



**North Ayrshire Council**  
Comhairle Siorrachd Àir a Tuath

## **Audit and Scrutiny Committee**

A Special Meeting of the **Audit and Scrutiny Committee** of North Ayrshire Council will be held in the **Council Chambers, Ground Floor, Cunninghame House, Irvine, KA12 8EE** on **Tuesday, 24 September 2019** at **10:00** to consider the undernoted business.

- 1      Declarations of Interest**  
Members are requested to give notice of any declarations of interest in respect of items of business on the Agenda.
  
- 2      Annual Report on the 2018/19 Audit**  
Submit report by the Executive Director (Finance and Corporate Support) on the annual report for 2018/19 and receive verbal update from the external auditor (copy enclosed).

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## **Audit and Scrutiny Committee Sederunt**

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Marie Burns (Chair)  
Margaret George (Vice Chair)  
Joy Brahim  
Alan Hill  
Tom Marshall  
Donald Reid  
John Sweeney

Chair:

Apologies:

Attending:

## **NORTH AYRSHIRE COUNCIL**

**24 September 2019**

### **Audit and Scrutiny Committee**

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**Title:** **Annual Report on the 2018/19 Audit**

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**Purpose:** To invite the Committee to note the annual audit report for 2018/19 and to consider a verbal report by the external auditor.

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**Recommendation:** That the Committee (a) notes the findings of the 2018/19 audit of the financial statements as contained in the External Auditor's annual report at Appendix 2, (b) notes the agreed Action Plan as outlined on page 28 of the annual report; (c) considers the verbal report by the External Auditor; and (d) approves the audited Annual Accounts for signature.

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#### **1. Executive Summary**

- 1.1 As part of the external audit for 2018/19, Deloitte LLP have produced two reports. The Interim Report, covering wider scope issues, was considered by the Audit and Scrutiny Committee on 18 June 2019. The second report is the Final Report and includes an opinion on the Council's financial statements.
- 1.2 The unaudited accounts for the year to 31 March 2019 were approved by Council on 26 June 2019 and submitted to the Council's external auditor, Deloitte LLP, for audit. The Audit Director for Deloitte LLP has now issued his proposed Independent Auditor's Report on the financial statements which is free from qualification and confirms that the accounts give a true and fair view of the state of affairs of the Council, its group and the Council's charitable trusts as at 31 March 2019.
- 1.3 As detailed in paragraphs 2.5 to 2.7, a number of adjustments have been identified during the audit process. However, these adjustments do not impact on the reported balance of unearmarked reserves which remain unchanged at £6.933m.
- 1.4 Deloitte LLP's annual audit report includes an action plan in relation to recommendations for improvement identified during the course of the audit. For the year to 31 March 2019 the areas identified for action relate to the procedures for timely investigation of items on the bank reconciliations and changes to the accounting requirements in relation to leases, which will be effective from 2020/21. Details of these and the proposed management actions are included at Page 28 of the Auditor's Report.

## **2. Background**

- 2.1 The 2018/19 audit of the Council's accounts was conducted by Deloitte LLP, the third year of a five year cycle as the Council's appointed external auditors.
- 2.2 As well as auditing the financial statements, Deloitte LLP considered the Council's arrangements in relation to the Accounts Commission's Strategic Audit Priorities, Best value and the four audit dimensions of financial sustainability, financial management, value for money and governance and transparency. An interim report covering the audit dimensions was considered by the Audit and Scrutiny Committee on 18 June 2019.
- 2.3 The Council's accounts for the year to 31 March 2019 were submitted to Deloitte LLP for audit by the deadline of 30 June 2019. The external auditor is required to complete the audit by 30 September 2019 and to report on certain matters arising to those charged with governance in sufficient time to enable appropriate action to be taken before the financial statements are approved and certified.
- 2.4 Appendix 1 includes letters of representation to be signed by the Executive Director (Finance and Corporate Support) as the responsible officer for North Ayrshire Council. Deloitte LLP's annual report to members, which summarises the findings of their audit, is attached at Appendix 2.
- 2.5 Accounting adjustments totalling £14.547m have been identified during the audit process. These adjustments relate to the Council and its Group's share of the value of Strathclyde Pension Fund's liabilities. These have been updated for revised valuation information which was provided by the Fund's actuaries after 30 June 2019, following a recent Court of Appeal ruling in relation to transitional protection arrangements. The adjustments have been offset by a matching increase in the Council and Group unusable pension reserves. The reported balance of unearmarked reserves has remained unchanged at £6.933m.
- 2.6 Other minor adjustments in relation to the valuation of Council assets on the Balance Sheet have resulted in a £0.076m increase in the reported value of Property, Plant and Equipment, which has been offset by matching adjustments to the Council's unusable reserves.
- 2.7 The Council's share of group reserves reported in the Group Balance Sheet has reduced by £2.011m as a result of pension adjustments for those Group entities who are members of Strathclyde Pension Fund, for the reasons noted at paragraph 2.5, and the utilisation of legacy funds reported by North Ayrshire Ventures Trust.
- 2.8 Pages 9 to 15 of the attached Audit Report (Appendix 2) outline the significant risks and other matters identified in the audit plan for 2018/19 together with the auditor's views of the key judgements and controls in place. These risks relate to:
  - Recognition of Grant Income; and
  - Management Override of Controls.

The report confirms that no material issues were identified in relation to these matters.

- 2.9 The key messages noted in the interim report have been updated to include the latest performance data for 2018/19. In addition, in relation to the financial statements, the Audit Report has noted that:
- The Council's Management Commentary has been identified as a good example of best practice;
  - No disclosure deficiencies have been identified; and
  - The combination of the nine separate charitable trust accounts into a single document has been welcomed.
- 2.10 An Action Plan which sets out the main areas identified for action from the annual report work is detailed on page 28 of the Audit Report. The areas identified are in relation to the implementation of future changes to the accounting requirements for leases, which will be effective from 2020/21, and the establishments of formal procedures for the timely investigation of items on the bank reconciliation. Full details of the steps being taken to address these issues are included in the Action Plan.
- 2.11 The auditors have confirmed that the charitable trust accounts have been correctly accounted for in accordance with the Regulations with a minor adjustment to the reported value of investments.
- 2.12 A link to the final audited accounts will be issued to all members for their information.
- 2.13 Representatives from Deloitte LLP will be in attendance at Committee and will present a verbal report highlighting the main findings of the 2018/19 audit.
- 2.14 It should be noted that the auditor has received a statutory objection to the accounts relating to the Common Good and Trust Funds and has met with the objector to consider the issues and evidence provided. Although a final decision has yet to be issued, no further adjustments to the financial statements are anticipated.

