Comhairle nan Eilean Siar
External Audit Plan
2011/12

DRAFT
Overview

1. This document summarises the work plan for our 2011/12 external audit of Comhairle nan Eilean Siar (the Comhairle).

2. The core elements of our work include:

   - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes leading to the preparation of a 3 year rolling Assurance and Improvement Plan (AIP) for the Comhairle and a national scrutiny plan. Contributing to best value audits and other scrutiny responses agreed through the SRA process. Participating in the 2012/13 interim refresh of the scrutiny plans.

   - a review of the internal audit service

   - an interim audit, taking account of the work of internal audit, of accounting systems and corporate governance arrangements (including the National Fraud Initiative)

   - an assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction

   - an audit of the Comhairle’s 2011/12 financial statements.

   - provision of an opinion on a number of grant claims and returns including Whole of Government Accounts

   - undertaking other work requested by Audit Scotland (for example supporting the impact of national performance audit studies)
Introduction

Audit appointment

3 The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies such as police and fire and rescue boards. The Commission’s work is governed mainly by the Local Government (Scotland) Act 1973.

4 Audit Scotland is a statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.

5 The Accounts Commission has appointed Scott-Moncrieff as external auditor of Comhairle nan Eilean Siar for the five year period 2011/12 to 2015/16. This document comprises the audit plan for the 2011/12 external audit of Comhairle nan Eilean Siar (the Comhairle). This plan summarises:

- the responsibilities of Scott-Moncrieff as external auditors
- our audit strategy
- our planned audit work and how we will approach it
- our proposed audit outputs, timetable and fee
- background to Scott-Moncrieff and the audit team

Adding value through the audit

6 All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Comhairle through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Comhairle promote improved standards of governance, better management and decision making and more effective use of resources.

7 Any comments you may have on the service we provide would be greatly appreciated at any time. As is our standard practice we will issue satisfaction forms to the Comhairle once our audit is completed to ensure that you have a formal process for feeding back comments to us.

Scott-Moncrieff
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL
(0131) 473 3500
Responsibilities of Scott-Moncrieff

Code of Audit Practice

8 The Code of Audit Practice prepared by Audit Scotland and approved by the Accounts Commission and Auditor General for Scotland, sets out the ways in which auditors should carry out their functions under the Local Government (Scotland) Act 1973. It is a condition of our appointment that we follow this Code. The most recent Code was published in May 2011 and applies to audits for financial years starting on or after 1 April 2011.

Auditor responsibilities

9 The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and ‘value for money’.

10 Our main objectives as detailed in the Code of Audit Practice are shown in the table below:

<table>
<thead>
<tr>
<th>Audit area</th>
<th>Audit objective</th>
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</thead>
</table>
| Best Value, use of resources and performance | • To participate in arrangements established by the Accounts Commission to co-operate and co-ordinate activity with other scrutiny bodies, and where appropriate Scottish Ministers. These include, in particular, the arrangements established by the Accounts Commission for the planning of local government audit, inspection and scrutiny.  
• To review and report on the Comhairle’s arrangements to achieve best value (a team from Audit Scotland is primarily responsible for discharging this responsibility).  
• To review and report on other aspects of the Comhairle’s arrangements to manage their performance as they relate to economy, efficiency and effectiveness in the use of resources.  
• To review and report on the arrangements that the Comhairle has made to prepare and publish statutory performance information in accordance with directions issued by the Accounts Commission. |
<table>
<thead>
<tr>
<th>Audit area</th>
<th>Audit objective</th>
</tr>
</thead>
</table>
| Financial statements | • To provide an opinion on whether the Comhairle’s [financial statements](#) give a true and fair view of the financial position and their expenditure and income and whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements  
• To review and report on, as appropriate, other information published with the financial statements, including the annual governance statement, statement on internal control or statement on internal financial control and the remuneration report  
• To review and report on the [whole of government accounts](#) return  
• To examine and report on [grant claims and other returns](#) submitted by the Comhairle (in accordance with guidance issued by Audit Scotland)                                                                                                                   |
| Corporate Governance | • To review and report on the Comhairle’s [corporate governance arrangements](#) as they relate to:  
  • its review of its systems of internal control, including its reporting arrangements  
  • the prevention and detection of fraud and irregularity  
  • standards of conduct and prevention and detection of corruption  
  • the Comhairle’s financial position |
Audit Strategy

Risk-based audit approach

11 We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Comhairle. This ensures that our audit focuses on the areas of highest risk.

12 Our audit planning is based on:

- discussions with senior officers at the Comhairle
- discussion with previous external auditors (Audit Scotland)
- our understanding of the sector and its key priorities and risks
- discussions with internal audit and review of their plans and reports
- review of the Comhairle’s corporate strategies and plans
- review of the Comhairle’s corporate risk register
- consideration of any relevant self-evaluation activity by the Comhairle
- consideration of the work of other inspection bodies
- participation in the shared risk assessment process

13 Planning is a continuous process and our audit plans are therefore updated during the course of the audit to take account of developments as they arise.

