South Lanarkshire Council
2010/11 External Audit Plan

February 2011

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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 2011 and how we plan to communicate with management and the Risk and Scrutiny Forum (in its governance role) throughout 2010/11.

The purpose of this plan

This audit plan is an annual document that has been prepared to inform management and the Risk and 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 2010 to 31 March 2011, including the 2010/11 final accounts audit.

Code of Audit Practice

We are appointed to provide an independent and objective appraisal of the discharge by management of its stewardship responsibilities. In that regard, our principal objective is to perform an audit in accordance with the Code. The code set out those areas for consideration relating to:

Financial Statements

It is the responsibility of the Council's management to prepare the financial statements 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 legislation, accounting standards and other reporting requirements.

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 review and report on the Council's corporate governance arrangements, as they relate to:

- The Council's reviews of systems of internal control, including their reporting arrangements,
- The prevention and detection of fraud and irregularity,
- Standards of conduct and arrangements for the prevention and detection of corruption and
- The financial position of the Council.

Performance Management and Audit

It is the responsibility of the Council to make arrangements to secure Best Value as well as having a duty for community planning. We have a duty under the Local Government (Scotland) Act 1973 to be satisfied that proper arrangements have been made for securing Best Value and for complying with the Council's responsibilities relating to community planning.

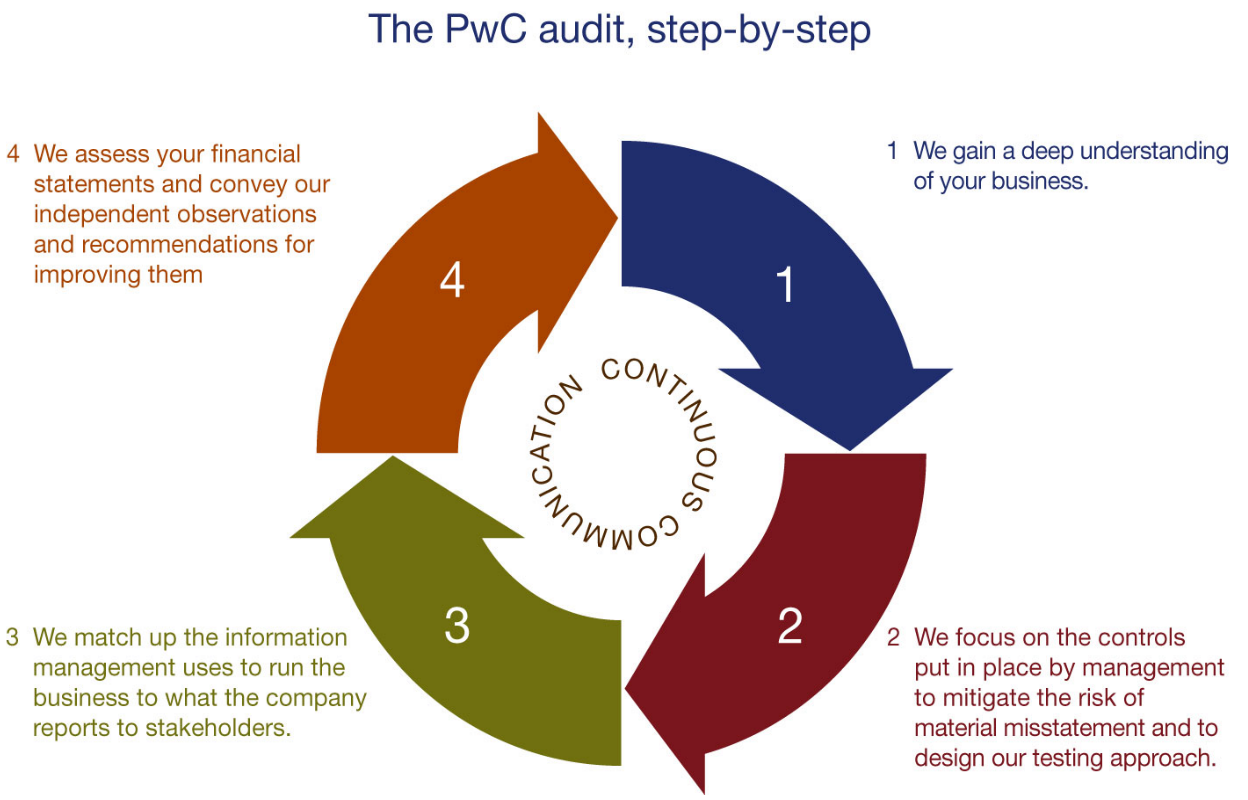
Our audit approach

Our approach to the audit is based upon a thorough understanding of the Council and its business, in particular the Council's arrangements and processes for decision making, accountability, controls and approach to risk. Compliance with International Standards on Auditing (ISAs) is integral to our approach.

The PwC approach

Our audit approach starts with a broad understanding of how the Council, sector and the external environment operate. At a top level we examine your strategic intent, objectives, risks and major activities. We also look at how management - not just in the finance function, but also across all key functional areas - runs the Council and manages risk on a day-today basis. This Council-wide view of risk enables us to identify issues that could potentially pose audit risks and endanger the accuracy and integrity of your financial reports.

These areas of audit risk serve as the foundation for planning and guiding all subsequent audit activities. We judge how well your control structure mitigates the risks indentified and verify that judgement through testing underlying information and transactions where necessary.



Our aim is to deliver a rigorous and efficient audit, supported by regular communication and contact between senior members of your team and ours. We do this by:

- Focussing on the significant risks, drawing on our knowledge and experience of the Council and the sector;
- Where possible, deriving comfort from your controls and systems, both formal and informal, manual and automated. In areas where such controls, in their broadest sense, do not appear to be as effective, and where there is significant financial risk, we drill down until we are satisfied, undertaking extended testing of transactions;
