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**Report to: Scrutiny Committee**

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**Date: 23 June 2011**

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**Subject: External Audit: Audit Approach Memorandum**

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**Report by: Director of Finance & Corporate Services**

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**1.0 Purpose**

- 1.1 The purpose of the attached external audit memorandum is to set out the planned audit activity during 2011/12 in respect of the audit of the financial year 2010/11.

**2.0 Recommendation**

It is recommended that the Committee:

- 2.1 Discusses and notes the external audit plan for financial year 2010/11.

**3.0 Background**

- 3.1 Grant Thornton UK LLP was appointed by the Accounts Commission as the external auditor for Clackmannanshire Council for the five year period commencing 2006/07. The 2010/11 financial year i.e. this year, is the last year of Grant Thornton's appointment.
- 3.2 Each year the external auditor prepares an annual plan which is submitted to the Scrutiny Committee. The Committee does not have a role in approving the plans but members are encouraged to discuss the plan with the external auditor. As a minimum, the Committee will, among other things, be able to ensure that there is a co-ordinated effort between internal and external audit planned activity.
- 3.3 Due to the statutory basis of the work of the external auditor, the audit planning memorandum should be presented to the Scrutiny Committee. Thereafter, all external audit activity undertaken against this plan is formally reported to the Committee .
- 3.4 The Director of Finance and Corporate Services has recently been notified by Audit Scotland on behalf of the Accounts Commission of the details of the Council's new external auditors. From next year, the external audit of Clackmannanshire Council will be undertaken by Deloitte's. Details about key engagement contacts at Deloitte's will follow later in the year as Grant Thornton are completing the current year's planned activity.

#### 4.0 Conclusions

- 4.1 The Council's external auditors, Grant Thornton, are in the final year of their five year appointment. The attached report sets out details of their planned work during the year.

#### 5.0 Sustainability Implications - N/A

#### 6.0 Resource Implications

*Financial Details* - there are no implications for the Council's budgets arising from this report

*Staffing* - there are no implications for the Council's establishment arising from this report

#### 7.0 Exempt Reports

Is this report exempt? No

#### 8.0 Declarations

- 8.1 The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

**Our Priorities 2008 - 2011** (Please tick )

The area has a positive image and attracts people and businesses

Our communities are more cohesive and inclusive

People are better skilled, trained and ready for learning and employment

Our communities are safer

Vulnerable people and families are supported

Substance misuse and its effects are reduced

Health is improving and health inequalities are reducing

The environment is protected and enhanced for all

The Council is effective, efficient and recognised for excellence

**Council Policies** (Please detail)

N/A

#### 9.0 Equalities Impact

Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? N/A

#### 10.0 Legality

- 10.1 In adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

#### 11.0 Appendices - None

## 12.0 Background Papers

### CIPFA Audit committee Principles in Local Authorities in Scotland

#### Author(s)

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#### Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Director of Finance & Corporate Services	
Angela Leitch	Chief Executive	



## Audit Approach Memorandum

Clackmannanshire Council

For the year ended 31 March 2011

*Revised June 2011*

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To the Board of Clackmannanshire Council

We have been appointed as external auditors to Clackmannanshire Council for the year ended 31 March 2011. This is, therefore, the final year of our appointment under the current framework contract with the Accounts Commission for Scotland.

This memorandum highlights the key elements of our proposed audit strategy for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260 and the Code of Audit Practice issued by Audit Scotland

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention. This memorandum has been prepared on the basis of the limitations set out in 'The small print'.

We look forward to working with you during the course of the audit.

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A list of members is available from our registered office.

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# 1 Our Audit Approach

## 1.1 Introduction

Grant Thornton UK LLP has been appointed by the Accounts Commission for Scotland as the external auditor of Clackmannanshire Council (the council) for the five year period commencing 2006-07. This memorandum outlines how we will approach the audit of the council in the final year of our appointment, and reflects our statutory duties and risk based approach.