### **3. Proposals**

- 3.1 It is proposed that the Committee (a) notes the findings of the 2018/19 audit of the financial statements as contained in the External Auditor's annual report at Appendix 2, (b) notes the agreed Action Plan as outlined on page 28 of the annual report; (c) considers the verbal report by the External Auditor; and (d) approves the audited Annual Accounts for signature.

#### **4. Implications/Socio-economic Duty**

##### **Financial**

4.1 The financial implications are as outlined within the report.

##### **Human Resources**

4.2 None.

##### **Legal**

4.3 Under the Local Authority Accounts (Scotland) Regulations 2014 the Council is required to approve the audited Annual Accounts for signature by 30 September 2019

##### **Equality/Socio-economic**

4.4 None.

##### **Environmental and Sustainability**

4.5 None.

##### **Key Priorities**

4.6 This report directly supports the Council Plan 2019 to 2024 by maximising resources and providing value for money to support financially sustainable delivery models.

##### **Community Wealth Building**

4.7 None.

#### **5. Consultation**

5.1 The Chief Executive, Executive Directors and other appropriate officers have been consulted as part of the audit process.

Laura Friel  
Executive Director (Finance and Corporate Support)

For further information please contact **David Forbes, Senior Manager (Strategic Business Partner)**, on **01294 324551**.

#### **Background Papers**

External Audit Interim Report 2018-19 – Audit and Scrutiny Committee 18 June 2019  
Unaudited Annual Accounts 2018-19 - Council 26 June 2019

**EXECUTIVE DIRECTOR (FINANCE & CORPORATE SUPPORT): Laura Friel**  
**Cunninghame House, Irvine, KA12 8EE**  
**Tel: 01294 310000 Fax: 01294 324544**  
**www.north-ayrshire.gov.uk**

If telephoning please ask for: Laura Friel ☎ 01294 324512



24 September 2019

Deloitte LLP  
 110 Queen Street  
 Glasgow  
 G1 3BX

Our Ref: NAC/201819

Dear Engagement Director

This representation letter is provided in connection with your audit of the financial statements of the North Ayrshire Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the North Ayrshire Council as of 31 March 2019 and of the results of its operations, other comprehensive net expenditure and its cash flows for the year then ended in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

In addition to the above, this representation letter is provided in connection with your audit of the Management Commentary, Remuneration Report and Annual Governance Statement for the following purposes:

- Expressing an opinion on the auditable part of the Remuneration Report as to whether it has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- Expressing an opinion as to whether the information given in the Management Commentary is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- Expressing an opinion as to whether the information given in the Annual Governance Statement is consistent with the financial statements and that the report has been prepared in accordance with the Delivering Good Governance in Local Government Framework (2016).

I am aware that it is an offence to mislead a Council auditor.

As Responsible Financial officer and on behalf of the Council, I confirm, to the best of my knowledge and belief, the following representations.

*Financial statements*

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS 24 "Related party disclosures"*.
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole.
7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Council or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We confirm that all of the disclosures within the Management Commentary, Remuneration Report and the Annual Governance Statement have been prepared in accordance with the relevant legislation and guidance.
9. We have considered the valuation of the Council's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values requiring a revaluation in the current year.
10. With respect to the revaluation of properties in accordance with the Code:
  - a) the measurement processes used are appropriate and have been applied consistently, including related assumptions and models;
  - b) the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;
  - c) the disclosures are complete and appropriate.
  - d) there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements.



11. We confirm that the provision included within the financial statements in respect of equal pay is our best estimate of the liability due by the Council.
12. We confirm that the provision included within the financial statements in respect of landfill site restoration is our best estimate of the liability due by the Council.
13. We confirm that:
  - all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
  - all settlements and curtailments have been identified and properly accounted for;
  - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
  - the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
  - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
  - the amounts included in the financial statements derived from the work of the actuary are appropriate.

*Information provided*

14. We have provided you with all relevant information and access.
15. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
16. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
17. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
18. We are not aware of any fraud or suspected fraud that affects the entity and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
19. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

20. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements
21. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
22. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. No other claims in connection with litigation have been or are expected to be received.
23. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

**Laura Friel**  
**Executive Director (Finance and Corporate Support)**

Signed as Responsible Financial Officer, and on behalf of the Council

**EXECUTIVE DIRECTOR (FINANCE & CORPORATE SUPPORT): Laura Friel**  
**Cunninghame House, Irvine, KA12 8EE**  
**Tel: 01294 310000 Fax: 01294 324544**  
**www.north-ayrshire.gov.uk**

If telephoning please ask for: Laura Friel ☎ 01294 324512

24 September 2019

Deloitte LLP  
 110 Queen Street  
 Glasgow  
 G1 3BX

Our Ref: NACTF/PK/2019



Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of The North Ayrshire Council Trust Funds for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements properly present the receipts and payments of the charity for the year ended 31 March 2019 and their statement of balances at that date in accordance with the applicable accounting framework and the Charities and Trustee Investment (Scotland) Act 2005.

We acknowledge as trustees our responsibilities for preparing financial statements for the charity and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

*Financial statements*

24. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Charities and Trustee Investment (Scotland) Act 2005 which present fairly, as set out in the terms of the audit engagement letter.
25. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
26. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole.
27. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the charity or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the charity's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

