
South Lanarkshire Council Audit Plan

External Audit Plan for the year
ending 31 March 2013

January 2013

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1. *Introduction*

Our external audit work is undertaken in accordance with Audit Scotland's Code of Audit Practice ("the Code"). Our annual audit plan sets out how we will undertake our external audit work for the year ending 31 March 2013 and how we plan to communicate with management and the Risk and Audit Scrutiny Forum (in its governance role) in relation to the 2012/13 audit.

The purpose of this plan

This audit plan is an annual document that has been prepared to inform management and the Risk and Audit Scrutiny Forum of South Lanarkshire Council ("the Council") of our responsibilities as your external auditors and how we plan to discharge these responsibilities in accordance with the Code. This plan outlines our audit approach for the financial year 1 April 2012 to 31 March 2013.

Code of Audit Practice

Our principal objective is to perform an audit in accordance with the principles set out in the Code.

The Code sets out the way in which an auditor appointed by the Auditor General should carry out its functions under the Public Finance and Accountability (Scotland) Act 2000.

The Code sets out the basic principles that govern our audit work and stresses the need for all auditors to recognise the links between different parts of the audit. The Code also emphasises the need for auditors to work in partnership with each other and with Audit Scotland to deliver an integrated audit which provides value to audited bodies.

Financial Statements

It is the responsibility of the Council's management to prepare the financial statements and appropriate, timely supporting papers in compliance with statutory and other relevant requirements. We are responsible for providing a true and fair opinion on the financial statements of the Council and whether those statements have been properly prepared in accordance with relevant reporting requirements.

We will provide an indicative list of the information that will be required for the audit visit in advance. To avoid the Council incurring any additional audit costs we request that management provide this supporting documentation and any additional requests in a timely manner and to a high standard. We will also request that there is sufficient availability of staff involved in the audit process to allow queries to be answered promptly.

To assist in an efficient audit process we will meet with key management regularly during our audit visit to discuss progress, audit findings and any outstanding information requests.

Corporate Governance

It is the responsibility of the Council to establish arrangements for ensuring the proper conduct of its affairs, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. We consider the Council's corporate governance arrangements, as they relate to systems of internal control relevant to our audit, including selected reporting arrangements; the prevention and detection of fraud and irregularity; and standards of conduct and arrangements for the prevention and detection of corruption.

Performance Management and Audit

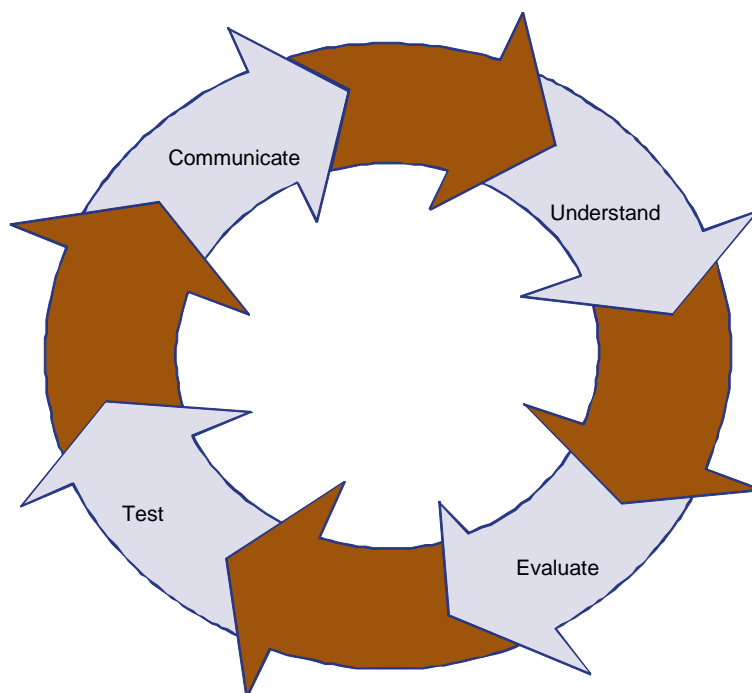
It is the responsibility of the Council to make arrangements to secure Best Value as well as community planning. The overall audit function has a duty under the Local Government in Scotland Act 2003 to consider arrangements for securing Best Value and in relation to community planning. This area of audit is principally fulfilled by Audit Scotland's directly employed performance audit function, rather than by PwC.