Specific duties for external auditors are concerned principally with the Local Government (Scotland) Act 1973, the Code of Audit Practice and in the audit engagement letter issued to auditors by Audit Scotland. These include undertaking the audit in accordance with relevant legislation and Statements of Internal Auditing Standards and applicable Practice Notes issued by the Auditing Practice Board.

## 1.2 Roles and Responsibilities

The Code of Audit Practice (the Code) is issued by Audit Scotland on behalf of the Auditor General and the Accounts Commission for Scotland. The Code defines responsibilities of appointed auditors when auditing public sector bodies.

The Code requires us to take a risk based approach. Our risk assessment in relation to each of the above areas is therefore summarised in the following sections of this plan. We will keep our initial risk assessment under review and discuss any significant changes to the nature and scope of our audit with you.

A summary of planned audit outputs and reports for the 2010-11 audit is set out in Appendix A, and our planned reliance on internal audit is set out in Appendix B.

## 1.3 Summary of audit objectives

Area	Audit Objectives
<b>Financial statements</b>	To provide an opinion on the council's financial statements for the year ended 31 March 2011.  Further details are provided in Section 2.
<b>Governance</b>	To review and report on the council's corporate governance arrangements, including systems of internal control.  Further details are provided in Section 3.
<b>Performance</b>	To review and report on the council's arrangements to achieve best value and economy, efficiency and effectiveness in the use of resources.  Further details are provided in Section 4.
<b>Grant Claims</b>	We will provide independent auditor's reports on specific grant claims in accordance with Audit Scotland guidelines.  Further details are provided in Section 5.

## 1.4 Other matters

We set out in Section 6 details of our audit team and our proposed fee, based on our responsibilities and risk assessment.

## 2 Key audit issues and financial reporting matters

### 2.1 Introduction

The council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
- maintain proper accounting records
- prepare financial statements which give a true and fair view of the financial position of the council and its expenditure and income in accordance with the Statement of Recommended of Practice (SORP).

The auditor is required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.

### 2.2 Overall approach

In order to gain sufficient assurance to support our opinion on the financial statements, we will carry out a review of:

- internal audit, to determine the extent of reliance we can place on it for the purposes of our audit (Appendix B summarises the areas of internal audit work we plan to place reliance on)
- the internal control framework for key financial systems
- review of computerised controls operating across major IT systems
- the materiality of balances and transactions impacting on the financial statements
- the key risks relevant to the preparation and audit of the group financial statements
- the council's arrangements for the preparation of its group financial statements and for the Whole of Government Accounts consolidation pack.

### 2.3 Risk assessment and response

Our audit work is risk based and proportionate. On the basis of our preliminary work to date, we have identified the audit risks outlined within Section 2.4 in relation to the financial statements aspect of our audit:

We will report to you in our Key Issues Memorandum our findings/conclusions in respect of each of the risks that we have identified at the planning stage of the audit.

## 2.4 Key audit issues

<b>Issue</b>	<b>Response</b>
<p data-bbox="215 311 1097 343"><b>International Financial Reporting Standards</b></p> <p data-bbox="215 343 1097 614">2011 is the first year that the local authority accounting code is based on international financial reporting standards (IFRS). The move to an IFRS-based Code from a UK GAAP-based SORP has resulted in a number of significant changes in accounting practice that the Council will need to take into account when preparing the 2010/11 financial statements. A key aspect of IFRS accounting in respect of private finance initiative and similar contracts was introduced in the 2009 SORP is. The key accounting changes for 2010-11 include:</p> <ul data-bbox="215 646 1097 1037" style="list-style-type: none"> <li>• a greater emphasis on depreciation of asset components, and a new classification of 'assets held for sale'</li> <li>• changes in the classification of leases, and a new requirement to account for arrangements containing a lease</li> <li>• a change in accounting treatment for grants and contributions used to fund capital expenditure</li> <li>• a requirement to recognise a liability for untaken annual leave and flexi-time accruals</li> <li>• new disclosure requirements for accounting standards not yet adopted, key assumptions and judgements, changes in respect of prior period adjustments, and operating segments.</li> </ul> <p data-bbox="215 1061 1097 1129">The council is also required to restate its 2009-10 accounts under IFRS to report comparative information.</p>	<p data-bbox="1097 343 1993 646">We carried out an interim review of the council's preparations for IFRS as part of our 2009-10 annual audit. The council has adopted detailed planning arrangements and has created an IFRS Working Group to take forward preparations for full adoption. However, initial timescales have not been achieved and there is a risk that the council will be unable to meet reporting deadlines. We have continued to liaise with the finance team on issues relating to the implementation of IFRS as they arise, for example by addressing key IFRS accounting issues in our finance team workshop held on 25th January 2010.</p> <p data-bbox="1097 670 1993 774">We will work with the council's finance team throughout the year and monitor the Working Group's progress early in the audit year to ensure that the Council remains on track to meet the final accounts deadline.</p>