*Information provided*

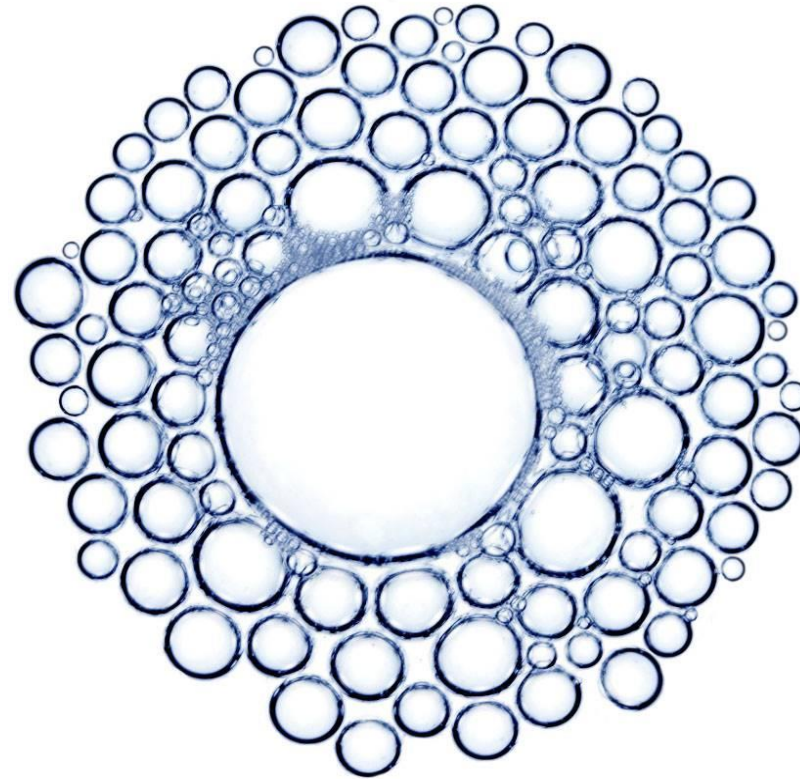
28. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland.
29. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
30. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
31. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
32. We are not aware of any fraud or suspected fraud that affects the charity and involves:
  - (iv) management;
  - (v) employees who have significant roles in internal control; or
  - (vi) others where the fraud could have a material effect on the financial statements.
33. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
34. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.
35. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
36. No claims in connection with litigation have been or are expected to be received.
37. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

**Laura Friel**  
**Executive Director (Finance and Corporate Support)**

Signed on behalf of the Trustees



## **North Ayrshire Council**

### Report to the Audit and Scrutiny Committee and the Controller of Audit on the 2018/19 audit

Issued 18 September 2019 for the meeting on 24 September 2019

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# Introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Scrutiny Committee (the Committee) of North Ayrshire Council (the Council) for the 2019 audit. The scope of our audit was set out within our planning report presented to the Audit and Scrutiny Committee in March 2019.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of Best Value and the five Strategic Audit Priorities agreed by the Accounts Commission.



# Introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### **Conclusions from our testing**

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Council. North Ayrshire Council's Management Commentary is a good example of best practice with the inclusion of infographics, tables and signposting to other areas of the annual accounts to aid the user's understanding.

The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8.

Audit adjustments relating to the pension liability have been identified in excess of our reporting threshold of £250k, as discussed further on page 25. It should be noted that the adjustments relating to the pension liability are as a result of a post balance sheet event rather than an error by management.

No disclosure deficiencies have been identified up to the date of this report.

Based on our audit work completed to date for the Council's charitable trusts, we expect to issue an unmodified opinion as part of those accounts – see page 14 for more details.

### **Status of the financial statements audit**

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of signed management representation letter;
- Our review of events since 31 March 2019; and
- Completion of Whole of Government Accounts (WGA procedures).

### **Conclusions on audit dimensions**

As set out on page 5, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers, care income and increased focus on openness and transparency.

Our detailed interim report, presented to the Committee in June 2019, set out our findings and conclusions on each dimension. We have updated this for any significant changes since that report and our overall conclusion on each dimension is summarised on pages 21 to 22.



# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions (continued)

#### Financial sustainability

The Council has achieved short-term financial balance and has set a balanced budget for 2019/20.

It is estimated that the cumulative funding gap covering the period 2020/21 to 2021/22 could reach up to £25,410k if savings are not identified. It is therefore becoming more critical for the Council to change the way services are provided and make savings to achieve financial sustainability.

The Council has done a lot of work around transformation planning and has identified an ambitious savings target of £15,420k over the next three financial years from transformation, this represents 61% of the estimated cumulative funding gap. It is vital that the Council identify further savings and efficiencies to close the remaining funding gap.

The Council needs to prioritise and progress transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium-to-longer term.

#### Financial management

The Council has strong financial management arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges to the achievement of financial targets.

Council financial performance including in-year changes to funding is transparently presented.

#### Governance and transparency

The Council promotes a culture of openness and transparency.

The Council has seen changes to its leadership in 2018/19 with the early retirement of the previous Chief Executive and a wider Directorate restructure. The new Council structure was approved at Staffing and Recruitment Committee on 8 May 2019 and the Council needs to ensure that the change in structure will not have an adverse impact on capacity to deliver services.

#### Value for money

Performance improvements have been made between 2017/18 and 2018/19 local performance indicators.

The Council is also fully engaged with its contribution towards national outcomes.

Our conclusions are included on pages 21 to 22 of this report, with the detailed findings and agreed Action Plan included in our interim report in June 2019.

We will consider progress with the agreed actions as part of our 2019/20 audit.

#### Added value

Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision-making, and more effective use of resources.

This is provided throughout this report and our separate interim report. In particular, our separate "Sector Developments" report, presented along with our interim report shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council.

# Our audit explained

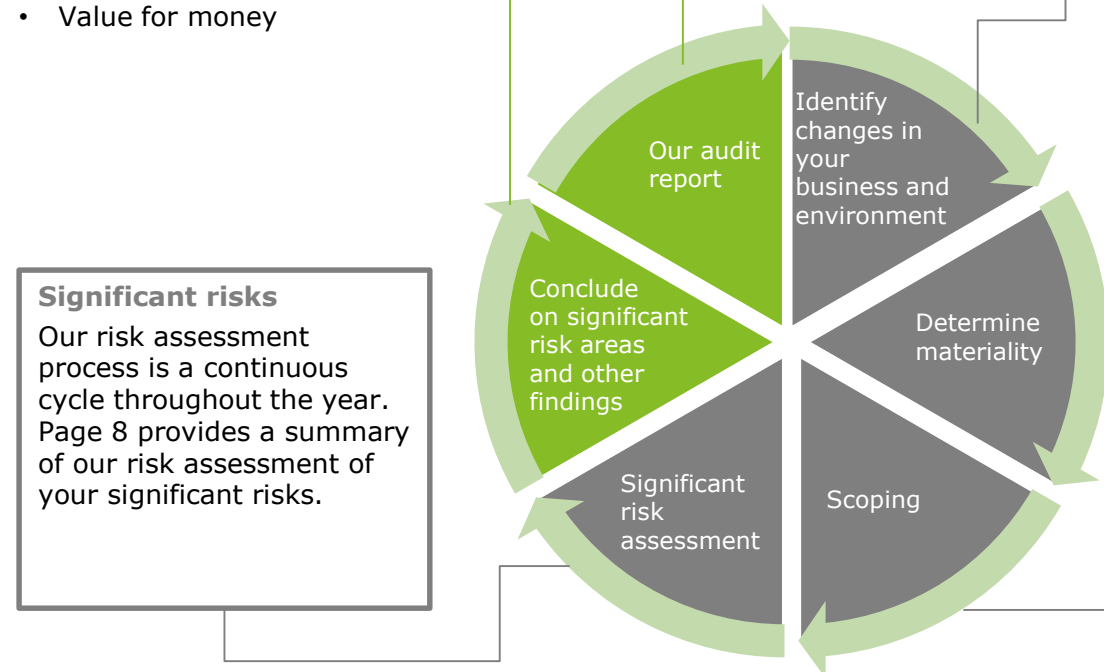
## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:-