Key priorities and risks

14 The scope of our audit work is informed by Audit Scotland's Priorities and Risks Framework (PRF) tool. The PRF is an audit planning tool designed by Audit Scotland and issued to all external audit providers within the sector. The PRF is designed to assist auditors in developing an understanding of the client’s business and environment. We also hold discussions with key individuals within the Comhairle to identify those issues and risks that are unique to the local situation.

Professional standards and guidance

15 We perform our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, applicable Practice Notes, bulletins and other guidance issued by the Auditing Practice Board (APB). In particular, we comply with the APB’s Practice Note 10 on the Audit of Financial Statements of Public Sector Bodies in the United Kingdom (revised).
Internal Audit

16 The internal audit service is a key component of the Comhairle’s internal control framework. Audit Scotland assumes when setting the indicative audit fees that internal audit work is undertaken upon which auditors can place reliance in accordance with auditing standards.

17 As part of our corporate governance responsibilities, we will review the Comhairle’s arrangements to ensure that the work of the Comhairle’s internal audit function is of sufficient quality and volume and complies with best practice. Our review will be performed in accordance with the Code of Audit Practice and International Standard on Auditing 610 – *Considering the work of internal audit*.

18 We have discussed with the Chief Internal Auditor the best way to ensure effective and efficient use is made of the combined audit resource. As part of our 2011/12 work we have planned to place reliance on internal audit work in the following areas:

- Schools PPP
- Capital contracts and project management (Social Work & CS)
- Project management arrangements in capital contracts (Technical Services)
- Borrowing, loans and treasury (F.C.R)
- Accounts Payable (Creditors)
- Asset register/Asset Rentals System/Management
- Non domestic rates
- Purchasing – e procurement
- Cash receipting
- Best value

19 We will also review the findings arising from all other internal audit work relevant to our audit.

Shared Risk Assessment and Joint Scrutiny Planning

20 A key aspect of the Scottish Government’s scrutiny agenda is to better co-ordinate and streamline scrutiny and achieve greater effectiveness, while at the same time protecting the independence of scrutiny bodies. The Scottish Government requested that the Accounts Commission take on the role of facilitating and co-ordinating scrutiny. The scrutiny bodies that engage with the Comhairle have established a shared risk assessment approach to identify the scrutiny risks facing the Comhairle and developed a range of proportionate approaches in response to the risk assessment.

21 A local area networks (LAN) has been established at the Comhairle. The LAN brings together local scrutiny representatives, including external audit. Local area networks are responsible for drafting a 3 year rolling Assurance and Improvement Plan (AIP) which sets out the shared risk assessment of the Comhairle and the proposed scrutiny response. The plan covers all scrutiny
activity at a corporate and service level. It does however exclude scrutiny activity at individual unit level such as school, residential home or day care centre.

22 The Comhairle’s first AIP was published in 2010. It set out the scrutiny activity proposed for the period from April 2010 to March 2013. The LAN met again in January 2011 to revise its assessment and reconsider the level of scrutiny required for the Comhairle. The update was published in May 2011. Appendix 1 sets out the proposed scrutiny activity for this period 2011-2014.

23 We are currently participating in a refresh of the Comhairle’s Assurance and Improvement Plan. The shared risk assessment and scrutiny plan will be reviewed in light of any recent work carried out by local scrutiny representatives, including the recent best value audit (paragraph 32). The AIP will not be redrafted. We will update our 2010/11 audit plan if required following completion of this review.

**Partnership working with Audit Scotland**

24 We are independent of Audit Scotland and are responsible for forming our own views and opinions however we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and to further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

25 In addition to the Priorities and Risks Framework, Audit Scotland issues general planning guidance which summarises all of the areas we are expected to cover during our audit. Audit Scotland also facilitates regular sector meetings where local authority auditors discuss key issues arising during the audit year.

26 Audit Scotland also undertakes national reviews on issues affecting local authorities. We will review the Comhairle’s arrangements for taking action on any issues identified through the national reports which have a local impact.

**Communications with those charged with governance**

27 Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the Comhairle that these communications will be through the Audit and Scrutiny Committee and/or Audit Panel.
Best Value, use of resources and performance

28 Local authorities have a statutory duty to make arrangements to secure best value; defined as the continuous improvement in the performance of functions. In securing best value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or ‘value for money’) and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision.

29 The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.

30 Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with the directions issued by the Accounts Commission.

31 This section sets out the audit work that we will perform in 2011/12 in relation to best value, use of resources and performance.

Best Value

32 The Local Government in Scotland Act 2003 introduced duties for Scottish local authorities relating to Best Value and Community Planning. The Accounts Commission holds authorities to account for these duties. The Commission has approved arrangements under Section 53 of the Local Government Act 2003, so that a team in Audit Scotland in primarily responsible for discharging the auditors’ responsibilities in this area. The conclusions are provided in a published report by the Controller of Audit. Auditors are key members of this team. The Commission may make findings on the report and/or hold hearings.