- Delivering continuous assurance, supported by on-going communication. This avoids last minute surprises and streamlines the year-end reporting process;
- Making added value recommendations on ways to improve areas of control weakness that we have identified through our audit approach and in comparison to best practice in the sector; and
- Attending your Risk and Scrutiny Forum meetings to present our reports and discuss our findings.

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.

Clarity International Standards on Auditing (UK & Ireland)

The Auditing Practices Board (APB) has issued 33 clarity ISAs (UK & I) based on the IAASB's clarity International Standards on Auditing (ISAs), effective for audits of financial statements for periods ending on or after 15 December 2010

A number of the standards have been completely revised and new requirements have been introduced. There are approximately one-third more explicit requirements applying to entity audits and extra new requirements that apply to group audits, with about half of the total increase resulting from clarification of the existing standards, and about half relating to new requirements designed to improve audit quality and, consequently, financial reporting.

Key areas of change that are likely to be relevant to our audit of the Council are around management estimates and related parties requiring us to assess in detail Management's processes and controls and to obtain more detailed evidence to support Management decisions in these areas.

Fraud Arrangements and Risks

Our audit approach considers the risk of fraud, and the arrangements in place to mitigate these risks, as required by ISA (UK&I) 240

The primary responsibility for the prevention and detection of fraud rests with those charged with governance of the Council and with management.

It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and disciplinary action. This involves establishing and maintaining a control environment and maintaining policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the entity's business.

In accordance with ISA (UK&I) 240, we are obliged to make inquiries of the members of the Audit Committee or other governance body charged with oversight of financial reporting regarding fraud. This includes an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.

We are also obliged to make enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.

Internal Audit

We will continue to liaise with Internal Audit in order to minimise duplication of audit effort. We will also consider the work of Internal Audit in line with the International Standard on Auditing (UK and Ireland) 610: The auditor's consideration of the internal audit function.

International Standard on Auditing (UK and Ireland) 610: "The auditor's consideration of the internal audit function" requires us to: This standard requires us to:

- Consider the activities of Internal Audit and its effect, if any, on external audit procedures;
- Obtain sufficient understanding of internal audit activities to assist in planning the audit and developing an effective audit approach; and
- Evaluate and test the work of internal audit, where use is made of its work, in order to confirm its adequacy for our purposes.

We will continue to liaise with Internal Audit, using the work of internal audit to inform our planning arrangements and internal risk assessment.