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.



## Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

## Key developments in your business

As noted in our planning report, the council continues to face significant financial challenges due to an increase in costs whilst facing increased demand for services. The integration of health and social care continues to be a challenge.

## Materiality

Group materiality of £8,641k (Council only £8,604k) and group performance materiality of £6,480k (Council only £6,453k) has been based on the benchmark of gross expenditure and is a slight decrease from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £250k.

## Scope of the audit

We have audited the group financial statements for the year ended 31 March 2019 of North Ayrshire Council.

We concluded that only the Council and North Ayrshire IJB were significant components, and have performed a full audit of both. For the non-significant components our work has been restricted to a desktop review at the Group level.

## Quality and Independence

We confirm we are independent of North Ayrshire Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

## Timeline 2018/19

### November 2018 – February 2019

Meetings with management and other staff to update understanding of the processes and controls.

### 26 March 2019

Presented planning paper to the Audit and Committee.

### 31 March 2019

Year end.

### July-September 2019

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

### 18 June 2019

Presented interim report to the Audit and Committee.

### 23 August 2019

Audit close meeting.

### 24 September 2019







Audit and Committee meeting and Accounts sign-off.

# Financial statements audit



# Significant risks

## Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Recognition of grant income			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10-11

Overly prudent, likely to lead to future credit







Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Risk 1 - Recognition of grant income

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

Key components of income for the Council, are summarised in the table below. The General Revenue Grant and Non Domestic Rates income are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%. Council tax and housing rent income are set through the annual budget process with no management judgement and therefore have a low risk of fraud. Similarly, other Service Income, which includes fees and charges across all Services, and IJB income are set through formal approval processes, with no history of fraud or error.

The significant risk is pinpointed to the recognition of grant income, comprising capital grants and contributions and service-specific grants.



### Key judgements and our challenge of them

Grant income is a significant risk due to:

- management judgement in determining if there are any conditions attached to a grant and if so whether the conditions have been met; and
- complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.



### Deloitte response

We have performed the following:

- Assessed management's controls around recognition of grant income; and
- tested a sample of capital grants and contributions and grants credited to services and confirm these have been recognised in accordance with any conditions applicable and applicable accounting standards.

### Deloitte view

We have concluded that grant income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

Type of income	2018/19 (£k)	Significant risk
<b><u>Taxation and Non-Specific Grant Income</u></b>		
Council Tax income	53,842	
Non Domestic rates	39,711	
General Revenue Grant	228,387	
Capital Grants and Contributions	<b>19,793</b>	✓
<b><u>Service Income</u></b>		
Service Specific Grant income	<b>29,036</b>	✓
Housing Benefit Subsidy	46,459	
Housing Revenue Account	47,944	
IJB commission income (book entry)	117,023	
Other Service Income	37,022	
<b><u>Total Service Income</u></b>	<b>277,484</b>	



# Significant risks (continued)

## Risk 2 - Management override of controls

### Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Council's results throughout the year were projecting an overall underspend with a small number of overspends in operational areas. This was closely monitored and whilst projecting a small number of overspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

### Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow-up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

### Deloitte view

We have not identified any significant bias in the key accounting estimates and judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

### Accounting estimates and judgements (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates and judgements for biases that could result in material misstatements due to fraud. See summary on the following page. We note that, overall, the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements including property valuations, pension liability and provisions and consideration of any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments), focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

# Significant risks (continued)

## Risk 2 - Management override of controls (continued)

### Key accounting estimates and judgements

The key accounting estimates and judgments in the financial statements are those which we have selected to be the significant audit risks around the recognition of grant income (page 9). In addition, while not considered to be a significant audit risk, we have consider the assumptions used to calculate the pension liability (pages 12-13). In the table below, we set out our challenge of the assumptions used in the determination of the valuation methodology for property valuations and provisions. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

As part of our work on this risk, we reviewed and challenged management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property Valuation	The value of property is based on valuations provided by a professional valuer. The Council has a rolling programme of revaluations to ensure all assets are revalued over a 5 year period. An annual review is performed to assess for any material changes in the year.	<p>We have assessed the competency, capability and objectivity of the Council's valuer. We engaged our property specialists Deloitte Real Estate to review and challenge the assumptions and methodology used to value the property. We considered the impact of uncertainties relating to the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.</p> <p>We considered management assessment of impairment or material changes in value for those assets not part of the current year valuation programme, corroborating to changes in build cost indices and overall market movements.</p> <p>We concluded that the management estimates were reasonable and in line with our expected range.</p>
Provisions	The total provisions held within the Council's balance is immaterial, at £3,608k. This comprises provisions in respect of a number of employee-related potential claims outstanding at 31 March 2019 and the Council's share of the former Strathclyde Regional Council's insurance claims and other potential insurance claims against the Council.	<p>We examined the rationale for each provision, including a retrospective review of amounts provided in 2017/18. We have also challenged the completeness of the provisions made through discussion with the Council's legal advisors and benchmark with our industry knowledge.</p> <p>We concluded that the provisions made were reasonable.</p>

# Other matters

## Defined benefits pension scheme

### Background

The Council participates in two defined benefits schemes:

- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Strathclyde Pension Fund, administered by Glasgow City Council.

