NORTH AYRSHIRE COUNCIL

26 March 2019

Audit and Scrutiny Committee

Title:	**External Audit Plan 2018/19**
Purpose:	To inform the Committee of the External Audit Plan for 2018/19.
Recommendation:	That the Committee notes the External Audit Plan for 2018/19.

1. Executive Summary

1.1 Deloitte LLP are the Council's external auditors for the five-year period 2016-2021 with 2018/19 being the third year of this appointment.

1.2 This report provides the Audit and Scrutiny Committee with the external audit plan for the 2018/19.

1.3 The annual audit report will be presented to the Committee in September 2019.

2. Background

2.1 Deloitte LLP are the Council's external auditors for the five-year period 2016-2021. They are also the auditors for the North Ayrshire Integration Joint Board, East Ayrshire and South Ayrshire Councils and IJBs, as well as NHS Ayrshire and Arran. 2018/19 is the third year of this appointment.

2.2 The audit plan is attached as Appendix 1 to this report with a representative of Deloitte in attendance to present the plan to Committee.

2.3 In planning the audit work Deloitte has identified recognition of grant income and management override of controls as being key risks and will carry out specific testing in relation to these.

2.4 The Code of Audit Practice has four audit dimensions which set a common framework for all public sector audits in Scotland. Deloitte will consider how the Council is addressing these:

- financial sustainability including the risks associated with the financial performance of the IJB, the long term financial outlook and the impact of transformation on the future funding gap;
- financial management and budget setting;
- governance and transparency including the IJB and senior management restructure;
- value for money and performance.

2.5 Other areas which will be considered include;

- Impact of EU withdrawal;
- Changing landscape of public finance management;
- Care income, financial assessment and financial guardianship;
- Dependency on key suppliers;
- Openness and transparency.

2.6 Deloitte will integrate its Best Value audit work into its overall plan. The five strategic audit priorities which are updated annually by the Accounts Commission are set out below:

- Clear priorities with a focus on outcomes supported by effective long-term planning;
- Effective options appraisal;
- Members and officers having the right knowledge, skills and support to shape future service delivery;
- Empowering and involvement of local communities in service design and delivery;
- Quality of public performance reporting.

2.7 Core audit work includes:

- providing the Independent Auditor's Report and annual report on the audit;
- preparing and submitting fraud returns to Audit Scotland;
- certifying grant claims;
- discharging responsibilities in relation to the Council's published performance indicators;
- leading the shared risk assessment process leading to preparation of the Local Scrutiny Plan if required.

3. Proposals

3.1 It is proposed that the Committee notes the External Audit Plan for 2018/19.

4. Implications

Financial:	The fee which will be charged by Deloitte LLP for the 2018/19 audit work will be £296,860. This represents an increase of £1,800 (0.6%) against the 2017/18 fee. A breakdown of this fee is provided at page 38 of the audit plan.
Human Resources:	None.
Legal:	None.
Equality/Socio-economic Duty:	None.
Children and Young People:	None.
Environmental & Sustainability:	None.
Key Priorities:	The work of external audit helps to support the efficient delivery of the strategic priorities within the Council Plan 2015-2020.
Community Benefits:	None.

5. Consultation

5.1 Deloitte LLP consulted with the Executive Director (Finance and Corporate Support) in preparing their audit plan.

Laura Friel
Executive Director (Finance and Corporate Support)

For further information please contact **Laura Friel, Executive Director (Finance and Corporate Support)** on **01294-324512**.

Background Papers
N/A

Deloitte.

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

North Ayrshire Council

Planning report to the Audit and Scrutiny Committee on the audit for the year ending 31 March 2019

Issued 8 March 2019 for the meeting on 26 March 2019

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01 Planning report

02 Appendices

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.

We have pleasure in presenting our planning report to the Audit and Scrutiny Committee of North Ayrshire Council (the Council) for the year ending 31 March 2019 audit. We would like to draw your attention to the key messages of this audit plan:

Audit Plan

We have updated our understanding of the Council including discussion with management and review of relevant documentation from across the Council.

Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.

Key Risks

We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 17.

In accordance with auditing standards, we have identified a significant risk associated with income. This risk is pinpointed to the recognition of grant income (excluding General Revenue Grant) as this involves a degree of complexity and management judgement in determining whether or not grant conditions have been met and the income can be recognised in the year. In 2017/18, the total grant income received excluding the General Revenue Grant and Housing Benefit Subsidy was £77,910k.

In accordance with auditing standards, management override of controls has also been identified as a significant audit risk.

Valuation of property assets was classed as a significant risk in previous years' audits due to the degree of judgement and complexity involved and its material impact on the financial statements. From our conclusions in 2017/18 and initial planning work we have assessed that this is no longer an area of significant audit risk. We will update the Audit and Scrutiny Committee if there are any changes to this assessment.

Introduction (continued)
The key messages in this report (continued)

Audit Dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work will consider how the Council is addressing these and report our conclusions in our annual report to the Audit and Scrutiny Committee in September 2019. In particular, our work will focus on:

Financial sustainability – The Council continues to face significant financial challenges. The overall 2018/19 forecast position as at January 2019 projects an underspend of £1,107k against the revenue budget. This is based on the assumption that total expenditure incurred by the Integration Joint Board (IJB) in the year will be within budget and that the Council will not fund any overspend. The IJB is currently projecting an overspend in the year of £227k, of which £514k relates to Council commissioned services.

As at March 2018, the Council had £6,624k of unearmarked general fund reserves (2.0% of annual budgeted expenditure) to help alleviate future financial pressures. The Long-Term Financial Outlook 2018-2028 (LTFO) was updated during 2017 and identified a potential funding shortfall of £156,000k. Savings of £7,072k have been identified for 2018/19 as part of the Medium Term Financial Plan 2017-2020 (MTFP) and further savings of £11,721k identified as part of the updated MTFP 2019/20 to 2021/22.

The Council is currently refreshing its Council and Transformation Plans as it acknowledges that it currently doesn't have a clear plan to demonstrate how its transformational activity will achieve the required financial benefits to address the significant funding gap over the medium to longer term. The next phase Transformation is expected to be presented to Council in March 2019.

We will monitor the Council's actions in respect of its MTFP and the work being done as part of the Transformation Plan review to assess how the Council plans to achieve long-term financial sustainability. Currently, there is a risk around how benefits are realised from service redesign projects and how this impacts on achieving financial targets.

Financial management – We will review the budget and monitoring reports to the Council during the year as well as review internal audit reports in relation to their work on the financial control environment to assess whether financial management and budget setting is effective.

From our audit work in 2017/18 we found that the Council had robust financial management procedures in place, however, there remains a risk that a lack of appropriate financial management could result in the Council not achieving its financial targets.

Introduction (continued)
The key messages in this report (continued)

Audit Dimensions (continued)

Governance and transparency – From our review of Council papers and attendance at Audit and Scrutiny Committees we will assess the effectiveness of governance arrangements and Audit and Scrutiny Committee attendance.
We will also review the governance arrangements in relation to the IJB. The IJB has not achieved short-term financial balance since its inception and continues to face significant financial challenges for 2018/19. As outlined on page 4, the IJB is projecting an overspend in the year of £227k. Whilst it is the IJB's responsibility to commission services within the funding available, there is a risk that governance arrangements between the Council, NHS Board and IJB are not effective.

There has been a change to the senior management structure in place at the Council. The Chief Executive retired in September 2018 and was replaced by the former Executive Director of Place. The Council are currently operating with three Executive Directors, with plans in place to review the overall senior management structure early in 2019. We will review the Business Case for the early retirement of the former Chief Executive, monitor how the senior management restructure is progressing and any impact on service delivery.