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### Financial Position

The outcome from the 2010 Spending Review means that, subject to meeting a package of measures, all councils in Scotland will have a decrease in cash funding of 2.6% for revenue funding, and a reduction of 17.9% in capital. This means that the Council's estimates of required savings were fairly accurate for 2010-11, at £7.5million. The actual savings required are £8 million, although the council has agreed that it is prudent to continue to seek additional savings to provide the potential for some choice for elected members and to offset the level of anticipated reductions in revenue funding in future years.

The Budget Strategy estimates that the council will be required to achieve a corporate savings target of £18 million by 2013/14. The proposed budget strategy is based on reducing expenditure, increasing income, redesigning service provision and other initiatives such as procurement and integrated partnerships. The council has consulted with staff, management and the public to identify a range of potential options for savings. These are being analysed and prioritised in advance of the formal budget setting process in February 2011. In addition, the Council has held a series of budget holder challenge events to instil accountability for budgets, and identify areas for reductions in spend.

We will review the council's progress in meeting its cost reduction and efficiency improvement plans. Elected members have a key role to play in determining how resources are aligned to meet local needs. We will therefore monitor the development of revised political working arrangements, including Alternative Service Delivery Groups.

We will also monitor the work of the council's Budget Strategy Project Board in developing contingency plans to mitigate against the risk that savings identified in the Budget Strategy and option appraisals are not fully realised.

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## 3 Governance

### 3.1 Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The council is responsible for putting in place arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring the legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice. The council's Scrutiny Committee should have a role in monitoring these arrangements.

The Code gives the auditor a responsibility to review and, where appropriate, report findings on the council's corporate governance arrangements as they relate to:

- the council's review of its systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct, and arrangements in relation to the prevention and detection of corruption
- the financial position of the Council.

### 3.2 Overall Approach

We will assess the adequacy of the council's governance arrangements by:

- reviewing the council's overall arrangements in relation to each of the above areas
- reviewing the extent of compliance with the Code of Practice for Internal Audit in Local Government
- evaluating the council's approach to risk management, including arrangements to address the key risks identified in this section of the audit plan.

### 3.3 Risk assessment and response

On the basis of our preliminary work to date, we have identified the audit risks outlined in section 3.4 in relation to the governance aspects of our audit:

### 3.4 Key governance issues

#### Issue

#### Response

##### Shared Services

Clackmannanshire and Stirling Councils have recently agreed to pursue shared services for the provision of Education and Social Work Services. Joint Heads of Service have been appointed for each of the two services, both of whom will report directly to the Chief Executives of Clackmannanshire and Stirling. A steering group comprising of the two council leaders, two depute leaders and the two main opposition leaders will be set up to oversee implementation of the services. An officer-led Programme Board is now in place to support service tasks and monitor practical arrangements.

The proposed shared service is an innovative way of making required cost savings by benefiting from economies of scale, and will exploit the key strengths of each body. There are, however, a number of risks associated with shared services such as establishing effective leadership, governance, risk and performance management arrangements. We will therefore monitor implementation throughout 2010-11, in conjunction with our scrutiny partners.

