

East Ayrshire Council

Report to those charged with governance on the 2009/10 audit

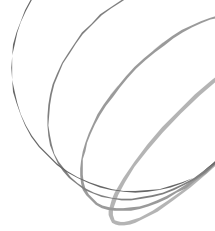
September 2010



 AUDIT SCOTLAND

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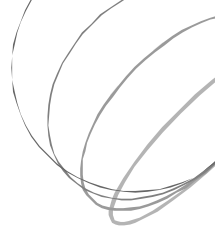
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Key Issues

Introduction

1. International Standard on Auditing 260 (ISA 260) requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in time to enable appropriate action.
2. ISA 260 requires us to highlight:
 - Relationships that may bear on our independence and the integrity and objectivity of the audit engagement lead and audit staff.
 - The overall scope and approach to the audit, including any expected limitations, and the form of reports expected to be made.
 - Expected modifications to the audit report.
 - Management representations requested by us.
 - Unadjusted misstatements.
 - Material weaknesses in internal control identified during the audit.
 - Views about the qualitative aspects of accounting practices and financial reporting, including accounting policies.
 - Matters specifically required by other auditing standards to be communicated and any other matters relevant to the audit.
3. This report sets out the relevant matters arising from the audit of council's financial statements for 2009/10 and should be brought to the attention of the Leader of the Council, the Chief Executive and the Executive Director of Finance and Corporate Support prior to sign off of the financial statements. Consistent with good practice, this report is to be considered by the Governance and Scrutiny Committee at its meeting of 24 September 2010.
4. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. This report has been prepared for the use of East Ayrshire Council and no responsibility to any third party is accepted.



Status of the audit

5. Our work on the financial statements is now complete and matters arising during the audit have been discussed with the Executive Director of Finance and Corporate Support.

Matters to be reported to those charged with governance

Conduct and scope of the audit

6. Information on the integrity and objectivity of the audit engagement lead and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan submitted to management in February 2010 and follow the requirements of the Code of Audit Practice issued by Audit Scotland in March 2007.

Audit opinion & representations

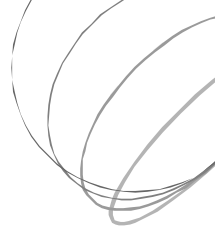
7. Our anticipated auditor's report (appendix A) is unqualified.
8. Any significant errors identified during the audit have been corrected in the accounts. There are no unadjusted misstatements to bring to your attention.
9. As part of the completion of our audit we seek written assurances from the Executive Director of Finance and Corporate Support on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 has been provided to the Executive Director of Finance and Corporate Support. This should be signed and returned by the Executive Director of Finance and Corporate Support prior to the independent auditor's opinion being certified.

Accounting and internal control systems

10. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

Matters arising

11. In our view, the following issues require to be brought to your attention regarding the appropriateness of the council's accounting policies or accounting estimates and judgements, the timing of transactions, the existence of any material unusual transactions or the potential effect on the financial statements of any uncertainties:



12. **Equal pay:** The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. The ultimate cost to the council remains uncertain. It is likely that resolution of the issue will take some time. As the legal process unfolds the extent of the council's eventual liability will become clearer.

Resolution: The council has provided for a sum in anticipation of a proportion of the claims being successful. This estimate has been prepared using information and assessments of likely outcomes provided by the council's Legal and Human Resource Services. Some £0.290 million was settled and charged to the provision during 2009/10. In addition, a note to the accounts indicates the existence of a contingent liability in the event of further claims arising.

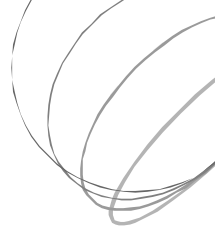
13. **Common Good assets:** There have been a number of petitions to the Scottish Parliament concerning the proper recording, auditing and safeguarding of common good assets. Nationally, this area continues to produce a significant amount of correspondence and complaints. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance recognised the legal distinction of the common good as a separate fund, requiring separate disclosure within local authority financial statements and common good asset registers to be in place by March 2009. The council planned to have an asset register in place for 2009/10, this was not achieved.

Resolution: The Executive Director of Finance and Corporate Services has informed us and that he expects completion by November 2010.

14. **Pension liability:** In June 2010, the Chancellor of the Exchequer announced that from April 2011 the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future public sector pension increases. The CPI tends to be lower than the RPI both because it excludes most housing costs and because it is calculated differently such that even if baskets of goods were the same, it would be lower than the RPI. The impact of the change will be, all else being equal, to reduce the council's pension liability in the balance sheet. Actuarial estimates suggest that the change will reduce an average employer's FRS17 liabilities by approximately 6-8%.

Resolution: The Executive Director of Finance and Corporate Support, in accordance with Financial Reporting Standard 21 (events after the balance sheet date), has deemed the change to be a non-adjusting post balance sheet event.

15. **Council tax bad debt provision:** This was the subject of comment in 2006/7 and 2007/08. Officers revised the calculation in 2008/09 which brought it into line with comparable councils. For 2009/10 it



has been increased to 93.7% of the net debtor outstanding, which is back to levels seen in 2006/07 and 2007/08. The level of this provision is considerably above the Scottish average and in advance of the other two Ayrshire councils (both circa 89%).

Resolution: The Executive Director of Finance and Corporate Support has informed us that the debt provision will continue to be reviewed and monitored throughout 2010/11.

16. **Related parties:** Guidance provided to councils on related parties' disclosures is not entirely clear and different councils in the UK have interpreted it in different ways, in some cases producing lengthy narrative notes, in others, like EAC, disclosing the value of transactions with other government bodies only. It is our view the purpose of this note is to provide assurance about any related parties with which decision makers within the council have concluded, or caused to be concluded, transactions on the council's behalf. Decision makers, in our view, includes members and all officers at head of service level and above. We would therefore expect to see, as an exemplar of good governance, a positive statement of assurance that such transactions have not occurred.

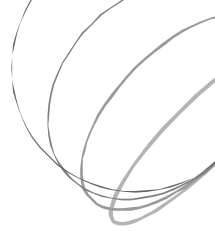
Resolution: The Executive Director of Finance and Corporate Support states that the council complies with the SORP and published guidance.

Acknowledgements

17. We would like to express our thanks to the staff of East Ayrshire Council for their assistance during the audit of this year's financial statements, which has enabled us to certify the statements by the Controller of Audit's target date.



September 2010



Appendix A

Proposed Independent Auditor's Report

Independent auditor's report to the members of East Ayrshire Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of East Ayrshire Council and its group for the year ended 31 March 2010 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Trust Fund accounts, the Common Good Fund accounts, and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Executive Director of Finance and Corporate Support and auditor

The Executive Director of Finance and Corporate Support's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice (the 2009 SORP) are set out in the Statement of Responsibilities for the financial statements.

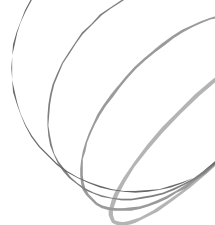
My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, East Ayrshire Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of East Ayrshire Council's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Explanatory Foreword by the Executive Director of Finance and Corporate Support and the Corporate Governance Assurance Statement by the Leader of the Council and the Chief Executive. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.



Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Executive Director of Finance and Corporate Support in the preparation of the financial statements, and of whether the accounting policies are most appropriate to East Ayrshire Council and its group circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements:

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of East Ayrshire Council and its group as at 31 March 2010 and its income and expenditure for the year then ended
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Peter Tait CPFA
Assistant Director of Audit (Local Government)
Audit Scotland
7th Floor
Plaza Tower
East Kilbride
G74 1LW

September 2010