Value for money – From our 2017/18 audit work we concluded that the Council has a well established performance management framework in place, with performance regularly considered by management and the Council. During 2018/19 we will review how the Council is addressing areas where targets are not being met and also how the implementation of strategic change is impacting on how the Council's performance is measured and reported. There is a risk that, in the context of reducing resources, the Council's approach to focused performance improvement in specific areas is not effective.

Our audit work on the four audit dimensions incorporates 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.

Best Value and Strategic Audit Priorities

As part of our best value work, we will consider the five Strategic Audit Priorities agreed by the Accounts Commission and update our assessment of the Council's performance established from our audit work over the last two years against these priorities.

Introduction (continued)
The key messages in this report (continued)

Regulatory Change

New accounting standards on revenue and financial instruments will apply for 2018/19, and for leases from 2020/21. While we do not expect these standards to have a significant impact on Councils, we recommend that the Council review the impact of IFRS 9 and 15, including calculating any adjustments that will be required as at 31 March 2018 for transition. We would suggest that the Audit and Scrutiny Committee receive reporting in year from management on the implementation of the new standard, and we will report specifically on the findings from our audit work in this area.

We have reported on other regulatory changes in our sector updates in our separate report.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Adding value

Our aim is to add value to the Council 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 Council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities of the Audit and Scrutiny Committee

Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Audit and Scrutiny Committee:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Audit and Scrutiny Committee's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit and Scrutiny Committee with additional information to help fulfil your broader responsibilities

We use this symbol throughout this document to highlight areas of our audit where the Audit and Scrutiny Committee need to focus their attentions.

As a result of regulatory change in recent years, the role of the Audit and Scrutiny Committee has significantly expanded. We set out here a summary of the core areas of Audit and Scrutiny Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit and Scrutiny Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Implement a policy on use of the external auditor for non-audit services and approve these services if they arise.

Integrity of reporting

- Make an impact assessment of key judgements and the level of management challenge.

- Review the external audit findings, key judgements and level of misstatements.

- Assess the quality and capacity of the internal team.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Council, provide advice in respect of the fair, balanced and understandable statement.

- Assess and advise the Council on the appropriateness of the Annual Governance Statement.

Internal controls and risks

- Review the internal control and risk management systems.

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

- Oversee the work of the Council's local counter fraud service.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your Council and your strategy

Identify changes in your Council and environment

The Council continues to face significant financial pressures due to an increase in costs and demand for services as well as a risk of reduced available funding. The Council are also refreshing its transformation programme to address its medium-to-long term financial challenges.

The Chief Executive retired in September 2018 and was replaced by the former Executive Director of Place.

The integration of health and social care also continues to be a challenge, as discussed in pages 10-11.

Scoping

Our scope is in line with the Code of Audit Practice issued by the Audit Scotland.

More detail is given on pages 13-15.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings and detail those items we will be including in our audit report.

Determine materiality

We have determined a group materiality of £9,632k (2017/18: £10,555k) with a performance materiality of £7,224k (2017/18: £7,916k). This is based on gross expenditure adjusted for net contributions made to the IJB in line with prior year. For the audit of North Ayrshire Council (Council only) a materiality of £9,535k (2017/18: £8,699k) has been determined, with performance materiality of £7,151k (2017/18: £6,524k).

We will report to you any misstatements above £250k (2017/18: £250k). More detail given on page 12.

Significant risk assessment

We have identified significant audit risks in relation to the Council. More detail is given on pages 16-20. These significant risks are consistent with those identified in our prior year audit.

Quality and Independence

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

Continuous communication and reporting
Planned timing of the audit

Planning	Interim	Year end fieldwork	Reporting
• Planning meetings to inform preliminary risk assessments and identify judgemental accounting issues. • Update understanding of key business cycles and changes to financial reporting. • Review of key Council documents including Committee minutes. • Planning work for wider scope responsibilities.	• Initiate substantive procedures addressing significant risk around management override of control. • Update risk assessments for any developments since the planning phase before fieldwork begins. • Document design and implementation of key controls for significant risks. • Initiate wider scope procedures. • Completion of NFI questionnaire.	• Review of draft accounts. • Substantive testing of all material areas. • Finalisation of work in support of wider scope responsibilities. • Detailed review of annual accounts and report, including Annual Governance Statement. • Review of final internal audit reports and opinion. • Completion of testing on significant audit risks. • Submission of certified grant claims.	• Final Audit and Scrutiny Committee meeting. • Issue final Annual Report to the Council and the Controller of Audit. • Issue audit report and submission of audited financial statements to Audit Scotland (including charitable trusts). • Issue audited Whole of Government Accounts (WGA). • Completion of Minimum Data Set. • Audit feedback meeting.
2018/19 Audit Plan	Final report to the Audit and Scrutiny Committee		
November - March	**March - June**	**July - August**	**September**

Ongoing communication and feedback

Audit Team

Pat Kenny, Audit Director

Karlyn Watt, Senior Manager

Martin Clark, Manager

Kyle McAulay, Field Manager

An audit tailored to you

Focusing on your business and strategy

	Impact on our audit
Future financial strategy and sustainability	North Ayrshire Council continues to face significant financial challenges. The overall 2018/19 forecast position as at January 2019 is an underspend of £1,107k against revenue budget for the year. This is based on the assumption that total expenditure incurred by the IJB in the year will be within budget and that the Council will not fund any overspend. The IJB is currently projecting an overspend in the year of £227k, of which £514k relates to Council commissioned services. The Council services element of the £514k overspend primarily relates to the increased cost of care packages. A financial recovery plan has been implemented by the IJB; however, if this does not deliver the required savings, further actions will require to be identified. As at March 2018, the Council had £6,624k of unearmarked general fund reserves to help alleviate future financial pressures. The Council are projecting an estimated cumulative funding gap of £30,162k between 2019/20 to 2021/22. The LTFO was also updated during 2017 to assess the financial challenges and potential funding gap faced over the next 10 years (2018-2028), and identified a potential funding shortfall of £156,000k over the 10 year period. The Council will have to find solutions to the emerging funding gap and there is a risk that they will not be able to achieve the savings required. As part of the Council's efforts to address its medium-to-long term financial challenges, the 'T2' transformation programme was established. The Council is currently refreshing its Council and Transformation Plans as it acknowledges that it currently doesn't have a clear plan to demonstrate how its transformational activity will achieve the required financial benefits to address the significant funding gap over the medium to longer term. It is essential that the transformation activity delivers financial benefits to address the anticipated significant funding gap over the medium to long term. We will monitor the Council's plans to achieve short, medium and long-term financial sustainability.

New significant risk

Continuing significant risk

Considered as part of wider scope audit requirements

An audit tailored to you (continued)

Focusing on your business and strategy (continued)

	Impact on our audit
Health and social care integration	2017/18 was the third full financial year of Health and Social Care Integration between North Ayrshire Council and NHS Ayrshire & Arran through the IJB. As reported in our 2017/18 Annual Audit Report to the IJB, the biggest risk it faces is the projected overspend in 2018/19 and the efficiencies required over the medium term to achieve a balanced budget. The IJB is yet to maintain a balanced budget since its inception and is forecast to overspend in 2018/19. The Council and NHS contribution towards the IJB's transformation efforts is crucial for the financial sustainability of the IJB. The IJB carried forward a deficit of £5,808k payable to the Council at the end of 2017/18 as a result of cumulative overspend in the last two years, presenting a recoverability risk to the Council. Whilst it is the IJB's responsibility to commission services within the funding available, it is critical that the Council works closely with the IJB and NHS Ayrshire & Arran to focus on implementing recurring savings through efficiencies or service redesign. We will continue to review the work being done both at the Council and the IJB to address these funding issues.