##### Scrutiny Committee arrangements

The Scrutiny Committee has evaluated its role and remit as part of an overarching review of its effectiveness and impact. The findings from this review are due to be reported early in 2011. Our audit has identified weaknesses in existing arrangements for the role of the Scrutiny Committee which will be addressed as part of this review.

The role of the Scrutiny Committee is essential for the effective governance of the council. We provided input to the review of the council's scrutiny arrangements and will monitor the implementation of any recommendations emerging from the review as part of the annual audit process.

##### Statement of Internal Control

During 2009-10, the Council completed a self-assessment review of governance arrangements against the CIPFA/SOLACE Good Governance Framework. An action plan is being developed to allow the Council to move towards full compliance against the six core principles within the Framework. One of the key areas highlighted for development is the adoption of a local code of governance to set out how the council meets the principles of good governance. Twenty-eight councils in Scotland now have a Code in place.

We will review the framework that the Council develops to support the Statement of Internal Control. This framework should include effective risk management arrangements, an extension of the role of internal audit to provide assurances on the operation of non-financial systems, and arrangements to enable Directors to provide signed 'statements of assurance' each year confirming the effective operation of systems of internal control.

We understand that the council is reviewing the scheme of delegation, in tandem with the Scrutiny Committee's review of its own effectiveness. The review will inform a local code of governance, and should allow the Council to develop an appropriate assurance framework to support the inclusion of a Statement on Internal Control in the Council's annual accounts by 31 March 2011, and an Annual Governance Statement thereafter.

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### Internal Audit Arrangements

The Senior Auditor has recently been appointed as Revenue and Payments Manager, following a period of acting as Finance Manager. Our 2009-10 audit raised concerns regarding the long term future of the council's internal audit function, but confirmed that the council's contracted arrangements with Fife Council helped to ensure that the internal audit team continued to deliver against the audit plan.

We understand that this arrangement has been extended to help deliver the 2010-11 audit plan. The council is working to ensure that there is a clear long term strategy in place for addressing internal audit needs, including the additional requirements that will be necessary to deliver a future assurance framework.

We will review the Council's arrangements for protecting the independence of internal audit and ensuring that sufficient resource and experience is available to fulfil the audit plan. We will also consider how the Council is performing against CIPFA's recent guidance on the *Role of the Head of Internal Audit in Public Service Organisations*.

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### Contract management

#### National Fraud Initiative

The council has uploaded all relevant data for NFI 2010/11, but needs to plan effectively to ensure that a prompt start is made to following up data matches at the end of January 2011. The Council should also have regard to the self appraisal checklist in the national report published by Audit Scotland in May 2010.

We will continue to review the council's arrangements for participating in the NFI exercise, and the progress that has been made on investigating matches. We will report to Audit Scotland on the council's performance in the NFI 2010-11 cycle in February 2011 and summarise our findings in our interim management report.

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## 4 Performance

### 4.1 Introduction

The Local Government in Scotland Act 2003 established Best Value as a statutory requirement for all councils. The Act defines Best Value as 'continuous improvement in the performance of the authority's functions'. The objective of Best Value is to ensure that councils deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent, by listening and responding to the local community
- achieving sustainable development in how the council operates
- ensuring equal opportunities in the delivery of services.

### 4.2 Audit Approach

Under the National Scrutiny Plan for Local Government 2010-11, Scotland's scrutiny agencies work together to develop a shared risk assessment and Assurance and Improvement Plan (AIP) for each council area. During 2009-10, we followed up the progress made by the council, both in addressing the improvement agenda and against specific areas of risk or uncertainty identified by scrutiny partners.

Any further work on Best Value will be determined by the updated risk assessment and Assurance and Improvement Plan for 2010-11, due in April 2011.