After taking into account the adjustments noted on the following page in relation to the McCloud judgement and GMP indexation, the net pension liability has increased from £104,157k in 2017/18 to £198,942k in 2018/19. The increase is as a result in changes in assumptions, specifically the discount rate has reduced and salary increase rate has increased, together with the impact of McCloud and GMP indexation.



### Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- we reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown in the table opposite;
- we assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements;
- we have reviewed and challenged the calculation of the impact of the McCloud case and GMP on pension liabilities;
- we reviewed the disclosures within the accounts against the Code; and
- we assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.40	2.40	Reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.50	2.22	Prudent
Salary increase (% p.a.) (over CPI inflation)	1.20	Council specific	Prudent
Pension increase in payment (% p.a.)	2.50	2.27	Reasonable
Pension increase in deferment (% p.a.)	2.50	2.22	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.40	21.70	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.40	23.60	Reasonable



# Other matters (continued)

## Defined benefits pension scheme (continued)

### Impact of McCloud ruling

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following changes made to public service pension scheme legislation in 2014. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

In December 2018, the Court of Appeal ruled that the transitional protection gave risk to unlawful discrimination on the basis of age. The Government requested leave to appeal the decision to the Supreme Court, however the request was denied on 27 June 2019. As a result, certain scheme members will need to be compensated for any discrimination suffered as a result of the transitional protections. As Scottish Public Service Pension Schemes implemented the changes to the legislation in 2015, this may impact benefits accrued from 1 April 2015 for these members.

The Council's actuary has provided an updated results schedule which included an allowance for the additional liability potentially arising as a result of the McCloud ruling. This has resulted in an audit adjustment of £11,606k for past service costs (c.1.8%) arising from this post balance sheet event.

The calculation of this amount was based on the Government Actuary Departments (GAD's) analysis, adjusted for local circumstances. Based on the limited information available, the amount appears reasonable.

### Impact of Guaranteed Minimum Pension (GMP) indexation

In order to ensure smooth transition to the single tier State pension and equalisation of GMP benefits between males and females, the Government introduced an interim solution in 2016 in respect of people who are in public service pension schemes and who have a State Pension Age (SPA) between 6 April 2016 and 5 December 2018, where full inflationary increases will be provided by the scheme.

In January 2018, this interim solution was subsequently extended to members who reach SPA between 6 December 2018 and 5 April 2021.

Details of any permanent solution are still unknown.

The Council's actuary has provided an updated results schedule including an allowance for the estimated additional liability arising as a result of GMP indexation. An amount of £2,617k has been identified as the additional liability for paying all GMP increases for members reaching SPA from 6 April 2016.

The allowance equates to c. 0.2% of the total defined benefit obligations. Typically, we would expect to see an allowance of between 0% and 0.4% of total defined benefit obligations, therefore the allowance made is within this range.

### Deloitte view

On the whole, the set of assumptions is reasonable and lies towards the prudent end of the reasonable range when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

The allowances made for the McCloud ruling and GMP are reasonable and within the expected range.

# Other matters (continued)

## Charitable trusts

### Risk identified

From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each charity, and a separate audit of each. North Ayrshire Council administers nine such registered charities.

As the gross income of the Trust is less than £100k, the Council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with The Charities Accounts (Scotland) Regulation 2006. Fully compliant Charities SORP accounts are therefore not required and disclosure is limited to that specified in the Regulations.



### Deloitte response

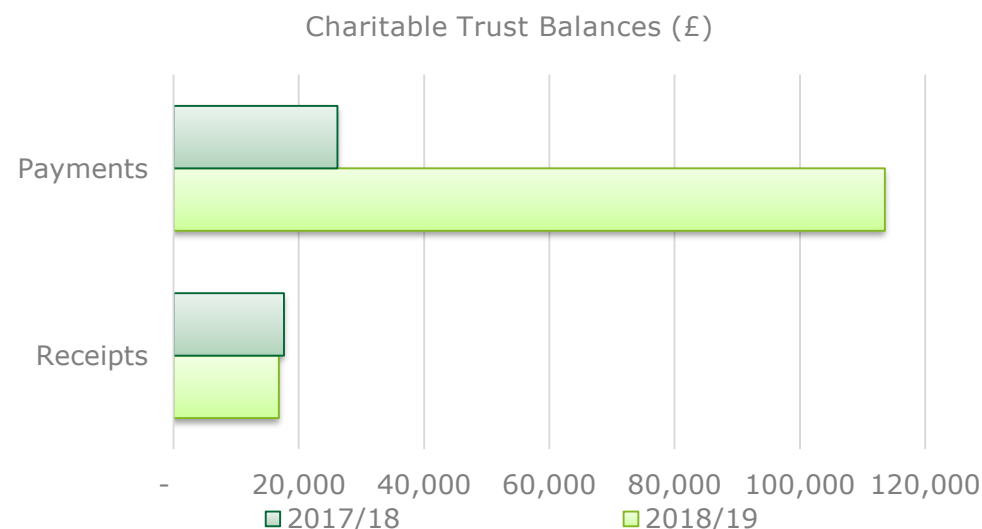
We have assessed that the Statement of Receipts and Payments and the Statement of Balances have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006. One adjustment has been raised for the North Ayrshire Council Trust as a result of an incorrect year end market value being used to determine the value of the trust's investment. The value of that investment has been reduced by £81 resulting in total investments held by the trust reducing from £78,077 to £77,997. This has been adjusted within the updated accounts. No other issues have been noted.

A summary is provided in the table adjacent. We note that there has been significant movement in the Trust over the last 12 months, with the movements largely relating to disbursement of grants by Kilwinning and Irvine Town Trusts. We would encourage the Council to ensure that appropriate plans are in place to ensure these funds are used in accordance with the donors' wishes.

### Deloitte view

Following adjustments made arising from audit of Trust Funds' accounts for the year, we are satisfied that they have been correctly accounted for in accordance with the Regulations.

In December 2017, Audit Scotland issued a technical guidance note specific to charities. This note recommended that auditors encourage local authorities to make use of connected charity provisions in place under The Charities Accounts (Scotland) Regulations 2006. The provisions allow charities with common trustees to combine their annual accounts and as a result reduce the number of separate annual accounts to be published. We are pleased to note that the Council have applied the connected charity provision and combined the nine separate charitable trust accounts into one document.