33 The timing and scope of these audits and other scrutiny work necessary to support them is determined through the shared risk assessment process (paragraph 20).

34 In November 2011, the Accounts Commission published its findings following its audit of best value and community planning at Comhairle nan Eilean Siar. The Commission concluded that Comhairle nan Eilean Siar’s overall performance is satisfactory and it has fair prospects for future improvement. The Commission last assessed the Comhairle’s best value arrangements in 2006. Since then, the Commission concluded that there has been slow progress overall.
While the Comhairle has put some of the basic building blocks in place for providing best value, there remain significant aspects requiring best progress.

35 The Comhairle is due to prepare an improvement plan based on the findings. Audit Scotland and the Accounts Commission will monitor progress in implementing this plan. The Accounts Commission has also requested a further audit to report on the progress in around 12 months time.

36 The best value report noted that there is scope for improvement in areas such as performance management, asset management, risk management and procurement. During 2011/12, we will monitor the progress made by the Comhairle in developing and implementing arrangements in these areas.

**Single Outcome Agreements**

37 Single outcome agreements (SOAs) align public sector activity to national priorities. The shared risk assessment process (paragraph 20) and best value audits will draw upon evidence contained with the SOA in order to consider outcomes more widely. Successful delivery of SOAs will depend on the degree to which they are supported by effective planning, budgeting and performance management arrangements at service level, within the Comhairle and across partner agencies.

38 We are not required to audit performance against the SOA. During the year we will however consider and report on, where appropriate, the approach the Comhairle and its partners are taking in relation to:

- The development of governance and accountability arrangements to support the SOA in line with Scottish Government advice
- The links between the SOA outcomes and more detailed service level outcomes, outputs and activities, both within the Comhairle and across community planning partners
- Whether the SOA is supported by robust resource planning arrangements at a service level within the Comhairle and jointly with community planning partners
- Whether SOAs are supported by robust performance management and reporting arrangements at a corporate, service level and jointly with partners
- Reporting progress towards SOA outcomes to the Scottish Government, in line with guidance on annual reporting
- Public performance reporting (PPR) on progress towards SOA outcomes
- Whether links exist between public performance reporting of SOA outcomes and other forms of PPR such as statutory performance indicators, other local performance indicators and community planning partners public performance reporting

**Performance Information**

39 One of the ways of measuring the Comhairle performance is through the statutory performance indicators (SPIs). For 2009/10, the Accounts Commission made a significant change to the SPI
The direction which brought a significant change in approach. The Accounts Commission have decided that these SPI requirements (per the 2008 Direction) should continue for 2011/12. The statutory deadline for the Comhairle to place details of statutory performance indicators results in the public domain is 30 September of each year.

40 The direction incorporates the following main requirements:

- The Comhairle report a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1)
- The Comhairle report a range of information sufficient to demonstrate best value in relation to service performance (SPI 2)

41 In reporting against the above, the Comhairle is required to report performance against 25 specified indicators as defined in the 2008 direction. In addition, the Comhairle must select a range of non-specified indicators to demonstrate Best Value and compliance with the 2008 Direction. The Local Government Act 1992 lays a duty upon the Comhairle to ensure that it has in place such arrangements for collecting, recording, and publishing performance information that will allow it to comply the a Direction from the Commission. The Comhairle must also ensure that, so far as is practicable, the information published is accurate and complete.

42 As external auditors, we have a statutory duty to ensure that the Comhairle has made such arrangements for collecting, recording and publishing performance data as are required to ensure that, so far as practicable, everything published is accurate and complete.

**National Performance Audit Studies – Impact and Follow Through**

43 Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the Comhairle include:

- The cost of public sector pensions in Scotland
- Community Health Partnerships
- How councils work: an improvement series for councillors and officers - Arm's-length external organisations (ALEOs): are you getting it right?
- Transport for health and social care
- Scotland's public finances: addressing the challenges
- Modernising the planning system
- The role of community planning partnerships in economic development

44 There is an expectation that local government bodies review the national studies relevant to them and action them accordingly. As external auditors, we consider whether the Comhairle has discussed the national report at a committee; whether the Comhairle has carried out self assessment against the national report and as result has produced a separate action plan to
take forward any improvements, allowing the Comhairle at least six months to deal with the report after publication.

45 In 2011/12 we are also required to carry out targeted follow up work on *Maintaining Scotland’s roads: a follow up report* (published February 2011). Audit Scotland will provide us with follow up questions on these reports in 2011/12. For each follow up we will produce a local audit report which will include a judgement on the extent of progress and with improvement actions where appropriate.
Financial Statements

46 Audited bodies’ financial statements are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the Comhairle’s financial statements.