### 4.3 Risk assessment and response

On the basis of our preliminary work to date, we have identified the audit risks outlined in section 4.4 in relation to the governance aspects of our audit:

#### 4.4 Key performance issues

##### Issue

##### Response

##### Assurance and Improvement Plan (AIP)

The council is required to achieve best value in its use of resources and to have effective arrangements in place to ensure it can demonstrate how it does this. Our recent audit found that the council is making good progress in implementing its best value improvement plan.

We continue to work with other scrutiny partners through the Local Area Network (LAN) to update the AIP which sets out a shared risk assessment of the council's arrangements for achieving best value. The LAN issued its revised AIP on 1 April 2011.

The AIP, issued in June 2010, assessed the council as low risk overall but highlighted workforce management, financial management as areas of higher risk.

##### Single Outcome Agreement

Single Outcome Agreements (SOAs) are still a relatively new mechanism for aligning public sector activity to national priorities and the Accounts Commission has no immediate plans to audit their delivery. However, the SRA and BV2 processes draw upon evidence contained within SOAs in order to consider outcomes more widely, as planning for and managing the delivery of outcomes should be central to all aspects of the council's activity.

In view of the significance of the SOA, during 2010-11, we will review the council's approach to developing governance and accountability arrangements to support SOAs. In particular, we will review how effectively the council links high-level SOA outcomes and more detailed service-level outcomes, outputs and activities, both within the council and across community planning partners. The SOA should be supported by robust performance management and reporting arrangements, which include the role of the Scrutiny Committee.

Successful delivery of SOAs depends on the degree to which they are supported by effective planning, budgeting and performance management arrangements at service-level, within councils and across partner agencies.

As part of our work on Statutory Performance Indicators, we will also review the Council's approach to public performance reporting on progress towards SOA outcomes.

##### Statutory Performance Indicators (SPIs)

The SPI direction for 2010-11 continues to incorporate two main requirements:

- that councils report a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1); and
- that councils report a range of information sufficient to demonstrate best value in relation to service performance (SPI 2).

We will review the Council's arrangements for meeting SPI reporting requirements. Specifically, we will consider whether the range of performance information reported locally is sufficient to demonstrate whether the Council is achieving Best Value. We will also consider whether arrangements are in place to ensure the reliability and accuracy of the information to be reported.

In reporting against SPIs 1 and 2, the Council will be required to report

<b>Issue</b>	<b>Response</b>
<p>performance against 25 indicators specifically defined by the Accounts Commission.</p>	
<p>The Council has also taken the opportunity to develop and report on locally determined indicators that reflect how the Council is performing as a whole.</p>	
<p><b>CIPFA Financial Management (FM) Model</b> As part of the Clackmannanshire Improvement Model, the Finance Team has undertaken a self-assessment exercise under the Public Services Improvement Framework (PSIF) and is working towards Customer Service Excellence accreditation (CSE). A range of improvement measures have also been made to improve budgetary control and monitoring.</p>	<p>One of the key areas that the CSE Model necessitates is an understanding of stakeholder needs. We will use the CIPFA FM Model to develop a questionnaire for service staff and budget holders. We will use the questionnaire to assess how well the council's current financial management is supporting services, and identify key areas for improvement.</p>
<p>The CIPFA FM provides a synergy with PSIF and CSE but is focused on a council's Finance function. The Model can be used to assess how the Finance Team:</p> <ul style="list-style-type: none"> <li>• maintains stewardship over public resources</li> <li>• uses financial management to drive organisational performance; and</li> <li>• acts as an enabler for the organisation to achieve its change agenda.</li> </ul>	
<p><b>Improving public sector purchasing</b> In March 2006, the Scottish Executive published the Review of Public Procurement in Scotland by John McClelland. The report estimated that £740 million savings over the three years to 2008/09 could have been made if public bodies significantly improved how they purchased goods and service. The report made a range of recommendations aimed at raising purchasing standards and making savings while also maintaining high quality services.</p>	<p>We will follow up the Council's progress in implementing Audit Scotland's recommendations. In particular, we will look at what action has been taken in response to the Audit Scotland report, and others, and assess what difference this has made to the Council.</p>
<p>In July 2009, Audit Scotland produced a report on the implementation of the Public Procurement Reform Programme, which the Scottish Executive launched in response to the McClelland Report. <i>Improving public sector purchasing</i> notes that there was no systematic basis for reporting procurement</p>	

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**Issue**

savings. There were also wide variations across public bodies in the quality of purchasing data and practice. Best Practice Indicators (BPIs) were not in use across all public bodies.