2. Audit approach

We adopt a risk-based audit methodology and strategy to align this closely with management's assessment of the business risks to ensure that appropriate processes and controls are in place. The main features of our approach are set out below.

Our audit approach starts with us gaining a broad understanding of how the Council, sector and the external environment operate. At a top level we seek to determine your strategic intent, objectives, risks and major activities. We also look at how senior management operates the Council's activities and manages risk. This understanding enables us to identify issues that could potentially pose specific external audit risks that could materially impact the accuracy and integrity of the financial statements.

These areas of audit risk serve as the foundation for planning and guiding our subsequent audit activities. We also consider how your control structure mitigates the risks identified and review key accounting judgements through testing underlying information or transactions where necessary.



We obtain our audit evidence from a variety of sources including:

- Meetings with senior management to understand the business and the risks and control processes upon which management rely;
- Assessment of the materiality of each financial statement component, the risks attached, the effectiveness of management's related arrangements and the relevance to the financial statements;
- Consideration of how the business is managed, with an understanding of key business targets;
- Testing key areas of reliance and gathering evidence; and
- Analytical review and other substantive audit procedures, as necessary.

Our methodology is also undertaken to ensure compliance with the additional requirements of the APB's Practice Note 10 – Audit of the Financial Statements of Public Bodies in the United Kingdom, for example materiality and going concern in the public sector context and audit of the regularity of expenditure.

Materiality

Materiality is a relative expression of the relative significance of a particular matter in the context of the financial statements.

We consider a matter to be material if its omission or misstatement would reasonably influence key users of the financial statements; although it is emphasised that we do not have a duty of care to individuals or to all users of the financial statements.

Assessment of what is constituted material is a professional judgement and includes consideration of materiality by nature, by value and by context. Our base calculation for materiality is based on total expenditure in year and our approach is in line with Auditing Standards Guidance. For 2012/13 our performance materiality is likely to be in the region of £8 million, based on expected annual expenditure.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified and unadjusted except those which are “clearly trivial”. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. Our usual practice is to report misstatements which are greater than £100,000.

Internal Audit

We will liaise with internal audit to identify those areas where we can rely on the work of internal audit as anticipated by International Standards on Auditing (UK and Ireland) 610: The auditor's consideration of internal auditing function.

International Standard on Auditing (UK and Ireland) 610: “The auditor's consideration of the internal audit function” requires us to consider the activities of Internal Audit with a view to placing reliance on their work for our external audit procedures.

We will liaise with Internal Audit to determine what areas of their work we can rely on. To achieve an appropriate audit we will need to be able to rely on Internal Audit work for key financial systems of control, certification of grant claims, statutory performance indicators and follow up of Audit Scotland national reports.

In addition, we anticipate that the Council's Internal Audit team should undertake the self assessment stages of Audit Scotland's national performance report on Scotland's public finances as described in Section 4.

3. *Risk of fraud*

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below.

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement of the financial statements due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during our normal audit procedures.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of those charged with governance / the Risk and Audit Scrutiny Forum

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

4. Governance and Financial Statements

In addition to performing the audit of the financial statements, Audit Scotland requires us to undertake, with the Council's support, a number of additional areas of work each year. These additional tasks are communicated to us annually through their Planning Guidance document. This section outlines the additional areas of work that we will be undertaking as part of the 2012/13 external audit process.

Local Government Scrutiny

Following the publication of the Crerar report in September 2007, the Scottish Government response stated its aim of establishing a simplified and coherent approach to delivering local government scrutiny.

Local Area Networks (LANs) have been created to bring together local scrutiny representatives in a systematic way with the common aims of joint scrutiny scheduling and planning, shared risk assessment and the delivery of a single corporate assessment through the Best Value process.