Approach to audit of financial statements

47 Our opinion on the financial statements will be based on:

Risk-based audit planning

48 As already described, we focus our work on the areas of highest risk and this also applies to our audit of the financial statements. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based. This risk assessment is informed by our Priorities and Risks Framework (PRF).

An audit of key systems and internal controls

49 We evaluate the key accounting systems and internal financial controls and determine whether these are adequate to prevent material misstatements in the financial statements.

50 The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the Comhairle’s own policies and procedures.

51 Wherever possible we will place reliance on internal audit’s reviews of systems and controls. We will update the risk assessment following our evaluation of systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the financial statements

52 During our final audit we will test and review the material amounts and disclosures in the financial statements themselves. Again, the extent of testing will be based on the risk assessment.

53 Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatements and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (based on international financial reporting standards).
**Independent auditors’ report**

54 Our opinion on whether the financial statements give a true and fair view of the financial position and its expenditure and income will be set out in our independent auditors’ report which will be included with the financial statements.

**Materiality**

55 Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditors’ report.

56 The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.

**Audit Issues Facing the Comhairle**

57 In determining where to direct our audit work and the allocation of resources we have considered the risks and circumstances that apply to the Comhairle. Our understanding of the risks facing the Comhairle has been determined through discussion with key individuals within the Comhairle and the priorities and risks framework tool. The following elements have influenced our approach to the audit of the financial statements at the Comhairle:

**The Code**

58 Scottish local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 (the 2003 Act) to observe proper accounting practices. The ‘Code of Practice on Local Authority Accounting in the United Kingdom (the Code) constitutes proper accounting practice for the purposes of section 12 and therefore authorities are required to comply with the Code when preparing their statement of accounts.

59 The Code specifies the principles and practices of accounting required to prepare accounts which give a true and fair view of the financial position and transactions of a local authority, and to prepare group financial statements where required. 2010/11 was the first year that the local authority accounting code was based on international financial reporting standards (IFRS). The move to an IFRS based Code from a UK GAAP based statement of recommended practice (SORP) resulted in a number of significant changes in accounting practice.

60 In comparison with 2010/11, only a few changes have been made to the Code applicable to the 2011/12 financial statements and these, in general, relate to disclosure and presentation. We will summarise these to the Comhairle in our financial statements strategy.

61 A new section has however been added to the Code that requires authorities to account for tangible heritage assets in accordance with FRS 30 Heritage assets. Heritage assets are those that are intended to be preserved in trust for future generations and are held and maintained
principally for their contribution to knowledge and culture. There is a risk that the Comhairle does not identify such assets and account for them in accordance with the Code.

**Significant Trading Operation**

62 In 2010/11, the Comhairle’s only significant trading operation, Building Maintenance, failed to break even on a cumulative basis over a three year period (cumulative loss £0.894 million). We understand action has been taken by the Comhairle to review the operation and it is projected to break even in 2011/12. We will continue to monitor the position during the course of our 2011/12 audit.

**Western Isles School Project**

63 The ComHAire has secured funding to build six new primary and secondary schools on the Western Isles. The overall construction cost is £74 million with schools being completed by August 2012. The ComHAire is also committed to lifecycle maintenance costs of these schools for the subsequent 30 years. Cumulative expenditure on the project at 31 March 2011 was £22.2 million. There is a risk that expenditure incurred on this project is not accounted for in accordance with the Code. During our audit of the financial statements, we will review the accounting treatment of any expenditure on this project to ensure compliance with the Code.
Governance Arrangements

64 Corporate Governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. Through the chief executive and section 95 officer, the Comhairle is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance in monitoring these arrangements.

65 This section sets out our audit approach to our audit of the Comhairle’s governance arrangements.

Statements of corporate governance or internal control

66 To ensure the proper conduct of its business, the Comhairle is responsible for developing and implementing adequate systems of internal control, including risk management, financial, operational and compliance controls.

67 As external auditors, we are required to review and report on the governance statement or statement on internal financial control. We will review and where appropriate examine evidence relevant to the Comhairle’s arrangements in accordance with any guidance issued by Audit Scotland. We are not however required to consider whether the statement covers all risks or controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with our knowledge of the Comhairle.

68 A working group has been established to review the Local Authority Accounts (Scotland) Regulations 1985. This group comprises representatives from the Scottish Government, CIPFA, council’s, Audit Scotland and audit firms. The aim of the review is to identify whether the existing regulations require any amendments, or any new regulations are required to give the full effect to sections 96 to 104 of the 1973 Act, reflecting on changes in recognised best practice, legislation and accounting practices since 1985. The group is currently considering a number of different items including for example, the approval process for the statutory accounts and also areas not covered by the existing legislation. One such item currently being considered is the requirement for a council to undertake a review at least once a year of the effectiveness of internal control and for a statement on internal control to be prepared, approved and published as part of the annual statutory accounts. In June 2007, CIPFA /SOLACE published Delivering Good Governance in Local Government: Framework. This guidance recommends that a statutory review of internal control be reported in an annual governance statement.

