with the external auditor to confirm the appropriate course of action. 	<ul style="list-style-type: none"> • We will review the council's procedures for identifying and valuing heritage assets. • We will review the disclosure of heritage assets and exit packages in the financial statements.

Risk	Source of Assurance	Planned audit action
<p>Capital Programme</p> <p>The council has an ambitious capital programme to assist with the regeneration and economic development of 5 of the main waterfront towns. There is a risk that projects may not get completed on time and within budget.</p>	<ul style="list-style-type: none"> Quarterly capital monitoring reports. Regular reviews of the Capital Plan 	<ul style="list-style-type: none"> We will review the council's capital budget monitoring reports. We will ascertain reasons for any significant deviations from the capital programme.
<p>Asset Management - Management of the School Estate</p> <p>Continued surplus capacity in schools together with the large backlog in maintenance could impact on the council's future plans.</p>	<ul style="list-style-type: none"> The council has a Corporate Asset Management Programme in place that prioritises work base on a risk assessment and on "spend to save" programmes. 	<ul style="list-style-type: none"> We will monitor developments in this area.
<p>Asset Management - Roads Maintenance</p> <p>The Council faces many challenges in maintaining its road network, including the dispersed geography and extremities of weather within the area. Argyll and Bute Council has the highest proportion of roads in need of maintenance treatment (56.8%). There is a risk that the council is unable to address its roads maintenance backlog.</p>	<ul style="list-style-type: none"> The council has developed a 3 year roads Reconstruction Recovery Programme and a longer term strategy and plan for improvement. Additional capital funding has been allocated by the Council to roads maintenance to address this challenge with priority given to undertaking repairs to the Class A road network. The Council's Roads Capital Reconstruction Programme for 2010/11 has been successfully completed. 	<ul style="list-style-type: none"> We are planning a follow up review of a national study "Maintaining Scotland's Roads" which will look at the action the council is taking in response to these challenges.

Risk	Source of Assurance	Planned audit action
<p>Local government elections</p> <p>The May 2012 local government elections may change the political composition of the council. The new council, regardless of its political composition, may wish to review the council's priorities and the structure of political governance.</p> <p>There is a risk that a different administration with a different approach to the issues facing the council may necessitate a review of the council's current improvement plans.</p>		<ul style="list-style-type: none"> The local audit team will monitor the impact on council business of the forthcoming election and comment as necessary in our annual report to members and the Controller of Audit.
<p>Equal Pay</p> <p>The council has a number of outstanding equal pay claims. There is a risk that the level of the provision may be insufficient to meet the ultimate level of liabilities.</p>	<ul style="list-style-type: none"> The level of the provision is reviewed on an annual basis. 	<ul style="list-style-type: none"> We will review the equal pay provision in the 2011/12 Accounts to ensure that it is soundly based and reflects current legal opinion.

Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January to June 2012
Provision of closedown procedures to audit	31 March 2012
Meetings with officers to clarify expectations of detailed working papers and financial system reports	By 31 March 2012 and ongoing thereafter.
Planned committee approval of unaudited financial statements	30 June 2012
Latest submission of unaudited financial statements with working papers package	30 June 2012
Progress meetings with lead officers on emerging issues	As necessary
Latest date for final clearance meeting with section 95 officer	14 September 2012
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)	14 September 2012
Audit committee date	21 September 2012
Independent Auditors Report signed	By 30 September 2012
Latest date for submission of unaudited whole of government accounts return to external audit	31 July 2012
Latest date for signing of WGA return	30 September 2012
Certified accounts and annual report presented to council	By 31 December 2012

Appendix C - Audit team

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

Fiona Mitchell-Knight BA (Hons) FCA
Assistant Director of Audit

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 19 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sectors.

David Jamieson BA CPFA
Senior Audit Manager

David has over twenty years experience of both internal and external audit from a wide range of public sector clients including the NHS, local and central government.

Russell Smith BAcc CA
Senior Auditor

Russell has eleven years experience of public sector audit with Audit Scotland, covering local and central government. Russell previously worked in external audit in the private sector and in the international audit department of a multi national company.

Neil Robb
Senior Auditor (ICT)

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

Lindsay Tosh
Auditor

Lindsay has 38 years public sector accountancy experience, with 26 years at senior management level within the NHS. He has 9 years experience of public sector audit with Audit Scotland, covering local government, health and further education bodies.

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 Internal Audit section in Argyll and Bute Council 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 for the purposes of our financial statements work on:

- Non Domestic Rates
- Council Tax
- Payroll
- Creditor Payments and Purchasing
- Debtors Accounts
- Financial Ledger
- Treasury Management

For our wider governance and performance audit work, under our Code of Audit Practice, we also plan to place reliance on the work of internal audit, including the following areas:

- Performance Management Arrangements
- Statutory Performance Indicators

The reliance on internal audit work in these areas will allow us to direct our resources to the financial systems, performance and governance areas we have assessed as being of higher audit risk.

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 addressees of communications from the auditor to those charged with governance are the s95 officer and the Governance and Audit Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice requires appointed auditors to 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.