

East Renfrewshire Council

Report to those charged with governance on the 2013/14 audit



Prepared for East Renfrewshire Council
25 September 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Audit and Scrutiny Committee's consideration the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of East Renfrewshire Council and no responsibility to any third party is accepted.

Status of the audit

3. Our work on the financial statements is now substantially complete. The issues arising from the audit were discussed weekly with the Chief Accountant during the fieldwork. The more significant issues arising were discussed with the Head of Accountancy and Chief Accountant at a meeting on 10 September 2014.
4. We received the unaudited financial statements on the 27th of June in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team which enabled us to substantially complete our fieldwork before the meeting on 10 September 2014.

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit and Scrutiny Committee on the 10 April 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken any non-audit related services. The 2013/14 agreed fee for the financial statement audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Fraud

7. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Audit opinion & representations

8. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 25 September (the proposed report is attached at [Appendix A](#)). There are no anticipated modifications to the audit report.
9. All errors, apart from those that are clearly trivial (below £1,000) identified during the audit are to be corrected in the accounts.
10. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who proposed to amend the unaudited financial statements. The effect of these adjustments is to increase 2013/14 net expenditure by £50,000 with net assets decreasing by a similar amount. We have no unadjusted misstatements to bring to your attention.
11. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA 580 is attached at [Appendix B](#). This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Accounting and internal control systems

12. 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.

Matters arising

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

14. **Common Good:** This year for the first time, the Council recognised Common Good Fund assets (Cowan Park, Barrhead with a value of £954,873). The Council has reviewed the park plan and identified the following elements as Common Good assets:

Common Good Assets	Reference
Play area	OLB0000165
Bandstand	OLB0000127
Lodge	OLB0000128
Pavilion	OLB0000129
Tennis Courts	OLB0000181
Playing Fields	OLB0000152

15. There are other assets within Cowan Park classified as community assets (Council assets) including the synthetic pitches (£44,956) and an unspecified area of Cowan Park (£40,334), which are not attributed to the Common Good. Officers and management confirmed that these do not form part of the Common Good Fund and we did not identify any evidence to contradict this view.
16. Assets were identified as Common Good through the legal process adopted as part of the new Barrhead High School project. The Council should consider conducting a formal review of its assets to further identify any assets on its asset register that could be common good assets.

Resolution: A formal review of titles will be required in terms of the Community Empowerment and Renewal Bill once it is enacted (probably late 2015 or early 2016). A preliminary check of titles will be undertaken in preparation for this task. The Council will also carry out a process of checking individual Barrhead titles as and when the land in question becomes subject to the possibility of alternative use/transfer etc.

17. **Expenses:** During the review of expenses we noted one instance where a member of staff away on a two night course claimed for alcohol. We reviewed the travel and subsistence policy but could find no guidance on whether this is an allowable expense.

Resolution: HR has advised us that the travel and subsistence policy will be updated to provide clear guidance on this matter.

Outstanding issues

18. **Leases:** Our work on Trade payables identified 3 leases for which no lease agreement was found with either the relevant department or within Finance. These included the public conveniences at Cowan Park and Barrhead and the civic car for the Lord Provost

Resolution: In order to verify the sums involved council officers will provide audit with actual invoices.

Acknowledgements

19. We would like to express our thanks to the staff of East Renfrewshire Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

APPENDIX A: Proposed Independent Auditor's Report

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

I certify that I have audited the financial statements of East Renfrewshire Council and its group for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash-Flow Statement, the authority only Housing Revenue Account Comprehensive Income and Expenditure Statement, National Non Domestic Rates Account, Council Tax Income Account 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 2013/14 (the 2013/14 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 125 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 Head of Accountancy and auditor

As explained more fully in the Statement of Responsibilities for the Annual Accounts, the Head of Accountancy as Chief Financial Officer 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 Head of Accountancy as Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 and of the income and expenditure of the group and the body 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 2013/14 Code
- 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
- 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records
- I have not received all the information and explanations I require for my audit
- the Annual Governance Statement 2013/14 does not comply with Delivering Good Governance in Local Government
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Brian Howarth ACMA CGMA
Assistant Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

September 2014

APPENDIX B: ISA 580 - Letter of Representation

Brian Howarth
Assistant Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Brian

East Renfrewshire Council Annual Accounts 2013/14

1. This representation letter is provided in connection with your audit of the financial statements of East Renfrewshire Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the group and East Renfrewshire Council, as at 31 March 2014 and its income and expenditure for the year then ended.
2. 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 given to you in connection with your audit of East Renfrewshire Council for the year ended 31 March 2014.

General

3. I acknowledge my responsibility and that of East Renfrewshire 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 Renfrewshire Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including the Explanatory Foreword and Remuneration Report, presents a balanced picture of East Renfrewshire Council and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected

misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, and in accordance with the requirements of Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003 including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of East Renfrewshire Council and the Group for the year ended 31 March 2014.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. Senior Officers have assessed East Renfrewshire Council's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Events Subsequent to the Balance Sheet

12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as Section 95 Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2014, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

17. The assets shown in the Balance Sheet at 31 March 2014 were owned by East Renfrewshire Council, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

18. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2014.

Carrying Value of Assets and Liabilities

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

20. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2014 and of which East Renfrewshire Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2014.

Other matters

Group Accounts

21. In my opinion the group assets, liabilities and revenue transactions within the financial statements are materially complete.
22. The group boundary has been reviewed in accordance with the Code and there are no material entities that have been omitted from consolidation within the financial statements.
23. Any significant issues with the financial statements of group entities, including qualifications, have been advised to audit.
24. In making these assertions I am reliant on the opinions of the external auditors of group entities.

Common Good

25. The Council recognise the establishment of a Common Good Fund in relation to Cowan Park, Barrhead and has fully disclosed all of the relevant Cowan Park assets as Common Good in the Asset Register.
26. No other assets have been identified as Common Good.

Pension Fund

27. The pension assumptions made by the actuary in the IAS19 report for East Renfrewshire Council have been reviewed and I confirm that they are consistent with management's own view.

Yours sincerely

Margaret McCrossan
Head of Accountancy (Chief Financial Officer)