69 The 2011/12 Code also requires (regardless of whether a governance statement or SSIFC is prepared) to include a specific statement on the whether the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of
the Chief Financial Officer in Local Government, and where they do not, an explanation of how they deliver the same impact.

70 To date, the Comhairle has published a statement on internal financial control within its financial statements. A separate governance statement has also been prepared (although not included within the financial statements publication). Looking forward, and in line with best practice, we understand the Comhairle intend to prepare a governance statement as part of the financial statements.

**Fraud and irregularity**

71 It is the Comhairle's responsibility to establish arrangements to prevent and detect fraud and other irregularity, including:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity
- participating, when required, in data matching exercises carried out by Audit Scotland

72 As external auditors, we are required to review and report on these arrangements. We will do this in a number of ways:

- Our risk-based audit approach will focus on specific areas of high risk and provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity.
- We will review the Technical Bulletins produced by Audit Scotland with regard to fraud reports in local authorities and ensure that the Comhairle has adequate arrangements in place to prevent similar frauds occurring.
- We will examine the policies, strategies, standing orders and financial instructions issued by the Comhairle to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control.

73 We are also required to report any fraud above £5,000 to Audit Scotland and have agreed with the Comhairle that we will be informed of any frauds if and when they are identified.

**National Fraud Initiative**

74 The National Fraud Initiative (NFI) is a counter-fraud exercise undertaken by Audit Scotland in conjunction with the Audit Commission, external auditors and a number of public sector bodies. Participating organisations are required to submit a range of data, such as payroll, pensions, benefits and creditors data, to a central database where it is matched up in order to identify potential frauds. Following the 2008/09 NFI exercise Audit Scotland reported that the cumulative outcomes from NFI in Scotland were around £58m.
The exercise is carried out biennially and the most recent exercise was during 2010/11. Data was uploaded for the 2010/11 exercise in October 2010 and the matches were released to participating organisations at the end of January 2011. The Comhairle’s previous external auditors commented in the 2010/11 Annual Audit Report to the Comhairle and Controller of Audit that the Comhairle had made little progress in past NFI exercises with no savings identified through the process. The Comhairle’s fraud officer was on maternity leave during the 2010/11 exercise. The Comhairle commissioned the services of a fraud officer from Glasgow City Council to investigate matches arising from the 2011 NFI.

As part of our 2011/12 audit we are expected to monitor the Comhairle’s participation in NFI. This will include:

- Conducting further enquiries and tests to be able to confirm that the questionnaire prepared by the outgoing auditor remains valid
- Monitoring that the Comhairle review the council tax and electoral roll matches promptly upon them being made available
- Monitoring the Comhairle’s preparations for the 2012/13 data upload in October 2012
- Including a reference to NFI in our 2011/12 annual audit report to members and the Controller of Audit

**Standards of conduct and arrangements for the prevention and detection of bribery and corruption**

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance.

We will consider whether the Comhairle has adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. Our work in this area will include a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and the entity's code of conduct. Our review will also consider the controls in place to prevent and detect corruption with regard to the tendering and awarding of contracts, consents and licences, secondary employment of staff, hospitality, pecuniary interests of members and officials and the disposal of assets.

**Financial position**

As part of our audit, we are required to consider the Comhairle’s financial standing. Informed by any issues identified through our PRF assessment, this involves a review of the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the Comhairle’s operations and use of resources.
Our Annual Audit Report to the Comhairle and the Controller of Audit will include our comments on whether the Comhairle’s financial position is soundly based, with particular regard to:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- the ability to meet known or contingent statutory and other financial obligations
- responses to developments which may have an impact on their financial position
- the Comhairle’s long-term financial strategy and the financial risks associated with the strategy
- the financial reporting and monitoring arrangements.
# Audit Outputs, Timetable and Fee