The LAN representatives for the Council (which includes PwC) have prepared the Council's draft Assurance and Improvement Plan for 2012/13. This is subject to a national quality assurance process prior to finalisation.

Audit Scotland National Performance Reports

Audit Scotland undertakes a series of studies on financial management, governance and performance across the local government sector and other public sector organisations on behalf of the Auditor General. For the 2012/13 year we are required to consider the Council's response to those national performance reports which are relevant to the organisation.

Local response to national reports

Audit Scotland periodically undertakes studies on topics relevant to the performance of local authorities. While the recommendations from some of the studies have a national application, elements of the recommendations are also capable of implementation at Council level. As part of our 2012/13 audit plan we will require evidence of how the Council has responded, at a local level, to *Scotland's public finances: addressing the challenges*, preparing a brief response to Audit Scotland by 31 August 2013.

Audit Scotland requests information on the following areas:

- Completion of a self-assessment by the audited body against the relevant findings in the national report;
- Evidence of discussion of the reports at any committee meetings;
- Details of any action plan resulting from the self-assessment; and
- Monitoring of progress against the action plan by management.

We would also anticipate that internal audit follows up on this matter, and other similar Audit Scotland National Reports, prior to our input.

Whole of Government Accounts (WGA)

The UK Government's aim in respect of WGA is to develop a fully audited set of accounts covering virtually all of the UK public sector. WGA treats Government as if it were a single, consolidated entity by eliminating all significant transactions and amounts owed between public sector bodies and harmonising accounting policies. WGA is intended to present a true and fair view of Government activities.

Our work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit as detailed in the audit timetable included in Section 6.

National Fraud Initiative

During the 2012/13 audit we will conduct the enquiries necessary to monitor the Council's participation in the NFI to the extent required by Audit Scotland.

Audit Scotland requires auditors to consider local authorities' participation in the NFI in terms of:

- ascertaining the Council's participation in the 2012/13 NFI; and
- incorporating mention of the Council's approach to NFI within our 2012/13 annual audit communications where there are matters worthy of reporting.

Police and Fire Reform

The Police and Fire Reform (Scotland) Act received Royal Assent on the 7 August 2012 and restructures the police and fire and rescue services in Scotland into a single national police service and a single national fire and rescue service.

The mergers are expected to take place on 1 April 2013. There may be specific requirements in the final year to ensure compliance with the legal requirements and guidance, which may include, for example, arrangements for the transfer of assets and the allocation of reserves. Such work would not be part of our existing audit fee.

5. Areas of Particular Audit Risk

Set out below are particular audit risks which could potentially impact on our external audit of the financial statements for the year ending 31 March 2013. The audit risks outlined below have been determined based on our understanding of the Council and the wider local government sector.

Planning of our audit

In this plan we have set out those areas which we consider to be significant or elevated risks relevant to our audit responsibilities and our planned audit response to those risks. Significant and elevated risks are those risks requiring special audit attention in accordance with auditing standards.

Risk assessment results

Following the risk identification process, risks are subject to the following classification:

- Significant audit risk (as defined by ISA 315) requiring special audit consideration, including evaluation of related controls, testing of their operation in the year should we wish to rely upon them and design of specific audit procedures to respond to the risk with a higher level of assurance;
- Elevated audit risk where the nature, likelihood or magnitude of the risk requires us to do a higher than normal level of audit work to address the risk fully; and
- All other risks are deemed to be normal audit risks where we consider the risk of material misstatement will be addressed by a low or moderate level of audit work, or in certain circumstances no audit work will be required.

Areas of Audit Risk	Audit Approach
Management override of controls	● Significant Risk
In any organisation, management may be in a position to override the financial controls established by management. A control breach of this nature may result in a material misstatement of your financial position. For all of our audits, ISA's require us to consider this as a significant risk (as it could link to a possible fraud) and adapt our audit procedures accordingly.	As management override of controls could link to a possible fraud, we will gain an understanding of management's overall fraud arrangements and fraud policies such as whistle blowing policies. We will perform targeted audit testing of manual journals to ensure their legitimacy, and will incorporate unpredictability into our testing of income and expenditure. As part of the 2012/13 NFI exercise, we will review the Council's involvement and progress with NFI.