# Other matters (continued)

## Implementation of IFRS 9 and IFRS 15

<b>Matter identified</b>	The Council is required to adopt the new accounting standards IFRS 9 <i>Financial Instruments</i> and IFRS 15 <i>Revenues from contracts with customers</i> in the year ended 31 March 2019. In both cases, the Council is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. The Council has posted no retrospective adjustments with regard to IFRS 9 or IFRS 15 as there is no material impact on the financial statements.
<b>Response</b>	<p>Management held discussions regarding the accounting impact of the new standards on the Council for the period and determined that the impact is immaterial.</p> <p>The key element impacted by IFRS 9 is the accounting for the bad debt provision, which must move to a methodology of expected credit losses. A practical expedient available for portfolios of debt is to use a matrix based on past experience, and modified in specific cases where more information is available, in order to provide at a suitable percentage. IFRS 9 also introduces new or changed disclosure requirements. The Council's accounts draft accounts were updated for these changes and as a result, complies with the Code.</p> <p>Regarding IFRS 15, officers were satisfied that no transitional adjustments would be required as the Council's larger sources of income including grant income, rents and taxation are outside of the scope of the standard and in other income streams which fall within the scope of IFRS 15 there are no material performance obligations which span the year end. This is consistent with a general expectation for local authorities which have not entered into material unusual transactions.</p> <p>IFRS 15 introduces new disclosures around the amount of income, deferred income and receivables which are accounted for under the standard. We have reviewed and challenged management's assumptions in light of the Council's contractual arrangements with no issues noted.</p>



### Deloitte view

Officers conclusion that the new accounting standards do not have a material impact for the Council is consistent with the conclusion of other local authorities and the absence of unusual transactions or income streams which may require a different accounting treatment.

# Other significant findings

## Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met.	
	As reported in our "Sector developments paper" presented to the Audit and Scrutiny Committee in March 2019, the changes introduced by the standard will have substantial practical implications for Councils that currently have material leases, and also likely to have an effect on the capital financing arrangements of the authority. CIPFA/ LASAAC included a readiness assessment questionnaire in the consultation document which will help Councils consider their own preparedness.	
	We recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.	
Bank Reconciliations	Bank reconciliations are performed on a monthly basis and are signed and dated by both the preparer and reviewer. During our financial statements audit, we identified 85 reconciling items dating back to 2017 for the payroll account reconciliation. These reconciling items did not result in any audit adjustments.	
	We recommend the Council put in place a formal procedure for investigating reconciling items to ensure that they are valid and followed up on a timely basis with appropriate action taken where necessary.	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

# Our audit report

## Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



### **Our opinion on the financial statements**

Based on our audit work completed to date, we anticipate issuing an unmodified opinion on the financial statements.



### **Material uncertainty related to going concern**

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Whilst the Council is faced with financial sustainability issues (as discussed on page 21), it achieved a balanced budget in 2018/19 and has set a balanced budget for 2019/20. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



### **Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 18.



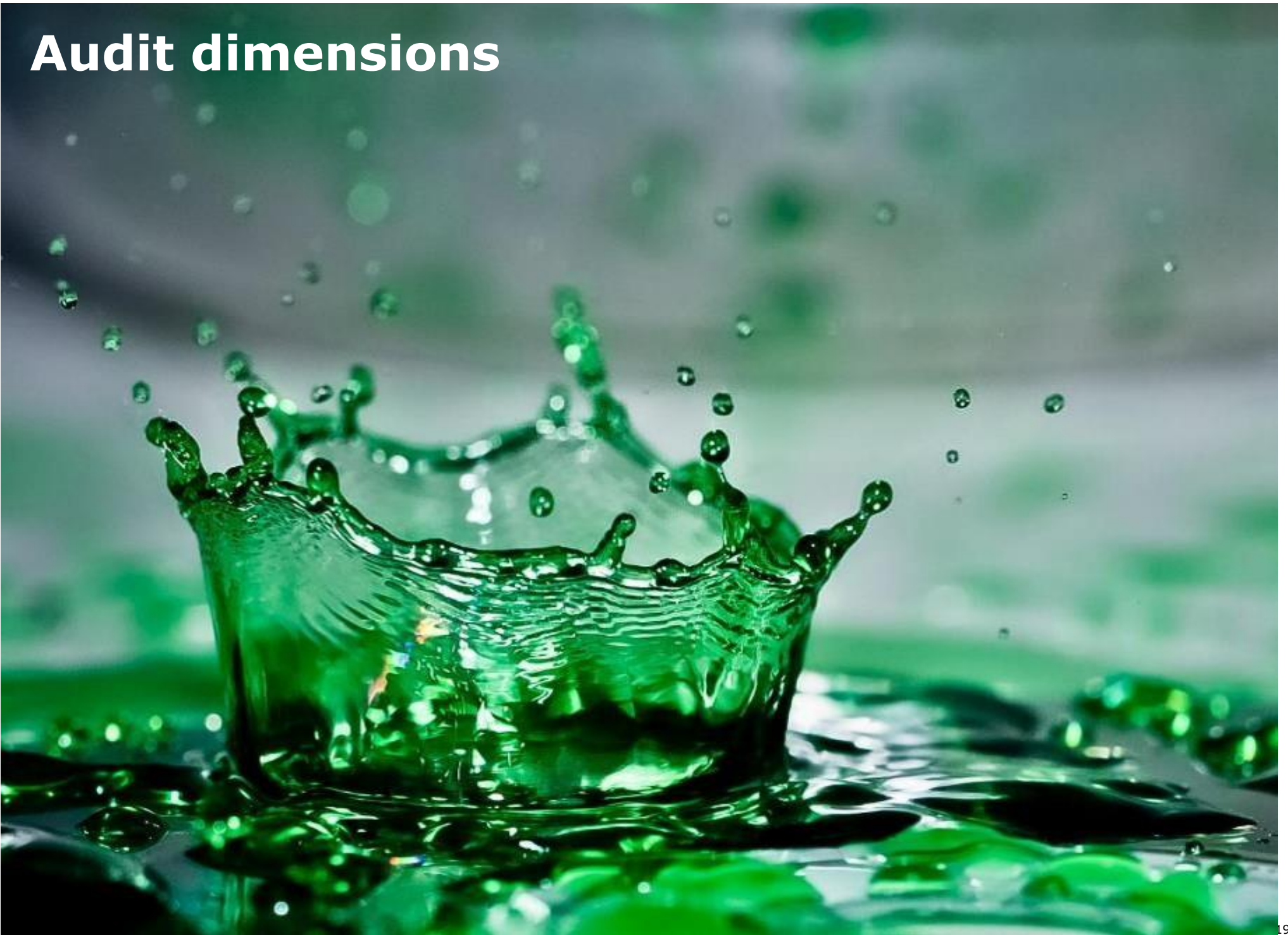
# Your annual report

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance..