Accounts and Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of a set of financial statements.

We consider a matter to be material if its omission or misstatement would reasonably influence the users of the financial statements; although it is emphasised that we do not have a duty of care to individuals or 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 Accounting Standards Guidance. For 2010/11 our planning materiality is £15 million, based on expected annual expenditure.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. Usual practice is to report misstatements which are greater than 5% of materiality.

However, in practice we record all potential adjustments we identify. On this basis we propose to report all unadjusted differences in excess of £100,000 to the Risk and Scrutiny Forum, this is based on our knowledge of the Council's financial statements and previous year adjustments.

Group Reporting

We are the Group Auditor for South Lanarkshire Council. In our role as group auditor, we work with the various subsidiary external audit teams, in particular:

- Agreeing timescales and group auditor reporting arrangements;
- Sharing significant audit and business risks and building these into the external audit approach where applicable;
- Confirming materiality calculations for the group;
- Ensuring that all staff working on the significant subsidiaries are independent of South Lanarkshire Council; and
- Liaising in respect of agreed audit adjustments and year end unadjusted differences, including the consolidation of the subsidiaries into South Lanarkshire Council's consolidated accounts.

Risk assessment

Planning of our audit

We have considered the Council's operations and have assessed the extent to which we believe there are potential audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have determined the extent of our financial statements and use of resources audit work.

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

Our response includes details of where we are intending to rely upon internal controls, inspectors and other review agencies and the work of internal audit, if applicable.

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 high level of assurance;

● Elevated audit risk where the nature, likelihood or magnitude of the risk requires us to do a higher level of audit work to address the risk fully; and

● All other risks are deemed to be normal audit risks where we consider a low or moderate level of audit work will address the risk of material misstatement.

The following table summarises the significant and elevated audit risks identified and our planned response. It should be noted that our risk assessment is an ongoing process and will be revisited at various stages throughout the audit year.

Risks	Audit Approach
● Significant Risks	
Management Override of Controls 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, we are required to consider this as a significant risk and adapt our audit procedures accordingly.	We will review the appropriateness of manual journals processed during the year. We will also look carefully at any management estimations, for example provisions, and consider if they are subject to bias. Our audit is also planned to include an unpredictable element that varies year on year.
Expenditure Recognition It has been widely reported that the financial outlook in the public sector will become increasingly challenging going into 2011/12 and following the 2010 Spending Review period. Given that 2010/11 is a less challenging year financially than those that will follow, there is a risk that income and expenditure may be recognised in the incorrect year.	During the year, we will hold discussions with management on the processes for monitoring performance against key financial targets. In particular we will review the controls put in place by the Council to control expenditure as part of our work on Accounts Payable. As part of our substantive programme at year end we will include specific testing on cut-off and unrecorded liabilities.
● Elevated Risks	
First year of reporting under IFRS The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Authority Accounting.	We are working closely with the Council to ensure that you are aware of the main differences between IFRS and UK GAAP and to resolve any accounting issues on a timely basis. We will perform a review of your 2009/10 restated financial statements to identify potential disclosure issues during the early stages of the audit. At the final audit stage we will perform an independent 'hot review' of the financial statements and disclosures.

Governance and Financial Statements

In addition to performing the audit of the financial statements, Audit Scotland requires us to undertake a number of additional areas of work as part of our contract with them. These additional tasks are communicated to us annually though their Planning Guidance document. This section outlines the additional areas of work that we will be undertaking as part of the 2010/11 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 2 process.

The LAN representatives for the Council (which includes PwC) have prepared the Council's draft Assurance and Improvement Plan for the period 2010/11. This is now 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 organisations on behalf of the Accounts Commission. We will follow up on the Council's response to those national performance reports which are relevant to the Council, for example we anticipate following up on Audit Scotland's national study on procurement: 'Improving public sector purchasing' (July 2009); 'Sustainable Waste Management' (September 2007) and 'Use of Consultancy Services' (January 2009).