New significant risk

Continuing significant risk

Considered as part of wider scope audit requirements

Materiality

Our approach to materiality

Basis of our materiality benchmark

- The Audit Director has determined materiality for the group as £9,632k (2017/18: £10,555k) and a performance materiality of £7,224 (2017/18: £7,916k), based on professional judgement and risk factors specific to North Ayrshire Council, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.6% of the 2018/19 forecast gross expenditure, adjusted for net contributions to the IJB as the benchmark for determining materiality and applying 75% as performance materiality.
- For the audit of North Ayrshire Council (Council only) a materiality of £9,535k (2017/18:£8,699k) has been determined, and performance materiality of £7,151k (2017/18: £6,524k).

Reporting to those charged with governance

- We will report to you all misstatements found in excess of our clearly trivial threshold which is £250k (2017/18: £250k) for both the group and Council only.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

Our annual audit report

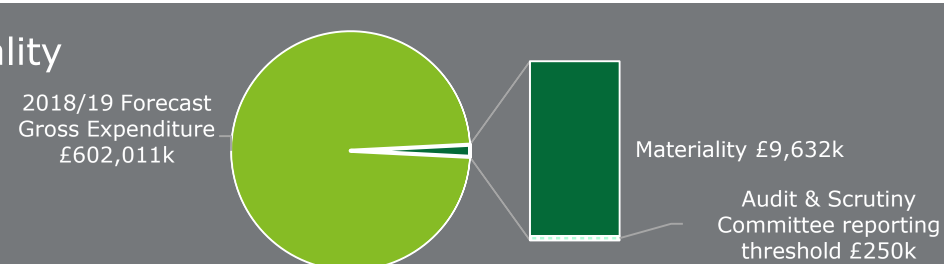
We will:

- report the group materiality, Council only materiality and the range we use for component materialities;
- provide comparative data and explain any changes in materiality, compared to prior year, if appropriate; and
- explain any normalised or adjusted benchmarks we use, if appropriate.

Group scoping

- In addition to performing full audit procedures for North Ayrshire Council, we will also perform a full audit to component materiality as auditors of the Integration Joint Board. The Strathclyde Partnership for Transport and the North Ayrshire Ventures Trust are the only other material components and we will liaise with their auditors to gain assurance over the balances consolidated. All other components are immaterial and will be covered by desktop reviews at the group level.

Materiality



Although materiality is the judgement of the Audit Director, the Audit and Scrutiny Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Core audit work	Planned output	Timeline
Perform an ISA (UK) compliant audit of the annual accounts	• Annual audit plan • Independent auditor's report	• March 2019 • September 2019
Audit and report on the audit dimensions	• Annual audit plan • Interim report • Annual audit report	• March 2019 • June 2019 • September 2019
Contribute to performance audits (including performance audit reports, overview reports and impact reports)	• Minimum datasets • Data returns	• September 2019 • As required
Share audit intelligence with Audit Scotland including highlighting potential statutory reports	• Current issues returns	• January, March, August and October 2019
Provide assurance on Whole of Government Accounts (WGA)	• Assurance statement on WGA returns	• September 2019
Carry out preliminary enquiries into referred correspondence	• None	• N/A
Provide information on cases of fraud	• Fraud returns	• November 2018, February, May and August 2019
Provide information on cases of money laundering	• Audit Scotland to advise	• As required
Contribute to National Fraud Initiative (NFI) report	• NFI audit questionnaire • Reference, if necessary, in annual audit report	• June 2019
Contribute to technical guidance notes	• Consultation comments on draft technical guidance notes	• As required
Contribute to technical databases	• Database returns	• July 2019

Scope of work and approach (continued)

Our key areas of responsibility under the Code of Audit Practice (continued)

Core audit work	Planned output	Timeline
Audit and report on Best Value	• Annual audit report	• September 2019
Consider and report on the Strategic Audit Priorities	• Annual audit plan • Annual audit report	• March 2019 • September 2019
Lead the Shared Risk Assessment	• Any locally agreed output	• As required
Carry out Statutory Performance Information work	• Annual audit plan • Annual audit report	• March 2019 • September 2019
Certify grant claims	• Certificate in support of grant claims	• As required
Liaise with housing benefit performance auditor	• None	• N/A

Scope of work and approach (continued)
Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

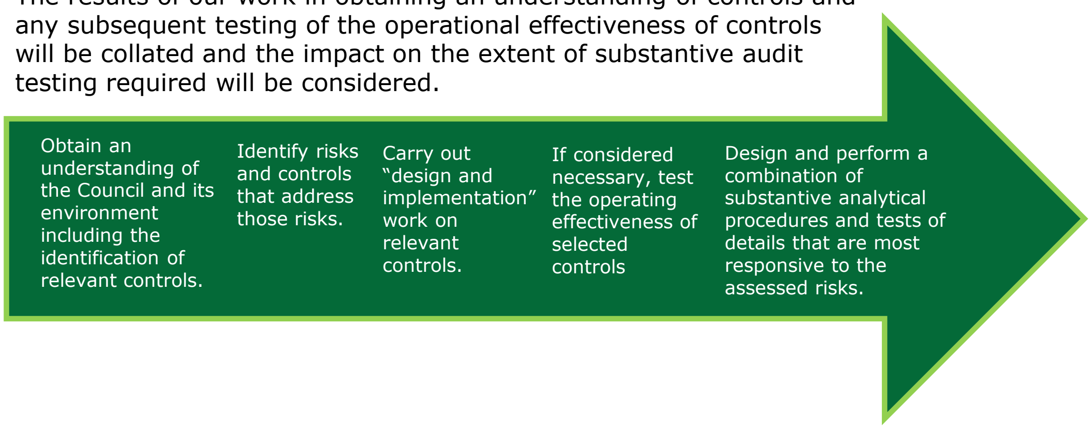
We will review their reports and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.



Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We will utilise the Code of practice on local authority accounts in the UK disclosure checklist to support the Council in preparing high quality drafts of the annual report and financial statements, which we would recommend the Council complete during drafting.

The Disclosure Checklist reflects the cutting clutter agenda and includes a "not material" column. We would encourage the Council to exclude disclosure if the information is not material.

Audit Scotland has published good practice guides in relation to the expenditure and funding analysis and the Governance Statement to support the Council in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Council consider during drafting.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality;
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements; and
- the Council's actual and planned performance on financial and other governance metrics compared to its peers.

Principal risk and uncertainties

- Financial Environment
- Inequality and Poverty
- Financial Sustainability of Health and Social Care Partnership

IAS 1 Critical accounting estimates

- Pension Liability
- Collection Level of Arrears
- Property, Plant and Equipment

Changes in your business and environment

- New Chief Executive
- New Senior Management structure
- New transformation programme

The next page summarises the significant risks that we will focus on during our audit. All the risks mentioned in the prior year Audit and Scrutiny Committee report are included as significant risks in this year's audit plan.

Significant risks
Dashboard

Risk	Material?	Fraud risk identified?	Planned approach to controls testing	Level of management judgement	Page no.
Recognition of grant income	✓	✓	Design and implementation	⚠	18
Management override of controls	✓	✓	Design and implementation	⚠	19

⚠ Some degree of management judgement

⚠ Limited management judgement

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 includes fees and charges across all services, which 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.

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.

Type of income	2017/18 (£m)	Significant risk
Taxation and Non-Specific Grant Income		
Council tax income	51.6	
Non domestic rates	40.6	
General revenue grant	225.1	
Capital grants and contributions	38.4	✓
Service Income		
Service specific grant income	39.6	✓
Housing benefit	52.9	
Housing revenue account	46.6	
IJB commission income (book entry)	95.8	
Other service income	76.1	

Planned audit challenge

We will perform the following:

- assess management's controls around recognition of grant income; and
- test a sample of capital grants and contributions and grant income credited to service income and confirm these have been recognised in accordance with any conditions applicable.

