

# East Ayrshire Council

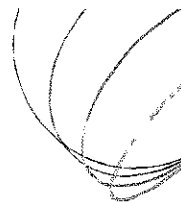
Report to those charged with governance on the 2007/08 audit



September 2008

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# Key Issues

## Introduction

1. International Standard on Auditing 260 (ISA 260) *Communication of audit matters with those charged with governance* requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. ISA 260 requires us to highlight:
  - the integrity and objectivity of the audit engagement lead and audit staff;
  - the nature and scope of the audit, including any limitations, and the form of reports expected to be made;
  - expected modifications to the audit report;
  - management representations requested by us;
  - unadjusted misstatements (other than those which are clearly trifling);
  - material weaknesses in the accounting and internal control systems identified during the audit;
  - views about the qualitative aspects of accounting practices and financial reporting;
  - matters specifically required by other auditing standards to be communicated and any other matter relevant to the audit.
3. This report sets out for the Council's consideration the relevant matters arising from the audit of East Ayrshire Council's financial statements for 2007/08 that require reporting under ISA 260. The contents should be brought to the attention of the Chief Executive, Executive Head of Finance and Asset Management and Leader of the Council so that they can consider them before they sign the relevant pages of the financial statements. This report includes only those matters of governance interest that have come to our attention as a result of the performance of the audit. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. The report has been prepared for the use of East Ayrshire Council and no responsibility to any third party is accepted.



## **Status of the audit**

4. Our work on the financial statements is now complete. Should any further matters arise in concluding our work that requires to be reported under ISA 260, we will raise them with the Executive Head of Finance and Asset Management.

## **Matters to be reported to those charged with governance**

### **Conduct and scope of the audit**

5. 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 March 2008 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.

### **Audit opinion & representations**

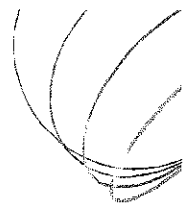
6. Our anticipated auditor's report (appendix A) is unqualified.
7. There are no unadjusted financial misstatements in the financial statements.
8. We have received the formal representations from the Executive Head of Finance and Asset Management.

### **Accounting and internal control systems**

9. 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 financial statements. Opportunities to improve internal control have been reported to the Council during the year in reports to management. The more significant issues will be highlighted in the Report to Members and the controller of audit on the 2007/08 audit.

### **Matters arising**

10. In our view, three 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:



11. **Equal pay / Single status costs:** the council settled a large number of equal pay compensation claims during 2005/06. Single status was implemented on 1<sup>st</sup> April 2007. There are, however, a number of actual and potential claims outstanding. In addition, following a recent ruling on an equal pay case in England, the council may ultimately be exposed to the risk of further claims. The Executive Head of Finance and Asset Management has recognised a contingent liability in the notes to the financial statements. While there remain uncertainties over the actual costs that will be incurred to settle claims already made or future claims, we are satisfied that this is a reasonable approach.

**Resolution:** A contingent liability is disclosed in the notes to the financial statements.

12. **Reserves.** The general fund balance now stands at £32.621million. This includes £24.479 million which is earmarked for services either as ring-fenced grant yet to be spent or for carry forward in terms of the council's budgetary arrangements. Evidence of specific plans for these funds should be available.

**Resolution:** The Executive Head of Finance and Asset Management is to review, on a service by service basis, the plans for these funds and report his findings to Cabinet

13. Our audit testing identified two invoices (total £152,228) included in 2007/08 which had been paid prior to the receipt of goods which were received after the end of the financial year. This was a breach of the financial regulations, and exposed the council to the risk of financial loss. The Executive Head of Finance and Asset Management adjusted the financial statements as necessary to remove these transactions from 2007/08.

**Resolution:** The Executive Head of Finance and Asset Management will write to the services concerned expressing his dissatisfaction at this occurrence and review the Accounting Policy Bulletins and similar guidance to ensure that officers able to authorise expenditure have a clear understanding of their duties and obligations.

## Further activity for audit completion

14. **Local government financial information return:** The information provided in this return will be used for the 2008 Local Government Overview Report. Under Freedom of Information it is possible that any national figure reported could be requested on a council by council basis. It is very important, therefore, that the information provided is accurate. The figures in this return, prepared by ourselves, are in accordance with your council's 2007/08 accounts. Information in the format issued by Audit Scotland should be completed and signed by the Executive Head of Finance and Asset Management for inclusion in national overview analysis. This return is required for submission by 30 September. We anticipate no difficulties in this respect.