Areas of Audit Risk	Audit Approach
<p>Recognition of Expenditure</p> <p>For the purposes of the Council the risk of fraud in revenue recognition is more sensibly inverted to reflect the risk around misstatement of expenditure.</p>	<p>● Significant Risk</p> <p>During the year, we will hold discussions with management on the processes for monitoring performance against key financial targets and assess what work internal audit has performed in the key areas.</p> <p>In addition we will review the controls put in place by the Council to control expenditure through specific targeted work undertaken by Internal Audit.</p> <p>As part of our substantive programme at the year end we will include specific testing on cut-off and unrecorded liabilities, and of judgemental areas.</p>
<p>Budgetary Control</p> <p>The Council faces a range of challenges including the identification of saving areas, effective budgetary control and financial management.</p>	<p>● Elevated Risk</p> <p>We will update our understanding of the process put in place by the Council to identify and undertake savings plans.</p>

6. Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 (revised) 'Communication of audit matters with those charged with governance' requires auditors to inform those charged with governance about the form and timing of communications with them. We have assumed that 'those charged with governance' are the Risk and Audit Scrutiny Forum members.

We will communicate with Management and the Risk and Audit Scrutiny Forum during the audit process.

Set out below is a high level indicative timetable for the year ending 31 March 2013 including planned dates for Risk and Audit Scrutiny Forum reporting.

Timing	Activity	Client Outputs
January 2013	External audit planning.	External Audit Plan report to Risk and Audit Scrutiny Forum: 5 February 2013
March 2013	Interim audit fieldwork to assess and consider management's overall financial and business processes and validate business controls in areas such as accounts payable and payroll.	Interim Management Letter and Follow Up of Prior Year Recommendations Reports to Risk and Audit Scrutiny forum (assuming applicable): 23 April 2013
July 2013	Overview of local responses to national performance audits	Response to Audit Scotland by 31 August 2013
July/August 2013	Audit of the financial statements for the year ended 31 March 2013.	Financial Statements Audit Opinion. ISA 260 presentation to Members and the Controller of Audit: 24 September 2013
September/October 2013	Audit fieldwork on the WGA return to ensure consistency with audited financial statements.	Submission of WGA return to Audit Scotland by 5 October 2013
October 2013	Submission of Annual Report to Members and Financial Statements to Audit Scotland.	Submission to Audit Scotland by 31 October 2013
November 2013	Audit fieldwork on the Housing and Council Tax Subsidy claim form	Submission to Audit Scotland by 30 November 2013

7. Our Audit Team

Our audit team for 2012/13 provides a depth of experience of the Scottish Local Government sector. The team is lead by Cameron Revie, the Partner and Leader of our Government and Public Sector Assurance practice in Scotland. Cameron is supported throughout the year by Margret Kerr and Alisdair Campbell to deliver an effective audit.



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Cameron is the Partner in charge of our Scottish Government and Public Sector Assurance Practice. He has 30 years experience of providing audit and advisory services to local authority bodies, mainly throughout Scotland, but also elsewhere in the UK.



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Margaret is a Senior Manager with over 15 years experience in external audit. Following a transfer from the private sector she has over 4 years experience in the public sector assurance practice providing internal and external audits for local authorities and healthcare providers.



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Alisdair is a Manager with over 5 years experience in the public sector assurance practice and has helped to deliver internal and external audit services to local authorities, healthcare providers, higher education institutions and other government bodies.

We can confirm that appropriate arrangements have been put in place to safeguard the independence of the audit team and that the audit team is independent of South Lanarkshire Council. There are no matters which we perceive may impact the independence and objectivity of the audit team.

This report has been prepared for and only for South Lanarkshire Council in accordance with the terms of our engagement letter agreed with Audit Scotland and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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