	Requirement	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Council also focuses on the strategic planning context.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance.</p> <p>We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>North Ayrshire Council's Management Commentary is a good example of best practice with the inclusion of infographics, tables and signposting to other areas of the annual accounts to aid the user's understanding.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the council.	<p>We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages and confirmed that they have been properly prepared in accordance with the regulations.</p> <p>The former Chief Executive, Elma Murray, retired in October 2018 and was replaced by Craig Hatton, former Executive Director (Place). Voluntary early retirement costs were £29k on the basis that the former Chief Executive will take a reduction in her pension.</p> <p>We have reviewed the business case which was approved by the Staffing and Recruitment Committee on 24 August 2018 and conclude that the recommendations were reasonable and represent best value to the Council.</p>
Annual Governance Statement	The Annual Governance Statement reports that North Ayrshire Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.



# Audit dimensions



# Audit dimensions

## Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our conclusions on our audit work covering the following area, with our detailed findings and conclusions reported to the Committee in June 2019 as part of our [Interim Report](#). Our report is structured in accordance with the **four audit dimensions**, but also covers our specific audit requirements on strategic audit priorities, best value, statutory performance indicators and specific risks as summarised below.



### Audit Dimensions

#### Strategic Audit Priorities

As set out in our Annual Audit Plan, the Accounts Commission sets out five Strategic Audit Priorities that are built into audit expectations, as follows:-

- Having clear priorities with a focus on outcomes, supported by effective long term planning.
- Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
- Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
- Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
- Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

#### Best Value (BV)

The BV framework follows a five year approach to auditing BV. 2018/19 represents year three of the BV audit plan. The Best Value Assurance Report (BVAR) for North Ayrshire Council is planned for year four in the five-year programme (i.e. 2019/20).

The BV audit work in 2018/19 was integrated into our audit approach, including our work on the audit dimension.

#### Statutory Performance Indicators

We have assessed the suitability of the arrangements for preparing and publishing the information, closely linked to our work on the Strategic Audit Priority "Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes".

#### Specific risks

As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks faced by the public sector which we have considered as part of our work on the four audit dimensions:-

- EU Withdrawal
- Changing landscape for public financial management
- Care income, financial assessments and financial guardianship
- Dependency on key suppliers
- Openness and transparency

Our conclusions on the above were reported in our [Interim Report](#) to the Committee in June 2019.



# Audit dimensions (continued)

## Financial sustainability and financial management

**Financial sustainability** looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Key facts:

#### 2018/19 financial position

- Balance achieved with a small underspend (£21k) after earmarking funds of £2,300k to support 2019/20 budget.

#### 2019/20 financial position

- £6,368k savings required.
- £3,880k use of reserves.

### Overall conclusions

The Council has a clear process in place for medium and long term financial planning and the current level of reserves held is at an acceptable level. In 2019/20, £3,880k is needed from reserves to support the core recurring budget, however, the Council has recognised that a sustainable solution is required from 2020/21 onwards. It has considered the Scottish Government Medium Term Financial Strategy (MTFS) as part of its financial planning, however, it does not provide specific guidance for local government.

The Council has done a lot of work around transformation planning, such as creating the Transformation Think Tank and incorporating the next phase of transformation in to the Council Plan. It has identified an ambitious savings target of £15,420k over the next three financial years from transformation, however, this does not completely close the estimated cumulative funding gap of £25,410k covering the period 2020/21 to 2021/22. It is therefore vital that the Council identify further savings and efficiencies to close the remaining funding gap. It is important the Council has detailed plans in place to deliver these targets and monitors the progress of key objectives and outcomes to ensure savings remain on track over these years. If the next phase is not progressed appropriately this could result in benefits not being realised and financial balance not being achieved.

**Financial management** is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Key facts:

#### 2018/19 budget

- Final budgeted spend on general fund services of £344,014k.
- Savings of £5,094k achieved, against budgeted savings of £5,094k.
- Regular reporting to Executive Leadership Team and Councillors.

### Overall conclusions

The Council has strong financial management arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges to the achievement of financial targets.

From review of the Council's performance reports to Cabinet throughout the year, it is clear that underlying financial performance including in-year changes to funding is transparently presented. The reports to Cabinet identify any large variances in budgets are highlighted and fully explained.

We have not identified any concern with the financial skills, capacity and capability of the Finance Team. The addition of the Head of Finance and Transformation for the Health and Social Care Partnership (HSCP) further enhances resources and capability within the Finance Team as this role was previously performed by the Head of Finance of the Council.

As noted in our Interim Report in June 2019, we concluded that the Council is fully engaged with the NFI exercise, however, highlighted it was important that the Council progress its review of high risk matches to identify whether any are indications of fraud. The Council has continued to investigate and process matches, with all outcomes recorded in the system.

# Audit dimensions (continued)

## Governance and transparency and value for money

**Governance and transparency** is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

### Key facts:

#### Leadership

- Former Chief Executive, Elma Murray, retired in October 2018 and was replaced by Craig Hatton, former Executive Director (Place). A new Council structure was approved at the Staffing and Recruitment Committee on 8 May 2019 and the restructure is expected to be fully in place by 2020/21.

#### Statutory objections to the accounts

- Deloitte received an objection to the Council's accounts covering issues relating to the Common Good and Trust Funds. We met with the objector in August to consider the issues and evidence provided. Any significant matters will be reported to the Audit and Scrutiny Committee on 25 September prior to the approval of the accounts.

### Overall conclusions

The Council has had changes to leadership in 2018/19 with the appointment of a new Chief Executive, this has also allowed the Council to approve a wider Directorate restructure. Whilst the new structure isn't expected to be fully implemented until 2020/21, the Council needs to ensure that the change in structure will not have an adverse impact on capacity to deliver services.

We have noted that reporting from the IJB to the Council is effective. The ultimate responsibility for IJB budgets being met lies with the IJB, however, the Council must recognise the potential impact of any deficits in the IJB and consider this as part of future financial planning.