**Resolution:** Plans are in place for the Executive Head of Finance and Asset Management to review the return and provide confirmation of its accuracy by 30 September 2008.

15. The Executive Head of Finance and Asset Management is required to prepare and certify the whole of government accounts consolidation pack in accordance with instructions from the Scottish Government. We are required to certify the consolidation pack by 31 October 2008. We anticipate no difficulties in this respect.

**Resolution:** Plans are in place for the Executive Head of Finance and Asset Management to prepare the return and associated working papers by 30 September 2008.

### **Acknowledgements**

16. We would like to express our thanks to the staff of East Ayrshire Council for their help and assistance during the audit of this year's final accounts which has enabled me to certify the financial statements by the Controller of Audit's target date.

 **AUDIT SCOTLAND**

September 2008



# 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 2008 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 Head of Finance and Asset Management and auditor**

The Executive Head of Finance and Asset Management'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 2007 - A Statement of Recommended Practice (the 2007 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 present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body 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 the 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 only the Explanatory Foreword. 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 Chief Finance Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to East Ayrshire Council and its group's 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

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of East Ayrshire Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Peter Tait CPFA, Assistant Director  
Audit Scotland – Audit Services  
7<sup>th</sup> Floor, Plaza Tower,  
East Kilbride, G74 1LW.

**September 2008**



# Appendix B

## **Non-Adjusted Errors within the 2007/08 Annual Accounts**

There are no unadjusted errors in the financial statements.

## **Executive Head of Finance and Asset Management**

Alexander McPhee ACMA

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If telephoning or calling  
please ask for:



**East Ayrshire**  
COUNCIL

11 September 2008

Mr Peter Tait  
Assistant Director of Audit (Local Government)  
Audit Scotland  
7<sup>th</sup> Floor  
Plaza Tower  
East Kilbride  
G74 1LW

Dear Mr Tait

### **EAST AYRSHIRE COUNCIL - 2007/08 FINANCIAL STATEMENTS**

This representation letter is provided in connection with your audit of the financial statements of East Ayrshire Council and its group for the year ended 31 March 2008 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of East Ayrshire Council and its group as at 31 March 2008 and its income and expenditure for the year then ended.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations.

#### **Legality of Financial Transactions**

1. The financial transactions of East Ayrshire Council are in accordance with the relevant legislation and regulations governing its activities. All known or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to you, together with the actual or contingent consequences which may arise.
2. The Local Government in Scotland Act 2003 prescribed the financial objective that each statutory trading account should break even over a rolling three year period. I can confirm that proper accounting practice has been applied in arriving at the cumulative surplus position for each of the three statutory trading accounts operated by the Council and that they have each achieved the statutory financial objective.

COUNCIL OFFICES  
GREENHOLM STREET  
KILMARNOCK KAI 4DJ  
TEL: 01563 576000  
FAX: 01563 576457

## **Accounting Policies**

3. All material accounting policies adopted are as shown in the Statement of Accounting Policies. The Council has reviewed its accounting policies and estimation techniques having regard to the concepts and qualitative characteristics set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2007.

## **Going Concern**

4. The accounts of East Ayrshire Council and its group have been prepared on a going concern basis. For the year ending 31 March 2008 the Council's share of the net liabilities of its associates totalled £158.108 million. The group balance sheet discloses net assets of £192.951 million. This position reflects, in the main, the combined deficit on the pensions schemes operated by Strathclyde Police Joint Board and Strathclyde Joint Fire and Rescue Board. I have reviewed the group's ability to continue as a going concern. In my opinion, it is reasonable to assume continuing funding streams to joint boards, increased pension contributions and continuing local government finance settlements. It is therefore, in my view, appropriate that the financial statements have been prepared on a going concern basis.

## **Assets**

### *General*

5. The assets shown in the books and accounts at 31 March 2007, other than assets which are employed under finance leases, were owned by East Ayrshire Council.
6. For the year ended 31 March 2007, title deeds for properties owned or mortgaged to East Ayrshire Council were held by the Council and that all such deeds were in order.
7. Expenditure on the purchase of furniture, office equipment and computer equipment and software below £0.006 million has been charged to the income and expenditure account. Items costing more than £0.006 million have been treated as fixed assets.