**Response**

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**Impact of National Performance Audit Reports**

As part of the development of joint scrutiny and shared risk assessments, Audit Scotland's national audit work will increasingly be informed by local risk assessments, with future studies programmes being more responsive to information and intelligence generated through local audit work. To maximise the impact of the national audit work programme, we are required to follow up national reports affecting the Council 3 and 12 months following publication.

We will review the progress that the Council has made in implementing recommendations from national reports. Where necessary, we will report on any weaknesses in our final audit report.

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## 5 Grants

### 5.1 Introduction

We will audit the grant claims notified to us by the council at the start of the audit, and authorised for audit by Audit Scotland, which currently are:

- housing and council tax benefit subsidy
- education maintenance allowances
- criminal justice social work services grant
- non-domestic rates.

### 5.2 Overall approach

Audit Scotland issue guidance to auditors on the audit of grant claims authorised for audit in agreement with the Scottish Government. Audit Scotland's guidance determines the extent of audit testing required for each specific grant claim.

In order to gain sufficient assurance to support our opinion on each grant claim, we are required to carry out reviews of:

- the council's arrangements for the preparation of each claim submitted for audit
- internal audit to determine the extent of reliance we can place on it for the purposes of our audit (Appendix B summarises the areas of internal audit work we plan to rely on)
- the effectiveness of the internal control framework for key financial systems relevant to each grant claim
- the materiality of balances and transactions impacting on each grant claim
- the key risks relevant to the preparation and audit of each grant claim.

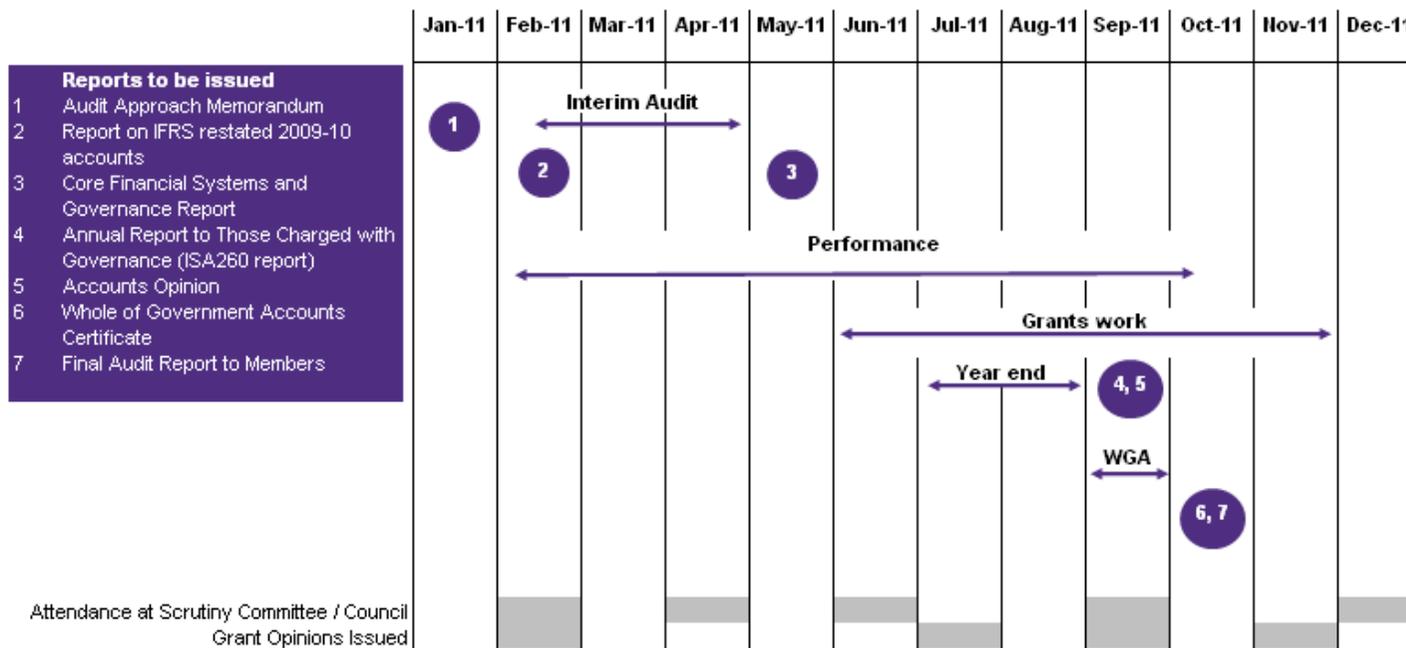
Any additional grant claims submitted for audit will be audited in agreement with Audit Scotland and subject to additional fee arrangements in negotiation with the council.