We have considered the Council's approach to openness and transparency, how good the Council's information is; and its commitment to improving openness and transparency and we are satisfied that the Council is open and transparent with its residents and relevant stakeholders.

The Council fully supports community empowerment and recognises the importance of building community capacity; we would like to highlight the Council's approach to community engagement as best practice and sector-leading.

**Value for money** is concerned with using resources effectively and continually improving services.

### Key facts:

#### Service Performance

- Performance Management Framework updated in 2018/19.
- In 2018/19, 77% of key performance indicators were on target with 4% slightly adrift and 19% significantly adrift. This compared with 75%, 18% and 7%, respectively, in 2017/18 with 56% of performance indicators showing an improving long term trend.

#### Local Government Benchmarking Framework (LGBF)

- 68.5% of indicators in 2017/18 (2016/17: 58.2%) were either in the top quartile or second quartile, i.e. performing above the Scottish average.

### Overall conclusions

Council performance against local indicators which fell significantly adrift of targets reduced from 15% to 11% in 2018/19, whilst performance indicators on target increased from 55% to 63%. This evidences that performance improvements have been made between the end of 2017/18 and the mid-year point of 2018/19. We conclude that the Council's approach to focused performance improvement in specific areas is effective, as evidenced by the improvement in local performance indicators.

In the 2017/18 Local Government Benchmarking Framework exercise Council service performance improved in 21 areas, declined in 27 areas, with no change identified in 7 areas. We conclude that the council is fully engaged with its contribution towards national outcomes, evidenced by carrying out comprehensive analysis on LGBF indicators.

# Appendices



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit and Scrutiny Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit and Scrutiny Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Pat Kenny**

for and on behalf of Deloitte LLP  
Glasgow

18 September 2019

# Audit adjustments

## Summary of corrected and uncorrected misstatements and disclosure deficiencies

### Corrected misstatements

		Debit/ (credit) CIES £k	Debit/ (credit) MIRS £k	Debit/ (credit) in net assets £k	Debit/ (credit) reserves £k	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>						
Pensions – McCloud judgement	[1]	11,606	(11,606)	(11,606)	11,606	N/A
Pensions - GMP	[2]	2,617	(2,617)	(2,617)	2,617	N/A
Pensions – McCloud judgement (Group entities)	[3]	324	(324)	(324)	324	N/A
<b>Total</b>		<b>14,547</b>	<b>(14,547)</b>	<b>(14,547)</b>	<b>14,547</b>	

[1] As discussed on page 13 the McCloud judgement has been confirmed as final following the Supreme Court's refusal of leave for the UK Government to appeal the ruling. This has resulted in the pension liability being adjusted to account for the impact of this judgment, with a corresponding increase in the pension reserve. The impact of this is a £11,606k increase in both the liability and the reserve. This has no impact on the General Fund.

[2] As discussed on page 13 the pension liability is also impacted by the Government's 'interim solution' for funding inflationary increases for GMP. This has resulted in the pension liability being adjusted to account for the impact of this judgement, with a corresponding increase in the pension reserve. The impact of this is a £2,617k increase in both the liability and the reserve. This has no impact on the General Fund.

[3] The Pension adjustments referred to above have also been made to the associate entities which are consolidated into the group accounts. The impact of this is a £324k increase in both the liability and the reserve.

No other corrected misstatements have been identified from our audit work performed to date.

## Audit adjustments (continued)

### Summary of corrected and uncorrected misstatements and disclosure deficiencies (continued)

#### Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

#### Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable the Audit and Scrutiny Committee to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work to date.



# Action plan

## Recommendations for improvement

Our interim report submitted to the Committee in June 2019 reported our detailed recommendations arising from our work on the wider audit dimensions. In this report, we made three recommendations, as follows:

Wider audit dimension	Recommendations made
Financial sustainability	2
Governance and transparency	1

We will follow up these recommendations and report to the Committee on progress as part of our 2019/20 audit.

In our interim report, we followed up on recommendations for improvement made in 2017/18. A summary of progress against 2017/18 actions has been included below. We are pleased to note that 4 of the total 4 recommendations have been fully implemented.

Area	Recommendations made	Recommendations implemented
Financial statements	2	2
Financial sustainability	1	1
Governance and transparency	1	1

# Action plan (continued)

## Recommendations for improvement (continued)

Recommendations for improvement arising from the wider scope work are included in the Interim Report, with a summary on the preceding page. The below recommendations arising from our financial statements work are also to be addressed.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Statements – IFRS 16 Leases</i>	We recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems (see page 16).	Work is ongoing to determine the full impact of the changes in accounting requirements and embed these requirements within the Council's accounting procedures.	Head of Financial and Customer Services	31 March 2020	Medium
<i>Financial Statements – Bank Reconciliations</i>	The Council should put in place a formal procedure for investigating reconciling items to ensure that they are valid and followed up on a timely basis with appropriate action taken where necessary (see page 16).	An internal process has been implemented to investigate all outstanding bank items on a monthly basis and hold regular meetings cross service to address all reconciling items and ensure corrective action is taken.	Head of Financial and Customer Services	31 March 2020	Low



# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the achievement of recognition of grant income and management override of controls as key audit risks for your organisation.

During the course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit and Scrutiny Committee on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No concerns have been identified regarding fraud.



# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm that we comply with FRC's Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.														
<b>Fees</b>	<p>The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £296,860 as broken down below:</p> <table> <tr> <td></td><td>£</td></tr> <tr> <td>Auditor remuneration</td><td>180,410</td></tr> <tr> <td>Audit Scotland fixed charges:</td><td></td></tr> <tr> <td>    Pooled costs</td><td>17,490</td></tr> <tr> <td>    Contribution to PABV</td><td>87,630</td></tr> <tr> <td>    Audit support costs</td><td>11,330</td></tr> <tr> <td><b>Total agreed fee</b></td><td><b>296,860</b></td></tr> </table> <p>In addition, the audit fee for the charitable trusts audit is £1,800.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>		£	Auditor remuneration	180,410	Audit Scotland fixed charges:		Pooled costs	17,490	Contribution to PABV	87,630	Audit support costs	11,330	<b>Total agreed fee</b>	<b>296,860</b>
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<b>Non-audit services</b>	In our opinion there are no inconsistencies between FRC's Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.														
<b>Relationships</b>	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>														



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