Significant risks (continued)
Risk 2 – Management override of controls

We will use computer assisted audit techniques, including Spotlight, to support our work on the risk of management override of controls

Risk identified	In accordance with ISA 240 (UK) management override of controls 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. The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of grant income and valuation of property assets. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Planned audit challenge	In considering the risk of management override of controls, we plan to perform the following audit procedures that directly address this risk: **Journal testing** • We will test the design and implementation of controls over journal entry processing. • Using our Spotlight data analytics tool, we will risk assess journals and select items for detailed follow-up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest. • We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. **Accounting estimates** • We will test the design and implementation of controls over key accounting estimates and judgements. • We will review accounting estimates for biases that could result in material misstatements due to fraud. This will include both a retrospective review of 31 March 2018 estimates and a review of the corresponding estimates as at 31 March 2019. **Significant and unusual transactions** • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Area of audit focus
Valuation of property assets

We will engage Deloitte Real Estate specialists to assist our testing of the revaluation of the £915m property asset portfolio.

Risk identified	The Council held £914,562k of land and property assets at 31 March 2018. The financial year to 31 March 2019 will represent year three of a five year rolling programme in which 20% of the portfolio will be revalued along with 100% of Council dwellings. The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. Valuation of property assets was classed as a significant risk in previous years' audits due to the degree of judgement and complexity involved and its material impact on the financial statements. In 2017/18, we concluded that the net book value of the property assets was materially correct and no audit adjustments were identified from our testing. The Council's valuation assumptions were in line with other councils and fell within the expected range highlighted by our internal valuations specialist. From our initial planning work, we understand that the type of assets to be valued in 2018/19 are in line with those reviewed in previous years, therefore we have concluded that this is no longer an area of significant audit risk. However, given the change in the Council's valuation team during 2018/19, the year-end processes are currently being reviewed and updated. This will therefore remain a key area of audit focus and we will update the Audit and Scrutiny Committee if there are any changes to this assessment.
Planned audit challenge	We will engage early with the Council, using our valuation specialists to challenge the assumptions applied by management in the valuations. We will use our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's Land and Buildings, including considering movements compared to those of other Council's performing valuations for 2018/19. For valuations performed prior to the year end, where the valuer confirms to the Council that there are no significant differences between the valuation date and 31 March 2019, we will challenge whether any potential impact of a "Brexit shock" (depending on the final deal outcome) has been included in the estimates and judgements, owing to the timing of the Brexit date and year end date.

Wider scope requirements

Audit dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how the Council is addressing these areas, including any risks to their achievement, as part of our audit work as follows:

Audit dimension	Areas to be considered	Impact on the 2018/19 Audit
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.	• The financial planning systems in place across the shorter and longer terms. • The arrangements to address any identified funding gaps. • The affordability and effectiveness of funding and investment decisions made. • Workforce planning.	As at March 2018, the Council had £6,624k of unearmarked general fund reserves to help alleviate future financial pressures. As discussed further on page 10, whilst the Council is projecting a breakeven position for 2018/19, it is projecting a significant funding shortfall in the medium to longer term. There is also the associated risk of overspends in the IJB which are not reflected in the Council projected financial position. The Council is currently refreshing its Council and Transformation Plans as it acknowledges that it currently doesn't have a clear plan to demonstrate how its transformational activity will achieve the required financial benefits to address the significant funding gap over the medium to longer term. We will assess the progress made in refreshing the Transformation Plans and the impact on reducing the funding shortfall. **Audit Risk:** The Transformation Plans are not appropriately progressed, resulting in benefits not being realised and financial balance not being achieved. In view of the Scottish Government's Medium-Term Financial Strategy (MTFS) (discussed further on page 25) we will consider the extent to which the Council has reviewed the potential implications of the MTFS for its own financial planning and whether it is taking these into account in its arrangement for financial management and financial sustainability. **Audit Risk:** The Council's long-term financial planning is inconsistent with the Scottish Government's five-year plan.

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Areas to be considered	Impact on the 2018/19 Audit
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	• Systems of internal control. • Budgetary control system. • Financial capacity and skills. • Arrangements for the prevention and detection of fraud.	Our 2017/18 audit did not identify any issues with the Council's financial management arrangements. However, we will continue to review the budget and monitoring reporting to the Council during the year to assess whether financial management and budget setting are effective. **Audit Risk:** A lack of appropriate financial management could result in the Council not achieving its financial targets. In view of the Scottish Government's new budget process (discussed further on page 25) we will confirm that underlying financial performance including any in-year changes to funding agreed with the Scottish Government, is transparently presented. **Audit Risk:** The underlying financial performance of the Council is not transparently reported. Our fraud responsibilities and representations are detailed on pages 36 and 37.
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.	• Governance arrangements. • Scrutiny, challenge and transparency on decision making and financial and performance reports. • Quality and timeliness of financial and performance reporting.	From our review of Council papers and attendance at Audit and Scrutiny Committees we will assess the effectiveness of governance arrangements and Audit and Scrutiny Committee attendance. The Chief Executive retired in September 2018 and was replaced by the former Executive Director of Place. The Council are currently operating with three Executive Directors, with plans in place to review the overall senior management structure early in 2019. We will review the Business Case for the early retirement of the former Chief Executive and monitor how the senior management restructure is progressing and any impact on service delivery. **Audit Risk:** There is a risk that changes to the management structure may have an adverse impact on service delivery.

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Areas to be considered	Impact on the 2018/19 Audit
Governance and transparency (continued)		We will also review the governance arrangements in relation to the Integrated Joint Board (IJB). **Audit Risk:** Whilst it is the IJB's responsibility to commission services within the funding available, there is a risk that the governance arrangements between the Council, NHS Board and IJB are not effective. In view of the increased focus on how public money is used and what is achieved (as discussed further on page 25), we will consider how the Council has reviewed its approach to openness and transparency. **Audit Risk:** The Council's approach is not keeping pace with public expectation and good practice.
Value for money is concerned with using resources effectively and continually improving services.	• Value for money in the use of resources. • Link between money spent and outputs and the outcomes delivered. • Improvement of outcomes. • Focus on and pace of improvement.	From our 2017/18 audit work we concluded that the Council had a well established performance management framework in place, with performance regularly considered by management and the Council members. During 2018/19 we will review how the Council is addressing areas where targets are not being met and also how the implementation of transformational change is impacting on how the Council's performance is measured and reported. **Audit Risk:** There is a risk that, in the context of reducing resources, the Council's approach to focused performance improvement in specific areas is not effective. In view of the Scottish Government's new budget process (discussed further on page 25) we will consider the extent to which the Council performance report provides an accessible account of the Council's overall performance and impact of its public spending. **Audit Risk:** The Council does not clearly report on its contribution towards the national outcomes.

Wider scope requirements (continued)

Specific risks

As part of the 2018/19 planning guidance, Audit Scotland have identified the following areas as significant risks faced by the public sector. Any specific risks in relation to these areas for the Council have been included in our audit risk under the audit dimensions, discussed on the previous pages. We will continue to monitor these areas as part of our audit work.