## 6 Logistics

### 6.1 Timetables and milestones

In accordance with the schedule in Appendix A, the following proposed timetable and deadlines have been set:

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.



## 6.2 Fees

Our fee is calculated in accordance with the guidance issued by Audit Scotland for determining the fee level for local government bodies. The fee is based on our professional assessment of the level of audit risk associated with a particular body. Audit Scotland requires that the agreed fee for the audit is set within the limits of the indicative fee range. Placement within the range depends on the level of work we consider necessary to perform the audit and is influenced by the number and level of risks facing the Council. In addition to the fee for the audit, Audit Scotland charges a fixed central overhead fee to meet its central running costs.

For our 2010-11 audit, we are proposing a small increase in our audit fee of £1,500 (<1%) on the 2009-10 fee level to reflect the requirement for additional work on IFRS compliance.

	<b>Current period proposed fees £</b>	<b>Prior period actual fees £</b>
Grant Thornton UK LLP fee	164,500	163,000
Audit Scotland Fixed Charge	54,100	63,700
<b>Total</b>	<b>218,600</b>	<b>226,700</b>

We have proposed this fee on the basis that:

- IFRS restated 2009-10 accounts are presented to us by **4th February 2011** for our review
- draft statutory accounts are presented to us by **30th June 2011** for audit, subject only to routine audit adjustments
- supporting schedules for all figures in the accounts are supplied by the agreed dates
- we are able to place reliance on the work of internal audit, as planned in Appendix B.

- a trial balance together with reconciled control accounts are presented to us by **4th July 2011**
- your staff are available to help us locate information and to provide explanations
- all deadlines agreed with us are met.

Our ability to deliver to the agreed timetable and fee will depend upon this. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

## 6.3 Engagement team

Our engagement team for the audit will include:

<b>Name</b>	<b>Role</b>	<b>Contact details</b>
Gary Devlin	Engagement Partner	T: 0131 659 8554 E: gary.devlin@uk.gt.com
Grace Scanlin	Audit Manager	T: 0131 659 8526 E: grace.scanlin@uk.gt.com
Paul Spinks	Technical Manager	T: 0113 200 2554 E: paul.spinks@uk.gt.com
Emma Jones	Audit Senior	T: 0141 223 0780 E: emma.l.jones@uk.gt.com

The core audit team will call on other specialist and support staff, as necessary, during the course of the audit.

If at any time you wish to discuss how our services may be improved or if you are in any way dissatisfied with the audit service you are receiving please contact Sarah Howard, our National Head of Government Audit Services ([sarah.howard@gtuk.com](mailto:sarah.howard@gtuk.com), 0113 200 2530).