## Audit outputs

<table>
<thead>
<tr>
<th>Audit output</th>
<th>Format</th>
<th>Description</th>
<th>Target date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Plan</td>
<td>Report</td>
<td>This report summarises the work plan for our 2010/11 external audit of the Comhairle</td>
<td>14 December 2011</td>
</tr>
<tr>
<td>Financial Statements Strategy</td>
<td>Report to Management</td>
<td>The purpose of this document is to provide the Comhairle with a clear understanding of our requirements of the Comhairle, and our approach and expectations, for the preparation and audit of the financial statements for the year ending 31 March 2012</td>
<td>8 June 2012</td>
</tr>
<tr>
<td>Interim Management Letter</td>
<td>Report</td>
<td>This report will summarise the findings of our review of the Comhairle’s corporate governance arrangements and key financial systems.</td>
<td>8 June 2012</td>
</tr>
<tr>
<td>Statutory Performance Indicators</td>
<td>TBC</td>
<td>Our overall findings will be incorporated into our Annual Report to the Comhairle and the Controller of Audit</td>
<td>30 September 2012</td>
</tr>
<tr>
<td>Whole of Government Accounts</td>
<td>Audit certificate</td>
<td>This certificate will contain our opinion on whether the consolidation pack is consistent with the Comhairle’s audited financial statements</td>
<td>30 September 2012</td>
</tr>
<tr>
<td>Independent Auditors’ Report</td>
<td>Report</td>
<td>This report will contain our opinion on whether the financial statements give a true and fair view of the financial position and its income and expenditure</td>
<td>30 September 2012</td>
</tr>
<tr>
<td>Annual Report on the Audit to the Comhairle and the Controller of Audit</td>
<td>Report</td>
<td>At the conclusion of each year’s audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinion, conclusions and significant issues arising from the work. This report will pull together all of our work on best value, use of resources and performance, financial statements and governance arrangements.</td>
<td>30 September 2012</td>
</tr>
<tr>
<td>Audit output</td>
<td>Format</td>
<td>Description</td>
<td>Target date</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Management Report on the Comhairle’s financial accounting systems and financial statements</td>
<td>Report</td>
<td>The report will summarise the results of our 2011/12 review of the Comhairle’s key financial systems. It will include recommendations arising from our audit work on the financial statements and audit of grant claims. All recommendations considered to be significant will be reported in our Annual Report on the Audit to the Comhairle and the Controller of Audit.</td>
<td>December 2012</td>
</tr>
<tr>
<td>Audit (Reports) opinions on grant claims and other returns</td>
<td>Audit certificate</td>
<td>We are required to audit and report on a number of grant claims and returns submitted by the Comhairle. A list of grant claims to be audited in 2010/11 is included in Appendix 3.</td>
<td>All within 3 months of receiving certified claim and full supporting schedules</td>
</tr>
</tbody>
</table>

81 Prior to submitting our outputs, we will discuss all issues with the relevant line manager to confirm factual accuracy and agree a draft action plan where appropriate. We will endeavour to supply a draft report within three weeks of completion of the fieldwork. We will require formal management responses within two weeks of receipt of the draft report.

82 Due to particular time constraints for the production of our annual audit report we will need management responses within one week of the receipt of the draft report.

83 The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

**Audit timetable**

84 The dates for our interim and final audits will be discussed in advance with the Director of Finance & Corporate Resources. A timetable, including target dates for audit outputs is summarised below.
Provisional 2011/12 Audit Calendar

December/January – Planning meetings with Audit Scotland and senior officers from the Comhairle

14 December 2011 – presentation of annual audit plan to Audit and Scrutiny Committee

February 2012 – follow up local response to national performance audits

February- June - Interim visit covering financial systems, governance arrangements and NFI

30 June 2012 - Finalisation of the 2011/12 unaudited accounts

July 2012 - follow up local response to national performance audits

Final audit visit including review of statutory performance information

Final audit visit

August 2012- targeted follow up of performance audit (paragraph 45)

September 2012 - Attendance at Audit and Scrutiny Committee and presentation of Annual Audit Report.

30 September 2012 – Submission of audited WGA pack to Scottish Government

Benefits subsidy claim audit plus other grant claim work.
**Audit fee**

85 Audit Scotland sets an audit fee range and the actual fee is agreed between the appointed auditor and the audited body. Placement within the range depends on the level of work we consider requires to be undertaken and is influenced by the nature and extent of risks facing the Comhairle. Our proposed fee for the 2011/12 audit of the Comhairle is £222,332 (inclusive of VAT) which is at the top end of the indicative fee range and includes the Comhairle’s contribution (previously referred to as the fixed audit charge). The proposed fee reflects this being the first year of our audit appointment and the resource required for us, as your external auditors, to learn and understand the priorities and risks facing the Comhairle.

86 Our audit 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 Accounts Commission
- attendance at relevant Audit Committees
- access to advice and information on relevant audit issues
- all travel and subsistence costs

87 In determining the agreed fee we have taken account of the risk exposure of the Comhairle and the management assurances in place. We have assumed receipt of the draft accounts and working papers by 30 June 2011. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.
Appendix 1 – Shared Risk Assessment: Assurance and Improvement Plan 2011-14

The Assurance and Improvement Plan (AIP) sets out scrutiny activity at the Comhairle for the period from April 2011 to March 2014. It is the product of a collaborative approach adopted by the following scrutiny bodies operating at the Comhairle:

- Audit Scotland
- Care Inspectorate
- Education Scotland
- Scottish Housing Regulator
- External audit (previously Audit Scotland, Scott-Moncrieff from April 2011)

This appendix summarises the outline summary of scrutiny activity as detailed in the Comhairle’s AIP. A copy of the Comhairle’s AIP can be accessed from http://www.audit-scotland.gov.uk/work/scrutiny/docs/Eilean_Siar.pdf