Risk	
EU withdrawal	There are uncertainties surrounding the terms of the UK's withdrawal from the European Union in March 2019. Some arrangements have been provisionally agreed, such as a transition period to the end of 2020, although they are dependent on a final deal being reached between the UK Government and the remaining EU countries. The outcome of negotiations should become clearer in the months up to March 2019. Whatever the outcome, EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. Audit Scotland has identified three areas where EU withdrawal may have the most significant impact as summarised below: • **Workforce** – Many services across the economy are dependent on workers from EU countries, including health, social care and education. A decline in migration from the EU could potentially result in vacancies and skills gaps in some areas of the public sector. There is a risk that this could impact on some public bodies' ability to deliver 'business as usual', particularly given existing workforce and service pressures. • **Funding –** Funding from the EU makes an important contribution to the Scottish public sector. The main sources of funding provide support to farmers and rural businesses, projects to encourage economic growth and support for research and education. The UK Government has made guarantees to meet some funding commitments to the end of existing programmes, but there are uncertainties about what any replacement funding may look like. • **Regulation –** The EU Withdrawal Bill will transpose existing EU law into UK law immediately after the UK leaves the EU. Legislation in many devolved areas will transfer to the Scottish Parliament. The UK Government has identified 24 devolved policy areas where it seeks to retain temporary control until UK-wide common legislative frameworks are developed. This is currently an area of contention between the Scottish and UK Governments and is under consideration by the Supreme Court. In addition, some public bodies may be affected directly by changes to trade and customs rules, which could impact on supply chains and the procurement of goods or services from EU countries. This could influence the availability and cost of supplies and services (e.g. specialist medical equipment or drugs) with potential implications for public bodies' finances and their ability to deliver specific services. While there are considerable uncertainties about the detailed implications of EU withdrawal, at a minimum by the end of 2018/19, we would expect public bodies to have assessed the potential impact of EU withdrawal on their operations and identified any specific risks and how they will respond to them. We will assess how the Council has prepared for EU withdrawal and how it continues to respond to any emerging risk after March 2019. In addition, in accordance with the FRC guidance, the Council should consider the ***disclosure within its annual report***, and distinguish the specific and direct challenges that it faces from the broader economic uncertainties. In some circumstances this many mean ***recognising or re-measuring*** certain items in the Balance Sheet. A comprehensive **post balance sheet events review** must be reflected in accounts and disclosures.

Wider scope requirements (continued)

Specific risks (continued)

Risk	
Changing landscape for public financial management	Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits worth over £3 billion a year. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater volatility, uncertainty and complexity. Parliamentary scrutiny of the public finances is increasingly important in this changing landscape. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. This involves parliamentary committees looking back to explore what public spending has achieved, looking forward to longer-term objectives and challenges, and considering what this should mean for future budgets. As part of the new budget process, the Scottish Government published an initial five-year MTFS in May 2018. This five-year outlook for the Scottish budget provides useful context for audited bodies' financial planning. As part of our wider scope audit work on financial management and financial sustainability (discussed further on pages 21-22), we will consider how North Ayrshire Council has reviewed the potential implications of the MTFS for its own finances, including longer-term financial planning. The new budget process places greater emphasis on assessing outcomes and the impact of spending. There is an expectation that the Scottish Government and public bodies will report on their contributions towards the national outcomes in their published plans and performance reports, including their annual reports. Increased complexity and volatility is also likely to mean that the Scottish Government will be increasingly active in managing its overall budget position in-year, engaging with public bodies closely on their anticipated funding requirements. As part of our wider scope audit work on financial sustainability and value for money (discussed further on pages 21 and 23) we will consider the extent to which North Ayrshire Council's performance report provides an accessible account of the body's overall performance and impact of its public spending. We will also confirm that underlying financial performance, including any in-year changes to funding agreed with the Scottish Government, is transparently presented.

Wider scope requirements (continued)

Specific risks (continued)

Risk	
Care income, financial assessments and financial guardianship	The experience of a few local government audits indicates there may be wider issues with the systems and processes for collecting care income, undertaking financial assessments on individuals receiving care and financial guardianship. In some cases, responsibility for financial assessment on those receiving care has transferred from social care to finance and this has revealed issues with backlogs of financial assessment and under-recovery of care charges over long periods. Each individual case may have different circumstances contributing to a delay and some of these delays are not within the councils' control, but there are examples where inadequate focus on this area has led to delays that are attributable to the council. After taking legal advice, Audit Scotland does not believe these statutory debts are subject to prescription periods, so are generally collectable even where delays are considerable. In some cases, the Council will take charge over property, where income is insufficient to meet care costs. We will undertake a review of the arrangements for financial assessment of those requiring care and assess whether these are subject to a significant backlog and the reporting of this. Audit Scotland has also identified that officers within the Council may be operating as financial guardians for individuals with a lack of capacity to act in their own interest. This financial guardianship role is distinct from a welfare guardian (usually the chief social work officer) and is subject to approval by a Sherriff. Financial guardianship by a council officer is the solution of last resort when no other member of a family, friend, neighbour or local solicitor is willing to act in this role. This may give risk to a potential conflict of interest when finance officers are in a senior position and the Council is issuing invoices to a person for their care and the officer is also acting as financial guardian for the individual. We will be requested to complete a questionnaire to provide intelligence on the extent to which officers undertake financial guardianship roles and the reasons for this. We understand that North Ayrshire Council's social care finance team has been transferred to the North Ayrshire Health and Social Care Partnership (HSCP) in an effort facilitate collaboration between the Council's social care and finance functions. As a result we will assess the implications of this risk for both North Ayrshire Council and North Ayrshire IJB.

Wider scope requirements (continued)

Specific risks (continued)

Risk	
Dependency on key suppliers	It has become clear that the collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions. The risk exists on two levels: • individual public sector bodies are dependent on key suppliers; and • the Scottish public sector as a whole is subject to significant systematic risk. We will determine as part of our detailed risk assessment the extent to which North Ayrshire Council is dependent on key supplier relationships. Where dependency is significant, we will consider this as part of our audit work and report back to the Audit and Scrutiny Committee. We will also be requested to complete a short questionnaire to establish the extent, value and nature of key supplier dependencies that can inform the national position.
Openness and transparency	There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. We will consider this as part of our wider scope work on governance (discussed further on page 22-23). We would expect to see public bodies reviewing their approach to openness and transparency to ensure they are keeping pace with public expectations and good practice. Evidence of progress might include: • increased public availability of Council papers; • more insight into why some business is conducted in private; and • development of the form and content of annual reports.

Wider scope requirements (continued)

Other requirements

Best Value

In June 2016 the Accounts Commission formally agreed the overall framework for a new approach to auditing Best Value (BV). This framework introduced a five year approach to auditing BV. 2018/19 represents year three of the BV audit plan. Under this approach, the Controller of Audit will provide a Best Value Assurance Report (BVAR) to the Commission for each Council at least once in a five year period. The national five year BVAR programme is updated each year reflecting changes to risk assessments identified from the SRA process or annual audits. North Ayrshire Council has not been identified for a BVAR report in 2018/19.

Our BV audit work in 2018/19 will be integrated into our audit approach, including our work on the audit dimensions discussed on pages 12 to 23, and will be reported in our annual audit report.

Strategic audit priorities

In its Strategy, which is updated annually, the Accounts Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of targeted improvements facilitated by effective governance. Within this, the Commission also sets out five Strategic Audit Priorities that will be built into audit expectations, which are set out below.

- 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; and
- 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.

We will consider each of these areas as part of our audit dimensions work and report within our annual audit report.

Wider scope requirements (continued)

Other requirements (continued)

Shared Risk Assessment and Joint Scrutiny Planning

The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group (SSG). The SSG is made up of scrutiny bodies from across the public sector to make their work on local government more co-ordinated, better targeted and more proportionate to identified risks.

The arrangements for coordinating scrutiny at a local level include a Local Area Network (LAN) for each Council. LANs are led by each Council's appointed auditor. LANs bring together relevant scrutiny bodies, typically Audit Scotland, Care Inspectorate, Education Scotland and the Scottish Housing Regulator, to share information and intelligence on an ongoing basis and to carry out a Shared Risk Assessment (SRA). The purpose of the SRA is to inform discussions between the LAN and its Council and to inform the National Scrutiny Plan (NSP) for local government.

A number of changes have been made to the process for 2018/19, the most notable being there is no requirement for LANs to produce local scrutiny plans. LANs can produce local outputs if they determine, in consultation with the Council, that this would be useful. The new approach looks to embed a discussion about risks and responses between scrutiny bodies across the year, rather than a specific one-off approach.

Councils' Statutory Performance Indicators

The Accounts Commission has a statutory responsibility to define the performance information that Councils must publish to allow citizens to gauge their performance comparatively. This responsibility links with the Commission's BV audit responsibilities. In turn, Councils have their own responsibilities, under their BV duty, to report performance to the public. The 2015 Statutory Performance Information Direction published by the Commission requires Councils to report a range of information in accordance with, but not confined to, the requirements of the LGBF. The Commission has committed to reviewing its 2015 Direction after three years, this will be updating its Direction at the end of 2018.