## 7 The small print

### Engagement terms

The purpose of this memorandum is to highlight the key elements in the proposed strategy for the audit of Clackmannanshire Council for the year ended 31st March 2011.

The document is also used to report to management in order to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

### Confidentiality

This memorandum is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities arising under our audit engagement. The contents of this Audit Approach Memorandum should not be disclosed to third parties without our prior written consent.

### Ethical standards

We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

### Roles and responsibilities

In planning our work, we have due regard to the Statement of Responsibilities issued by Audit Scotland, which sets out the respective roles and responsibilities of the Council and its auditors.

As Section 95 Officer, the Director of Finance and Corporate Services is responsible for the preparation of the financial statements which show a true and fair view of the Council's affairs and for making available to us all the information and explanations we consider necessary.

The Director of Finance and Corporate Services is also responsible for putting proper arrangements in place to ensure that public business is conducted in accordance with the law and proper standards, public money is safeguarded

and properly accounted for, economy, efficiency, effectiveness and Best Value are achieved in use of resources.

### Communication of adverse or unexpected findings

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the business.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with management and documented for the Scrutiny Committee's consideration.

### Audit quality assurance

Grant Thornton's government audit practice is currently monitored by Audit Scotland. We also comply with Grant Thornton's internal quality standards and the firm is inspected by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements. The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton UK LLP also conducts internal quality reviews of engagements.

We would be happy to discuss further the firm's approach to quality assurance.

### Independence and robustness

To maintain our independence as auditors we ensure that:

- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Commissioner
- any non-audit fees do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

### Communication with those charged with Governance

Communication with those charged with governance is an essential element of the audit. We will discuss with management and the Scrutiny Committee the scope of our work in advance. We propose that we meet with them following the conclusion of our procedures in order to communicate the matters arising.

We would also welcome management and the Scrutiny Committee's input in relation to any areas of known concern within the Council.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

## A Key Outputs and Deadlines

<b>Audit Reports</b>	<b>To be issued to Management</b>	<b>Management response</b>	<b>Presented to Scrutiny Committee / Council</b>
<b>Audit Planning</b>			
Audit Approach Memorandum	10th January 2011	21st January 2011	24th February 2011
<b>Financial Statements</b>			
Report on the IFRS 2009-10 Restated Accounts	14th June 2011	30th June 2011	2011
Report on 2010-11 financial statements audit (ISA260)	22nd August 2011	29th August 2011	<i>22nd September 2011</i>
<b>Governance</b>			
Core financial systems and governance report	23rd May 2011	6th June 2011	23rd June 2011
<b>Overall Audit</b>			
Final Report to Members and Accounts Commission for Scotland	7th October 2011	28th October 2011	1 December 2011
<b>Other Outputs</b>		<b>To be issued</b>	
<b>Performance audit</b>			
Response to national studies	February and August 2011		
Assurance and Improvement Plan	1st April 2011		
Improving Public Sector Purchasing Follow Up Report	30th August 2011		
<b>Grant claim audits</b>			
Non Domestic Rates Income Return	25th February 2011		
Education Maintenance allowance	31st July 2011		
Criminal Justice Social Work grant	30th September 2011		
Housing benefit and council tax benefit	30th November 2011		

## B Planned reliance on Internal Audit

### Introduction

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 annual assessment of the internal audit function.

The Council operates with a small internal audit section which has undergone a period of significant change in recent years. We will review the work of internal audit to determine the extent of reliance we can place on it for the purposes of our audit. This avoids unnecessary duplication of audit work, and minimises any disruption to the Council caused by the audit process.

### Planned areas of reliance

Based on a review of the internal audit plan for 2010-11, updated for progress as at December 2010, we will plan to place reliance on the work of internal audit in the following areas:

- Following the Public Pound
- Sundry Debtors
- Imprests and council funds
- Capital income
- Rent setting, collection and arrears
- Procurement