In addition, in order to inform Audit Scotland's upcoming report: *Scotland's public finances: responding to the challenge* we were required to complete a data return on the arrangements in place within the Board. This was discussed and agreed with management and submitted to Audit Scotland on 17 January 2011.

National Fraud Initiative

During the 2010/11 audit we will continue to monitor the Council's participation in NFI, following up on actions taken on matches from the last exercise. Audit Scotland requires auditors to monitor local government organisations' participation in NFI during 2010/11 audits, in terms of:

- Conducting further enquiries and tests to respond to questions issued by Audit Scotland;
- Monitoring the Council's preparations for NFI 2010/11 which requires data upload from October 2010; and
- Reference to NFI will be included in the 2010/11 Annual Report to Members and the Controller of Audit, where appropriate.

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.

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 on page 10.

Our team and independence

Audit Team	Responsibilities
Engagement Partner Cameron Revie 0141 355 4255 cameron.revie@uk.pwc.com	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Council Chief Executive and Members of the Council.
Engagement Manger Margaret Kerr 0141 355 4277 margraet.kerr@uk.pwc.com	Engagement Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.
Audit In-Charge Russell Garden 0141 355 4356 russell.garden@uk.pwc.com	Team Member on the audit responsible for coordinating resources and managing the team on site.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

We have made enquiries of any potential PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 (revised) 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Risk and Scrutiny Forum. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Risk and Scrutiny Forum with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	**Audit Plan**	February 2011
Audit findings	**Interim Management Letter** including internal control issues, recommendations for improvement and follow up of prior year recommendations.	May 2011
	Audit fieldwork to assess preparation of the Performance Indicators	August 2011
Audit reports	**Financial Statements Audit Opinion**	September 2011
	Submission of audited financial statements to Audit Scotland	September 2011
	Annual Report to Members and the Controller of Audit	October 2011
	Submission of audited Whole of Government return to Audit Scotland	October 2011
	Submission of Annual Report to the Council and Controller of Audit	October 2011

Audit fees

Audit Scotland has provided indicative audit fee levels for Local Authorities for the 2010/11 financial year, which depend upon the level of expenditure and potential risk.

We propose a 2010/11 audit fee of £390,638 inclusive of VAT (2009/10: £382,500). We have held the fee flat at £325,532 exclusive of VAT since 2009/10, as the increase on prior year reflects solely the increase in the standard rate of VAT as a result of the change in rate, from 17.5% to 20%. In real terms we have reduced the fee as we have not passed on any inflationary increases that have impacted our costs. This fee proposal represents our continued commitment to driving efficiencies out of our audit approach.

In addition, 2010/11 will be the first year that the Council is required to prepare its accounts based on the International Financial Reporting Standards. As a result, we will be required not only to audit your 2010/11 accounts but also your 2009/10 financial statements re-stated for IFRS. This work would ordinarily incur an additional audit fee. However, we recognise that the Council has to make tough economic decisions at the moment and we have agreed to absorb the cost of all relevant IFRS work within the proposed fee. This assumes that we are provided with good quality information and evidence required for our audit procedures in line with our assumptions below.

Our fee is based upon the following assumptions:

- Management will meet the agreed timescales for producing the financial statements and key audit deliverables within the agreed timeframe;
- That we are able to place reliance on the work of Internal Audit;
- Our accounts opinion being unqualified; and
- That we are able to obtain appropriate comfort from management's controls and key processes to reduce our required substantive audit testing at year end.

Should any of the above assumptions change, we will discuss with you the potential implications on our agreed fee and reach agreement on a way forward.

In addition, 2010/11 will be the first year that the Council is required to prepare its accounts based on the International Financial Reporting Standards. As a result, we will be required not only to audit your 2010/11 accounts but also your 2009/10 financial statements re-stated for IFRS. This work would ordinarily incur an additional audit fee. However, we recognise that the Council has to make tough economic decisions at the moment and we have agreed to absorb the cost of all relevant IFRS work within the proposed fee.

In addition to our agreed external audit fee, Audit Scotland charges the Council a fixed central charge, which contributes to national performance studies and Audit Scotland overheads. For 2010/11 this charge was communicated by Audit Scotland directly, as £213,700 (2009/10: £237,300).

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