We will assess 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" discussed on page 23.

Wider scope requirements (continued)

Other requirements (continued)

Performance Audits

In accordance with Audit Scotland planning guidance, we will be requested to provide information to support performance audits that Audit Scotland intends to publish during 2018/19 and 2019/20, as summarised below:

Title and planned publication date	**Local auditor input**
Innovative Financing: City Deals – Autumn 2019	Evidence gathered through the routine local audit work in relation to City Deal arrangements as applicable to the audited body. The Ayrshire Growth deal which aims to drive growth across the region, boosting jobs and opportunity across Ayrshire, is progressing, with funding of £100,000k for both the UK and Scottish Governments recently announced.
Digital progress in local government – Spring 2020	We will be asked to inform the performance audit team of any significant ICT and digital developments within their audited body.
Education outcomes – Winter 2019	Scoping work for the audit will take place in early 2019 and will inform any specific input required from auditors. This is likely to be providing an update on governance arrangements and operation of the Regional Improvement Collaboratives.
Value for money of non-profit distributing models of capital financing – Summer 2019	Scoping work for this audit is underway and it is not anticipated that a formal data return will be required from auditors. The performance audit team will consider national data and liaise with local auditors around potential case studies as appropriate.
Waste management	Guidance will be provided to auditors, but would typically seek information in relation to local, regional and national waste management arrangements, including cost, investment, volume and Landfill Tax data.

Impact reports

We will also be requested to provide information to support assessing the impact of previously published performance audit reports as follows:

- Supporting Scotland's economic growth (Winter 2018)
- Equal pay in Scottish Councils (Spring 2019)
- Self-directed support: 2017 progress report (Spring 2019)
- Early learning and child care (Summer 2019)
- Transport Scotland's ferry services (Summer 2019)

Wider scope requirements (continued)

Other requirements (continued)

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017 and replace the Money Laundering Regulations 2007. The regulations impose an obligation of the Auditor General to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. As part of our audit work, we will ensure we are informed of any instances of money laundering at the Council so that we can advise the Auditor General.

National Fraud Initiative (NFI)

All Councils are participating in the NFI 2018/19. All data was required to be submitted in October 2018 and Councils will receive matches for investigation in January 2019. Audit Scotland expects bodies to investigate all recommended matches based on findings and the risk of error or fraud. Match investigation work should be largely completed by 30 September 2019 and the results recorded on the NFI system.

We will monitor the Council's participation and progress during 2018/19 and into 2019/20 and, where appropriate, include references to the NFI in our annual audit reports for both years. We will also complete an NFI audit questionnaire and submit to Audit Scotland by 30 June 2019.

Audit Quality
Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

- We will apply professional scepticism on material issues and significant judgements identified, by using our expertise in the local government sector and elsewhere to provide robust challenge to management.
- We have obtained a deep understanding of your business, its environment and of your processes in income and expenditure recognition, payroll expenditure and capital expenditure enabling us to develop a risk-focused approach tailored to the Council.
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve specialists to support the audit team in our work.

In order to deliver a quality audit to you, each member of the core audit team will receive tailored learning to develop their expertise in audit skills, delivered by Pat Kenny and other sector experts. This includes sector specific matters, and audit methodology updates.

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

As you will be aware, our audit is 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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

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

Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit and Scrutiny Committee, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Pat Kenny, CPFA

for and on behalf of Deloitte LLP

Glasgow

8 March 2019

Appendices

Prior year audit adjustments
Uncorrected and disclosure misstatements

Prior year uncorrected misstatements

There were no uncorrected misstatements identified during the course of our prior year audit.

Prior year disclosure misstatements

There were no uncorrected disclosure misstatements identified during the course of our prior year audit.

Fraud responsibilities and representations

Responsibilities explained

Your 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.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified the risk of fraud in the recognition of grant income and management override of controls as a key audit risk for your organisation.

Fraud characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 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.
- We are not aware of any fraud or suspected fraud that affects the group 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.
- 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.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:

Management

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.

Internal audit and local counter fraud specialist

- Whether internal audit and the Council's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain their views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

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:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Scrutiny Committee for the year ending 31 March 2019 in our final report to the Audit and Scrutiny Committee.
Fees	The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £296,860 as analysed below:

	£
Auditor remuneration	180,410
Audit Scotland fixed charges:	
Pooled costs	17,490
Performance Audit and Best Value	87,630
Audit support costs	11,330
Total proposed fee	**296,860**

In addition, the audit fee for the charitable trusts audit is £1,800.

There are no non-audit services fees proposed for the period.

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council'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.
Relationships	We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19.

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year.

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.

North Ayrshire Council

Sector developments paper

For the Audit and Scrutiny Committee meeting on 26 March 2019

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Government beyond Brexit

Overview

Now in its seventh year, **The State of the State** has once again brought together Deloitte LLP and Reform to reflect on the most pressing public sector issues along with new, exclusive research. Central to the report is our citizen survey, which provides a platform for the most important voices of all in the public sector: those of the public. Also exclusive to the report is our research with the people who know the public sector's challenges best: the people who run it.

This year, we interviewed 50 senior figures including civil servants, police leaders, NHS directors and Council Chief Executives, producing the most extensive qualitative research of its kind in the sector.

This year's The State of the State finds the UK Government amid the complex and politically-charged challenge of leaving the EU. But while Brexit may dominate daily headlines, our report finds a wider set of challenges – and opportunities – for government and the public services as they gear up for a Spending Review.

Key findings	
Scotland's government has now been led by the Scottish National Party for three consecutive terms in office	In those 11 years, the administration has taken forward the possibilities of devolution to shape a Scottish public sector landscape that now differs substantially from the rest of the UK – in its public finances, its policy priorities and its ethos.
Austerity has flipped public attitudes to tax and spending	As austerity began in 2010, more than half of the public backed spending cuts to restore the public finances. In 2018, as the Prime Minister calls a formal end to the austerity years, our exclusive citizen survey finds that support has dwindled to less than one fifth of the public.
People are increasingly concerned about public services and their future provision	Our survey finds that the public is increasingly concerned about public services. It suggests that the past four years have seen a decline in the number of people who think that public bodies understand their needs, listen to their preferences and involve them in decisions – perhaps driven by perceptions of austerity. Looking to the future, the number of people who are worried that the state will provide too little support for them in the years ahead has risen from fifty per cent in 2010 to seventy per cent this year.
Citizen views differ significantly across the UK's four countries	Recent years have seen an acceleration in the public policy differences between the devolved administrations, and our survey finds that citizen attitudes also differ. For example, people in Scotland are more likely to believe that taxes should be higher to pay for more public services, people in Northern Ireland are less likely to say they have felt the effects of austerity, and people in Wales are the most likely to say that public services listen to their needs. These differing views underscore the diverging political and policy landscapes across the UK.
The public back penalty fines for wasting public sector time	Our citizen survey explored the circumstances in which the public would find charges reasonable, and found that the most acceptable would be penalty fines for wasting public sector time, like missing NHS appointments or wrongly calling out the emergency services.

Next steps

The report is available at https://www2.deloitte.com/content/campaigns/uk/the-state-of-the-state/the-state-of-the-state/the-state-of-the-state.html

Health and social care integration

Audit Scotland's progress report concludes that better collaboration needed to deliver health and social care integration

Overview

Audit Scotland issued its latest progress report on Health and Social Care Integration in November 2018 as part of its health and social care series. It reported that while some improvements have been made to the delivery of health and social care services, Integration Authorities (IA), Councils and NHS Boards need to show a stronger commitment to collaborative working to achieve the real long term benefits of an integrated system. While some progress was noted, the remaining challenging are significant. It found that success will depend on long term integrated financial planning and stable and effective leadership. All bodies involved (being IAs, Councils, NHS Boards, the Scottish Government and COSLA) need to tackles these issues as a matter of urgency in order to transform the way services are provided for Scotland's ageing population.