<table>
<thead>
<tr>
<th>Scrutiny activity</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best Value work to be carried out. This will cover outcomes, services and corporate assessment areas (planned scrutiny work carried forward from previous AIP)</td>
<td>Apr:</td>
</tr>
<tr>
<td></td>
<td>May:</td>
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<td></td>
<td>June:</td>
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<td>July:</td>
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<td></td>
<td>Jan:</td>
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<tr>
<td></td>
<td>Feb:</td>
</tr>
<tr>
<td></td>
<td>Mar:</td>
</tr>
<tr>
<td>HMIE will carry out a further review of the ways in which the EPS has continued to engage with stakeholders to deliver improved outcomes for children and young people in line with ECS priorities and objectives (planned scrutiny work carried forward from previous AIP)</td>
<td>Apr:</td>
</tr>
</tbody>
</table>
SWIA will take forward the issues raised in their recent follow up visit through its link inspector arrangements with the Comhairle and its initial Scrutiny Level Assessment (ISLA) process (new scrutiny work identified in the AIP update)

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<tr>
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</thead>
<tbody>
<tr>
<td>SCSWIS post ISLA</td>
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<tr>
<td>Audit Scotland Fire and Rescue</td>
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<tr>
<td>Adoption and Fostering (TBC)</td>
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<tr>
<td>Benefits Performance Audit (new scrutiny work identified in the AIP update)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Scrutiny activity</td>
<td>Apr</td>
<td>May</td>
<td>June</td>
<td>July</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Best Value follow-up (a brief follow up to identify the initial actions taken as a response to the Best Value report (date of on site work TBC)</td>
<td></td>
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</tbody>
</table>
Appendix 2 – Long-Term Audit Plan

We adopt a cyclical audit approach to our work where possible. This means that we do not perform detailed reviews of each audit area every year. Our long-term audit plan outlines the key systems and areas of the audit that we are planning to review over the course of our five year appointment. We have also highlighted the areas where we have placed reliance and intend to place reliance on the work of internal audit.

This plan has been prepared based on the current environment however our audit work will be directed to high risk areas during the year and may be subject to change.

Key:

✔✔   External audit detailed review
✔   External audit brief review
I   Reliance to be placed on the work of internal audit

Corporate Governance

<table>
<thead>
<tr>
<th>Audit Work</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
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<tbody>
<tr>
<td>Statement on Internal Financial Control/Governance Statement</td>
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<td>Standards of Conduct</td>
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<tr>
<td>Fraud &amp; Irregularity</td>
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<td>✔</td>
<td>✔✔</td>
<td>✔</td>
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<td>Review of Internal Audit</td>
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<td>Financial Position</td>
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<td>National Fraud Initiative</td>
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Financial Statements

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<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
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</thead>
<tbody>
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<td>Audit of the financial statements</td>
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Systems of Internal Control – Revenues and Benefits

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<th>2013/14</th>
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<td>Council Tax</td>
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<td>Non Domestic Rates</td>
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<td>Cash Receipts and Banking</td>
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### Audit Work

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<th>2015/16</th>
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<td>Council Tax and Housing Benefit</td>
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<td>I</td>
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<td>✔ ✔</td>
<td>✔ ✔</td>
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<td>Sundry Income</td>
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### Systems of Internal Control – Expenditure

<table>
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<th>2013/14</th>
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</thead>
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<td>✔</td>
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<tr>
<td>Ordering, Certification and Creditor Payments</td>
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<td>✔ ✔</td>
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<td>✔</td>
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<td>✔ ✔</td>
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<td>Members Allowances and Expenses</td>
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<td>✔</td>
<td>✔</td>
<td>✔ ✔</td>
<td>✔</td>
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<td>Capital Contracts</td>
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<td>✔ ✔</td>
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### Systems of Internal Control – Other Areas

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<tr>
<th>Audit Work</th>
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<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Ledger</td>
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<td>✔</td>
<td>✔</td>
<td>✔ ✔</td>
<td>✔</td>
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<tr>
<td>Budgetary Control</td>
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<td>✔</td>
<td>✔ ✔</td>
<td>✔ ✔</td>
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<td>Treasury Management/Prudential Code</td>
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<td>✔ ✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Asset Register</td>
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<td>✔ ✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Following the Public Pound</td>
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<td>✔</td>
<td>✔</td>
<td>✔ ✔</td>
<td>✔</td>
</tr>
</tbody>
</table>
Appendix 3 - Grant Claims and Returns to be audited for 2011/12

1. Education Maintenance Allowance
2. Housing and Council Tax Benefit Subsidy Claim
3. Non Domestic Rate Income Return
4. Social Work Services in the Criminal Justice System Grant
Appendix 4 – Your Audit Team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 17 partners and over 200 staff operating from two offices in Edinburgh and Glasgow. We are also part of the global Moore Stephens network which allows access to excellent technical support.

**Extensive public sector audit experience**

We have been external auditors within the public sector for at least fifty years, initially in local government. Our current Audit Scotland external audit appointments include Comhairle nan Eilean Siar, North Lanarkshire Council, NHS Lanarkshire, NHS Borders, five special health boards and FE colleges.

