

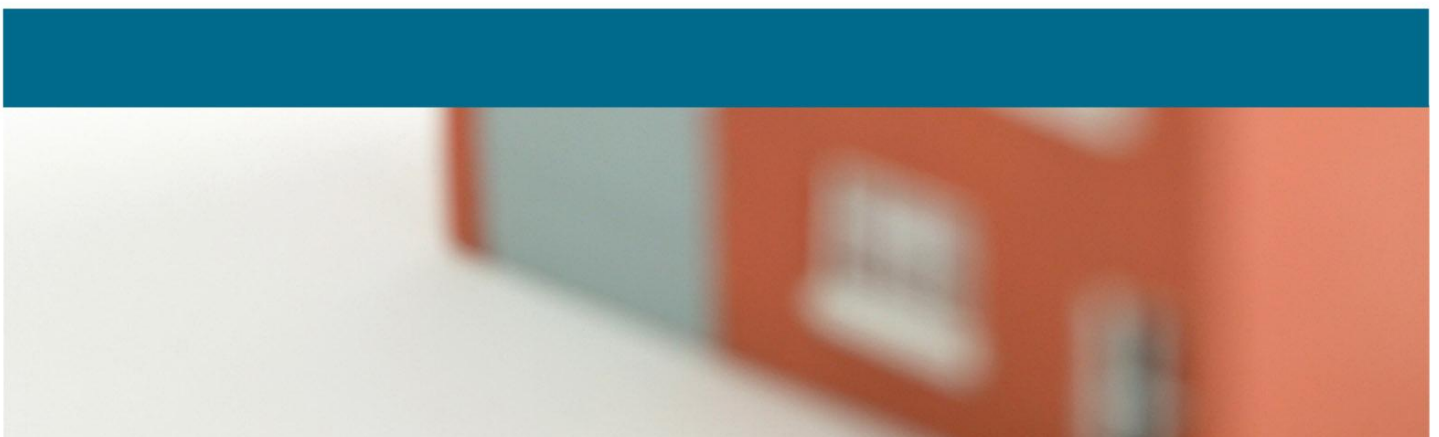
# East Ayrshire Council

**Audit of financial statements 2010/11  
Report to those charged with governance**

September 2011



 AUDIT SCOTLAND



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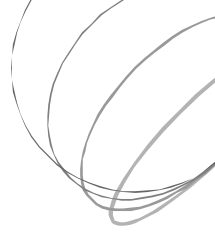
# Key Issues

## 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; and,
  - matters specifically required by other auditing standards to be communicated and any other matters that are relevant to the audit.
3. This report sets out the relevant matters arising from the audit of council's financial statements for 2010/11 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.
4. 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. Consistent with good practice, this report is to be considered by the Governance and Scrutiny Committee at its meeting of 23 September 2011.

## Status of the audit

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



## 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 2011 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.

### Audit opinion & representations

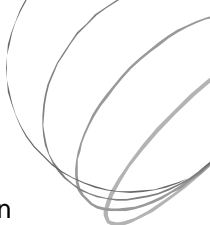
7. Our anticipated auditor's report (appendix A) is unqualified.
8. All errors identified during the audit have been corrected in the financial statements and there are no unadjusted misstatements to bring to your attention.
9. As part of the completion of our audit we seek written assurances from the Executive Director of Finance and Corporate Services on certain aspects of the financial statements and judgements and estimates made. ISA 580 (Management Representations) specifies the requirement for a letter of management representations. A draft letter of representations has been agreed and this should be signed and returned by the Executive Director of Finance and Corporate Services prior to the independent auditor's opinion being signed.

### 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 capacity to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

### Matters arising

11. We are required to draw to your attention any matters having a bearing on: 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. In our view, the matters in the following paragraphs require to be brought to your attention.

- 
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 and it is likely that resolution of the issue will take some time. As the tribunal 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 Service and Personnel Service. Some £0.205 million was settled and charged to the provision during 2010/11. In addition, a note to the accounts indicates the existence of a contingent liability in the event of further claims arising.

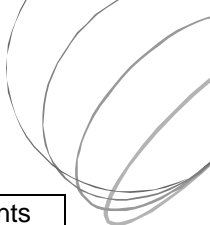
13. **Accounting for the Common Good:** In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners on accounting for Common Good. In previous years we commented on the progress of the implementation of the accounting requirements, principally on the absence of a register of Common Good assets. The council has now completed its review of the asset register, has identified Common Good assets and is accounting for them in the financial statements in accordance with guidance. Residual issues in relation to trust properties now remain to be resolved and resources have been allocated to complete the work.

**Resolution:** The council is seeking solutions to the residual issues.

14. **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. The provision was restored to previous levels in 2009/10. The provision for 2010/11 remains at the 2009/10 level (93.4% of the gross debtor outstanding). In our view, this is an over estimate of the provision required and is above the Scottish average and the other two Ayrshire councils (both circa 89%). We note that the council had, by the end of July, already collected some £200,000 in excess of the net debtor outstanding in the 2009/10 financial statements.

**Resolution:** The Executive Director of Finance and Corporate Services considers that, in view of future uncertainties the bad debt provision is set at a prudent level for East Ayrshire Council's circumstances.

15. **Sundry debtors bad debt provision:** The sundry debtors bad debt provision is calculated on the basis of an age analysis, which is a well-established methodology. However, no account is taken of the status of individual debtors. For example, central government and other public bodies are unlikely to default on a debt which is a legitimate charge against them. We consider that the sundry debtors bad debt provision should be subject to review and amendment dependent on the status of the individual debtors.



**Resolution:** The council has undertaken to review the methodology applied for future final accounts preparation.

16. **Police and Fire Injury Benefits:** In previous years the actuary for Strathclyde Police Joint Board and Strathclyde Fire and Rescue Joint Board calculated the pension liability associated with injury benefits on the basis of current payments. In 2010/11 they have changed this to include an estimate of active scheme members who may receive injury benefit payments in the future. This is a change in accounting policy which requires a prior year adjustment. This has only recently been identified by the auditors of these bodies and adjustments are currently being processed. These bodies are consolidated as associates in the group financial statements and the council is awaiting revised financial statements from these bodies to enable them to assess the impact on the group balance sheets for 2009/10 and 2010/11.

**Resolution:** The council has agreed to amend the financial statements, including a restatement of the prior year figures as required.

## **Acknowledgements**

17. 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 financial statements.

 **AUDIT SCOTLAND**  
**September 2011**



# 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 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash-Flow Statements, the council only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-domestic Rate Income Account, the Common Good accounts, the Trusts and Bequests accounts, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of 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**

As explained more fully in the Statement of Responsibilities set out on page eight, the Executive Director of Finance and Corporate Support is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

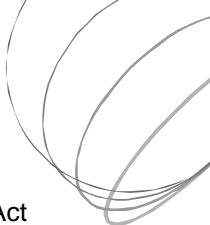
### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Corporate Support; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of East Ayrshire Council and its group as at 31 March 2011 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and

- 
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement on the System of Internal Financial Control does not comply with the 2010/11 Code; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Peter Tait CPFA  
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September 2011