Key findings		Recommendations (for Councils)
Collaborative working	IAs have started to introduce more collaborative ways of delivering services and have made improvements in several areas, including reducing unplanned hospital activity and delays in discharging people from hospital. People at the end of their lives are also spending more time at home or in a homely setting, rather than in hospital. These improvements are welcome and show that integration can work within the current legislative framework, but IAs are operating in an extremely challenging environment and there is much more to be done.	No specific recommendations for Council. The Scottish Government and COSLA should: • Ensure that there is appropriate leadership capacity in place to support integration • Increase opportunities for joint leadership development across the health and social care system to help leaders to work more collaboratively.
Financial planning	Financial planning is not integrated, long term or focused on providing the best outcomes for people who need support. This is a fundamental issue which will limit the ability of IAs to improve the health and social care system. Financial pressures across health and care services make it difficult for IAs to achieve meaningful change. IAs were designed to control some services provided by acute hospitals and their related budgets. This key part of the legislation has not been enacted in most areas.	The Scottish Government, COSLA, Councils, NHS Boards and IA's should work together to: • Support integrated financial management by developing a longer-term and more integrated approach to financial planning at both a national and local level. All partners should have greater flexibility in planning and investing over the medium to longer term to achieve the aim of delivering more community based care. IAs, Councils and NHS bodies should work together to: • View their finances as a collective resource for health and social care to provide the best possible outcomes for people who need support.

Health and social care integration (continued)

Audit Scotland's progress report concludes that better collaboration needed to deliver health and social care integration (continued)

Key findings		Recommendations (for Councils)
Strategic planning	Strategic planning needs to improve and several significant barriers must be overcome to speed up change. These include: a lack of collaborative leadership and strategic capacity; a high turnover in IA leadership teams; disagreement over governance arrangements; and an inability or unwillingness to safely share data with staff and the public. Local areas that are effectively tackling these issues are making better progress	The Scottish Government, COSLA, Councils, NHS Boards and IAs should work together to: • Agree local responsibility and accountability arrangements where there is disagreement over interpretation of the Public Bodies (Joint Working) (Scotland) Act 2014 and its underpinning principles. Scenario or examples of how the Act should be implemented should be used which are specific to local concerns. There is sufficient scope within existing legislation to allow this to happen. IA's, Councils and NHS Boards should work together to: • Ensure operational plans, including workforce, IT and organisational change plans across the system, are clearly aligned to the strategic priorities of the IA • Monitor and report on the Best Value in line with the Public Bodies (Joint Working) (Scotland) Act 2014.
Delivery of services	Significant changes are required in the way that health and care services are delivered. Appropriate leadership capacity must be in place and all partners need to be signed up to, and engaged with, the reforms. Partners also need to improve how they share learning from successful integration approaches across Scotland. Change cannot happen without meaningful engagement with staff, communities and politicians. At both a national and local level, all partners need to work together to be more honest and open about the changes that are needed to sustain health and care services in Scotland.	The Scottish Government, COSLA, Councils, NHS Boards and IAs should work together to: • Share learning from successful integration approaches across Scotland. • Address data and information sharing issues, recognising that in some cases national solutions may be needed. • Review and improve the data and intelligence needed to inform integration and to demonstrate improved outcomes in the future. They should also ensure mechanisms are in place to collect and report on tis data publicly. IAs, Councils and NHS Boards should work together to: • Continue to improve the way that local communities are involved in planning and implementing any changes to how health and care services are accessed and delivered.

Next steps

The Council, in partnership with the NHS and Health and Social Care Partnership may wish to consider how these issues will be addressed as part of the development of the Partnerships.
The report is available at http://www.audit-scotland.gov.uk/uploads/docs/report/2018/nr_181115_health_socialcare_update.pdf

FRC areas of focus for 2018/19 Annual Reports

Clear, concise, informative disclosures that are specific to your Council

In October 2018 the FRC sent a letter to the Audit Committee Chairs and Finance Directors of listed companies to outline the areas of reporting that the FRC would like companies to focus on for the 2018/19 reporting season, and to highlight changes in reporting requirements. It also published its annual review of corporate reporting and supporting technical findings. While not directly applicable to local government bodies, a number of the themes are relevant for consideration when drafting the Council's Annual Report and Accounts to take into account wider best practice. The key areas included in the publications are set out on this slide and the next.

Critical judgements and estimates

Key judgements and estimates disclosures remain a key FRC focus area. The FRC expects to see:

- judgements other than those involving estimates and sources of estimation uncertainty shown separately;
- disclosure of sensitivity of carrying amounts to assumptions and estimates or the range of reasonably possible outcomes within the next year; and
- voluntary disclosure of longer-term estimation uncertainties distinguished from those required where the risk of material adjustment within the next year is significant.

New accounting standards on revenue and financial instruments

The FRC is encouraging entities to invest sufficient time to ensure:

- explanations of the impact of transitioning to IFRS 9 and IFRS 15 are comprehensive and linked to other relevant information, including the impact on performance metrics where comparatives are not restated;
- changes to policies are clearly described and explained;
- relevant assumptions, judgements and sources of estimation uncertainty are explained;
- performance obligations are identified and explained, with a focus on how they have been determined and timing of delivery to the customer;
- the extended scope of IFRS 9 impairment requirements is taken into account, including lease receivables; and
- new disclosure requirements are properly and meaningfully addressed.

These areas are discussed further on pages 7 and 8 of this report.

Brexit

The FRC encourages disclosures which distinguish between specific and direct challenges to a business model and broader economic uncertainties attached to Brexit. The FRC reminds entities that a comprehensive post-balance sheet review must be reflected in accounting and disclosure. **This is an area that the Council needs to consider.**

Strategic report

The strategic report remains a frequent area for FRC challenge. For the report to be fair, balanced and comprehensive, the FRC expects the narrative to explain significant amounts in the financial statements.

UK exit from the EU

Navigating uncertainty – key questions for the Audit and Scrutiny Committee

Whilst nobody can predict the outcome of negotiations, we can be sure that Brexit will require all organisations to take some big decisions. As we have seen, some will require lengthy and complicated preparations, and we advise keeping track of the negotiations and thinking what this means for the Council sooner rather than later.

Is the Council set up to navigate the change?

Have you assessed the impact of potential changes and identified key decision points?

Does your assessment include how Brexit could impact on your customers, supply chain and people?

Have you defined the options there are to respond? E.g. scenario or contingency planning?

Are you monitoring developments and are you ready to act proportionately at the right time?

Are all the right people involved? Does this include discussion with key stakeholders?

Are channels of communication clear, both internally and externally, and have company spokespeople been fully briefed?

Impact on internal planning, forecasting and strategy

Is management using forward-looking indicators such as forward bookings, contact conversion rates and supplier forward pricing?

Have cash reserves, financing requirements and longer-term viability all been assessed?

Have opportunities as well as risks been considered?

Impact on internal and external audit

Should the scope and plan for internal audit be amended to include contingency planning, or testing key risk indicators?

Should internal audit be asked to perform work on longer term viability?

Is there an impact on critical accounting judgments and areas of estimation uncertainty that need to be discussed with the external auditor?

Impact on external reporting

Will disclosures on principal risks and uncertainties need to be reconsidered now Article 50 has been triggered and be revisited based on the current status of negotiations.

Have you developed a plan for appropriately detailed disclosure in management commentary?

"We encourage companies to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may still attach to the UK's position when they report. Where there are particular threats, for example the possible effect of changes in import/export taxes or delays to their supply chain, we expect these to be clearly identified and for management to describe any actions they are taking, or have taken, to manage the potential impact. In some circumstances this may mean recognising or remeasuring certain items in the balance sheet.