**Your audit team**

We are committed to providing high levels of relevant expertise and continuity of staffing. All of the key members of our management team are anticipated to be in place throughout our audit appointment to the Comhairle.

<table>
<thead>
<tr>
<th>Audit Team</th>
<th>Nick Bennett ACA, CA, CPFA Managing Audit Partner</th>
<th>Nick acts as the overarching engagement lead for all of our Audit Scotland appointments, with overall responsibility for the service we provide.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nick</td>
<td><a href="mailto:nick.bennett@scott-moncrieff.com">nick.bennett@scott-moncrieff.com</a></td>
<td>Nick is also Scott-Moncrieff’s Managing Partner. He has over 20 years experience of Local Authority auditing and has been heavily involved in developing public sector accounting standards. Nick’s experience and expertise is acknowledged both by clients and by other professionals involved right across the public sector.</td>
</tr>
<tr>
<td>Karen Jones CPFA</td>
<td><a href="mailto:karen.jones@scott-moncrieff.com">karen.jones@scott-moncrieff.com</a></td>
<td>Karen joined Scott-Moncrieff in 1999 and is the director responsible for the audit of our local authority external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers within local government.</td>
</tr>
<tr>
<td>James Thomson ACMA</td>
<td><a href="mailto:james.thomson@scott-moncrieff.com">james.thomson@scott-moncrieff.com</a></td>
<td>Prior to joining Scott-Moncrieff James trained as a Management Accountant with NHS Lothian and then worked at COSLA for over two years at a strategic level preparing policies and strategic direction for issues within Local Government Finance. James is involved in our Best Value audits across Local Authorities and the NHS</td>
</tr>
</tbody>
</table>

Comhairle nan Eilean Siar
External Audit Plan 2011/12
December 2011
Confirmation of independence

Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit and Scrutiny Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors’ objectivity and independence.

We confirm that we will comply with APB Ethical Standards throughout our audit and that, in our professional judgement, we are independent of the Comhairle and our objectivity has not been compromised in any way. In particular:

- there are and have been no relationships between Scott-Moncrieff and the Comhairle, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence; and
- Scott-Moncrieff has not and will not provide any consultancy or non-audit services to the Comhairle.
Appendix 5 - Statement of Understanding

Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the Comhairle and Scott-Moncrieff.

Internal audit

It is the responsibility of the Comhairle to establish adequate internal audit arrangements. The audit fee has been agreed on the basis that a satisfactory internal audit function exists on which we will be able to place reliance.

We will liaise with internal audit to ensure an efficient audit process. However, an additional fee may be charged if reliance cannot be placed on the work of internal audit due to deficiencies in the scope or quality of internal audit work.

Financial statements

It is assumed that the financial statements will be submitted for audit by 30 June in accordance with the statutory timetable and that appropriate working papers will be available at that time to support the information contained within the financial statements. These should be available from the commencement of the final audit visit. It is also assumed that the relevant staff will have adequate time available to deal with audit queries and will be available up to the anticipated time of completion of the audit i.e. 30 September.

Full details of the working papers that are required will be confirmed in writing at least one month prior to the commencement of the final audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Comhairle’s responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.
As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Comhairle during the course of the audit on matters having a material effect on the financial statements. This will take place by means of a letter of representation, which will require to be signed by the Director of Finance and Corporate Resources.

**Fraud and irregularity**

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

**Ethics**

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

**Fees**

Our fee has been agreed prior to the commencement of the audit. We have based the agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved.

**Service**

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Nick Bennett. If you are not satisfied, you should contact our Ethics Partner, Iain Lee. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

**Reports**

During the course of the audit we will produce a number of reports detailing the results and conclusions from our work. We will endeavour to supply a draft report within three weeks of the completion of the fieldwork of each element of work.

As stated within the Code of Audit Practice, management should prepare an action plan summarising their response to the recommendations in the reports. The action plan should include target dates for implementation and details of the responsible officer. Management responses should be prepared and provided to us within two weeks of the receipt of the draft report.
Due to particular time constraints for the production of our Annual Report we will need management responses within one week of the receipt of the draft report.

**Grant claims**

The responsibility for ensuring the preparation, accuracy, completeness and timeous submission of any grant claims and returns lies with the Comhairle. As auditor we are required to identify those claims to be prepared and submitted by the Comhairle and incorporate the time required for such work in our audit plan. Our plan sets out those claims and returns for the year 2011/12 which we have been informed will require to be audited. Further claims/returns will be treated as falling to be dealt with under the ‘fees’ section above.

**Agreement of terms**

We shall be grateful if the Comhairle’s Audit and Scrutiny Committee would consider and note this Statement of Understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.
Scott-Moncrieff (www.scott-moncrieff.com), one of Scotland's leading independent professional services firms, provides industry-focused audit, tax, business advisory and corporate consulting services for commercial, public, not-for-profit and private clients.

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Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.