### *Fixed Assets*

8. All fixed assets are appropriately classified. The net book amount in the balance sheet was arrived at:
  - (i) after taking into account all material capital expenditure on additions thereto but not expenditure properly chargeable to revenue;
  - (ii) after the amounts at which the land and buildings were stated in the balance sheet were properly calculated in accordance with the approved bases of valuation and fairly represented the values at 31 March 2007, and no properties were omitted from or duplicated in the valuation;
  - (iii) after deducting the cost and accumulated depreciation relating to items sold or scrapped;
  - (iv) after providing for depreciation and obsolescence on bases and at rates calculated to reduce the net book value of each asset to its estimated residual value by the end of its probable useful life.

9. The Council owns intangible assets in the form of software licences. Intangible assets have been separately identified in the balance sheet.
10. At 31 March 2007, East Ayrshire Council had £0.217 million obligations under finance leases.

#### *Council Houses*

11. The value of council houses in the balance sheet is based on 13,330 houses owned by the Council as at 31 March 2008 and valued in accordance with the "beacon" method.

#### *Stocks*

12. The Council's stocks have been valued at weighted average cost and all stocks are included in the financial statements.

#### *Other Current Assets*

13. On realisation, in the ordinary course of East Ayrshire Council's business, the other current assets in the balance sheet are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

### **Liabilities**

#### *General*

14. All liabilities have been provided for in the books of account, including the liability for all purchases for which title has passed prior to 31 March 2008.

#### *Contingent Liabilities*

15. All known significant contingent liabilities arising either under formal agreements or through informal undertakings have been provided for or disclosed in a note to the balance sheet.
16. Actual and potential claims arising from equal pay legislation and the move to single status have been reviewed. These claims may proceed to tribunal or be settled by negotiation depending on their merits. I am unable to estimate with any degree of certainty the likely amount which will be required to settle any obligation which may exist. Accordingly I consider that disclosure of a contingent liability is appropriate.

#### *Provision for Losses*

17. Provisions have been made in the accounts for all losses of material amounts which have resulted, or may be expected to result from events which had occurred by the balance sheet date, and of which the Council could reasonably be expected to be aware.

#### *Commitments*

18. There were no other commitments for capital expenditure as at 31 March 2008 other than those disclosed in the notes to the financial statements.

### *Loans Fund*

19. I confirm that all borrowings are compliant with the provisions of the Local Government (Scotland) Act 1975.

### **Other Matters**

20. Except as disclosed in the financial statements, the results for the period were not materially affected by:

- (i) transactions of a sort not usually undertaken by East Ayrshire Council;
- (ii) circumstances of an exceptional or non-recurrent nature;
- (iii) charges or credits relating to prior periods;
- (iv) any change in the basis of accounting.

21. I confirm the completeness and adequacy of the information provided at note 3 to the financial statements regarding the identification of related parties.

22. All common good assets and liabilities and revenue transactions have been properly separated from the Council's single entity accounts and are reflected within the common good accounts. Similarly, all assets and liabilities and revenue transactions relating to charitable trusts managed by the Council have been properly separated from the Council's single entity accounts and are reflected within the trust fund accounts.

23. I acknowledge the schedule of matters arising from the audit brought to my attention by the auditor. I can confirm that I have amended the accounts for all misstatements drawn to my attention.

### **General**

24. I acknowledge my responsibility, and that of East Ayrshire Council, for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by East Ayrshire Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all Council and other meetings.

25. Disclosure has been made in the financial statements of all matters necessary for them to present fairly the transactions and state of affairs of East Ayrshire Council for the year ended 31 March 2008.

26. I have disclosed to the auditor all known allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees, other than those already communicated to the auditor, who have a significant role in internal control or that could have a material effect on the financial statements.

## **Events Subsequent to the Date of the Balance Sheet**

27. Since the date of the balance sheet the Scottish Government have announced new commutation factors for police and fire and rescue services pension schemes. I have reviewed the potential impact of this on the single entity and group financial statements and consider that there will be no material effect on the financial statements.
28. There have been no other events since the date of the balance sheet which necessitate revision of the figures in the financial statements, notes thereto, the statement on the system of internal financial control or contingent assets and liabilities.

## **Corporate Governance**

29. I acknowledge, as proper officer under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the systems of internal financial control. I confirm that I have reviewed the effectiveness of the systems of internal financial control and that the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 and supporting guidance thereto.

Yours sincerely



Alexander McPhee  
**Executive Head of Finance and Asset Management**