The broad uncertainties that may still attach to Brexit when companies report will require disclosure of sufficient information to help users understand the degree of sensitivity of assets and liabilities to changes in management's assumptions."

(FRC Letter to CFOs and Audit Committee Chairs, October 2018)

Appendix: New Accounting Standards

IFRS 9 *Financial Instruments*

In a nutshell

- In July 2014, the IASB published a final version of IFRS 9. This version supersedes all previous versions.
- IFRS 9 *Financial Instruments* will replace IAS 39 *Financial Instruments: Recognition and Measurement*, and has three main impacts:
    - *Classification and measurement* - introduces new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This classification determines how financial assets are accounted for in financial statements and, in particular, how they are measured on an ongoing basis.
    - *Amortised cost and impairment of financial assets* – introduces an "expected losses" impairment model where entities are required to account for expected credit losses from when financial instruments are first recognised.
    - *Hedge accounting* - introduces new general hedge accounting model that aligns the accounting treatment with risk management activities and allows for better reflection of the hedging activities in the financial statements.
- HM Treasury has adopted IFRS 9 from 2018/19 onward, with a number of interpretations and adaptations for the public sector, generally simplifying the requirements.
- The key practical change in IFRS 9 for most local government bodies is the introduction of a new approach to recognising impairments of debtors and other financial instruments. In addition, the classification of investments has changed – the previous classifications do not map directly to the new classifications therefore Councils need to assess all their investments against the new criteria.
- The key change to IFRS 9 affecting Councils will be the movement from an incurred losses model for receivables to an expected credit losses (ECL) model. The move is intended to reflect that there is always a risk of late/ non-payment when granting credit and that this should be reflected in the value of receivables upon recognition. If the debt is later repaid in full, the ECL creditor can be reversed. ECL creditors should be set up on a portfolio rather than arrangement-by-arrangement basis. A further change from IAS 39 to IFRS 9 will be that all financial assets are recognised as Fair Value through Profit or Loss, unless where there are specific business cases to designate alternative treatment.

Effective date

The Standard has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted.

HM Treasury have decided that on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.

The 2018/19 accounting code requires bodies to disclose information in 2018/19 on the transition to IFRS 9.

Find out more on our UK Accounting Plus website www.iasplus.com/en-gb by following the links to Standards -> IFRS 9

Potential impact on the Council

IFRS 9 is expected to have relatively limited impact on most Councils but will affect the process of assessing impairment of debtors and other financial assets as noted above and the classification of investments. As part of the process of adoption, the Council will need to consider the impact on policies, processes, systems and people. This may include reviewing how entries are posted for impairment of assets, given the requirement to provide on initial recognition for lifetime expected credit losses. We would recommend that the Council review the impact of IFRS 9, including calculating any adjustments that will be required as at 31 March 2018 for transition.

Appendix: New Accounting Standards

IFRS 15 *Revenue from Contracts with Customers*

In a nutshell

- IFRS 15 establishes a new framework for revenue recognition, replacing all existing standards and interpretations, and applies to effectively all contracts with customers with very limited exceptions. This provides a single, principles-based five step model for revenue recognition. The five steps are as follows.

1. Identify the contract with the customer

2. Identify the performance obligations in the contract

3. Determine the transaction price

4. Allocate the transaction price to the performance obligations

5. Recognise revenue when (or as) performance obligations are satisfied

- IFRS 15 Introduces several new concepts, including:
    - Replacing existing distinction between provision of goods and services with a single model for determining whether revenue should be recognised at a point in time or over time.
    - Contracts are split into 'performance obligations' by considering whether different elements are capable of being distinct and also whether they are distinct in the context of the particular contract.
    - A new approach to recognising variable consideration – amounts are initially constrained so that future significant revenue reversal is highly improbable.
- It also provides significantly more detailed guidance than existing standards in many areas, including dealing with contract modifications, and introduces new disclosure requirements.
- The local government accounting code (section 2.7) requires local government bodies to recognise income from contracts with service recipients in accordance with IFRS 15. Section 2.7 applies to a contract only if the counterparty to the contract is a 'service recipient'. The accounting code contains the following key definitions:
    - **Service recipient** – A party that has contracted with a local government body to obtain goods or services that are on an output of the body's normal operating activities in exchange for consideration.
    - **Contract** – An agreement between two or more parties that creates enforceable rights and obligations. They can be written, oral or implied.
- Section 2.7 requires bodies to recognise revenue from contracts with service recipients in accordance with the above five steps.

Effective date

Periods commencing on or after 1 January 2018. HM Treasury has applied IFRS 15 for the Public Sector from 2018/19 onward.

HM Treasury have decided that on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19. This is reflected in the 2018/19 accounting code.

Find out more on our UK Accounting Plus website www.iasplus.com/en-gb by following the links to Standards -> IFRS 15

Potential impact on the Council

The changes to IFRS 15 are unlikely to have a significant impact on Councils as local authority income transactions are not normally complex and do not normally involve substantial recognition or measurement issues. We would recommend that the Council review the impact of IFRS 15 early in the year, including calculating any adjustments that will be required as at 31 March 2018 for transition.

Appendix: New Accounting Standards

IFRS 16 *Leases*

In a nutshell

- The new Standard supersedes IAS 17 *Leases* and its associated interpretative guidance. For lessees the distinction between operating and finance leases disappears.
- A lease conveys the right to control an identified asset for a period of time in exchange for consideration.
- The accounting for all leases is similar to finance lease accounting in IAS 17, which means all leases are recognised on the balance sheet (with some exceptions).
- The lease liability is measured at the present value of the future lease payments, using a lease term that includes periods covered by extension options if exercise is reasonably certain. Variable lease payments are only included in the liability if based on an index or rate.
- That right-of-use asset is initially measured at the amount of the lease liability, plus initial direct costs and adjustments for lease incentives, payments at, or prior to, commencement and dilapidations provisions.
- The right-of-use asset is subsequently accounted for by applying IAS 16 *Property, Plant and Equipment*, at cost less depreciation and impairment (unless it is an investment property that is fair valued or it belongs to a class of property, plant and equipment that is revalued).
- A lessee can elect to keep the following leases off-balance sheet and typically straight-line the expense:
  - leases with a lease term of 12 months or less and containing no purchase option – this election is made by class of underlying asset; and
  - leases where the underlying asset has a low value when new, such as personal computers or small office furniture – this election is made on a lease-by-lease basis.
- Operating lease expenses, typically straight-line, will be replaced with interest on the liability and depreciation of the asset, producing a front-loaded expense profile.
- Although any individual lease will have a front-loaded expense, portfolios of leases containing both new and mature leases may produce an overall expense profile similar to straight line expensing.
- HM Treasury has consulted across government and is considering specific interpretations and adaptions for consistency across the public sector, but which will follow the overall principles of IFRS 16.
- CIPFA has issued a number of Local Authority Briefings to update stakeholders on the development of the approach to the adoption of the standard in the Code and assist with the implementation of the standard from both technical and practical perspectives. These are available through the following link: https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings

Effective date

Periods commencing on or after 1 January 2019. CIPFA/LASAAC has delayed the implementation of IFRS 16 and is planning to adopt for 2020/21 in the public sector.

Find out more on our UK Accounting Plus website www.iasplus.com/en-gb by following the links to Standards -> IFRS 16

Potential impact on the Council

The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating 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 local authorities consider their own preparations.

We would recommend that the Council review the impact of IFRS 16 during 2018/19, so that the impact in 2020/21 can be understood and reflected in budgeting for future years. We would suggest that the Audit and Scrutiny Committee receive reporting in year from management on expected impact of the new standard, to support the disclosure in the financial statement on accounting standards not yet effective. We will report to the Audit and Scrutiny Committee on any observations on the Council’s approach in 2018/19.