



Ayrshire Valuation Joint Board

Report to the Members of the Board and the Controller of Audit on the 2018/19 audit

Issued 10 September 2019 for the meeting on 17 September 2019

Contents

01 Our final report

Introduction	3
Our audit explained	6
<i>Financial statements audit</i>	
Significant risks	8
Other matters	11
Our audit report	13
Your annual report	14
<i>Audit dimensions</i>	
Overview	16
Governance statement	17
Financial sustainability	18
Other specific risks	21

02 Appendices

Purpose of our report and responsibility statement	24
Audit adjustments	25
Action plan	28
Fraud responsibilities and representations	30
Independence and fees	31

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.

I have pleasure in presenting our final report to the Members of Ayrshire Valuation Joint Board ('the Board') for the 2019 audit. The scope of our audit was set out within our planning report presented to the Board in March 2019.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. This includes our consideration of the Accountable Officers' duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by the VJB, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:
 - The appropriateness of the disclosures in **the governance statement**; and
 - The **financial sustainability** of the Board and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8.

A small number of audit adjustments in excess of our reporting threshold of £1,850 have been identified up to the date of this report, as discussed further in the Appendix on pages 25-26. It should be noted that the adjustments relating to the pension liability are as a result of a post balance sheet event rather than an error by management.

A small number of disclosure deficiencies have been identified up to the date of this report which are detailed in the Appendix on page 27.

Our audit of Ayrshire Valuation Joint Board is substantially complete. Based on our audit work completed to date, we expect to issue an unmodified audit opinion.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions

As set out on page 3, our audit work was restricted to concluding on the appropriateness of the disclosures in the governance statement and the financial sustainability of the Board. We have, however, considered 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 and increased focus on openness and transparency.

Governance statement

The disclosures are appropriate, consistent with our knowledge, and address the minimum requirements of the Scottish Public Finance Manual (SPFM).

Financial sustainability

The Board met all of its financial targets in 2018/19 including a final surplus of £17k. The Board's draft budget for 2019/20 is projecting uncommitted reserves of £223k by the end of the year, which represents 9.7% of budgeted net expenditure. Although this is higher than best practice, this is positive given that there are plans under consideration, in consultation with the constituent authorities, to utilise some of these reserves. We are therefore satisfied that financial balance has been achieved in the short-term and is anticipated for 2019/20.

However, there are medium term pressures putting a strain on existing uncommitted reserves. Work is ongoing to modernise to try to achieve future savings and efficiencies, and we will continue to monitor whether and to what extent savings and efficiencies are achieved, as well as track progress against the preparation and implementation of a medium term Financial Strategy in line with last year's action plan.

Specific Risks

The Board has demonstrated openness and transparency in how they operate and communicate with both internal and external stakeholders. This is discussed in more detail on page 22.

As noted to the left, there is no medium term Financial Strategy covering a 2-4 year period. Therefore, in line with the existing action plan from the 2017/18 audit, we have concluded that the Board should continue to focus on implementing this and to also ensure that this is consistent with the Scottish Government's MTFS.

Our detailed findings and conclusions are included on pages 7 to 14 of this report.

Next steps

An agreed Action Plan is included on pages 28 & 29 of this report. We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

Our aim is to add value to the Board by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. In particular, our separate "Sector Developments" report, presented along with our planning report shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Board.

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:

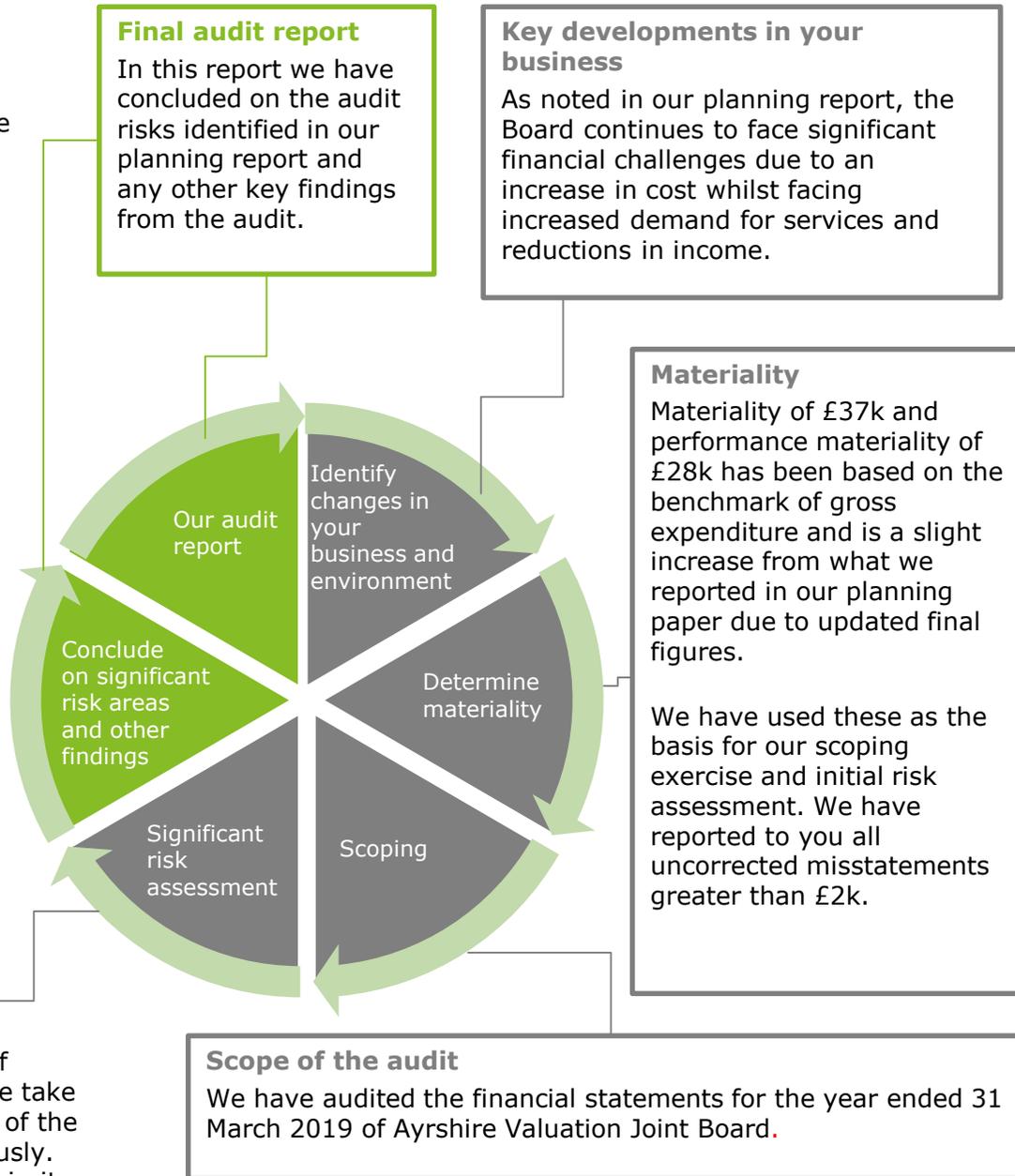
- The appropriateness of the disclosures in the governance statement; and
- Financial sustainability

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Quality and Independence

We confirm we are independent of Ayrshire Valuation Joint Board. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



Timeline 2018/19



Financial statements audit



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Occurrence of income			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10

Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 – Occurrence of 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 income recognition, evaluate which types of income, income transactions or assertions give rise to such risks. The main components of income for the Board are requisitions from all three of the Ayrshire Councils: South Ayrshire Council ('SAC'), North Ayrshire Council ('NAC'), and East Ayrshire Council ('EAC'). The significant risk is pinpointed to the recognition of this income, being occurrence of income received from the Councils given the reliance of the Board on this income and the potential that funding partners may not provide additional income to cover overspends.



Deloitte response

We have performed the following:

- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any reductions have been appropriately applied;
- tested the reconciliations performed by the Board at 31 March 2019 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2018/19 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.



Deloitte view

We have concluded that grant income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override 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 Board's controls for specific transactions.



Key judgements

The key judgments in the financial statements are those which we have selected to be the significant audit risks around the occurrence of income (page 9). This is inherently the area in which management has the potential to use their judgment to influence the financial statements.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the Board's results throughout the year were projecting favourable variances, largely to do with staff vacancies, and therefore were projected to stay within budget. This was closely monitored with confidence that the Board would be able to meet its overall financial targets; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal entry processing.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

We tested accounting estimates and judgements (Pensions and property valuations) and consideration of any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments), focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

No issues have been identified from our testing.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

Other matters

Defined benefits pension scheme

Background

The Board participates in the Strathclyde Pension Fund, a funded defined benefit scheme. After taking into account the adjustments noted on the following page in relation to the McCloud judgement and GMP indexation, the net pension liability has decreased from a net pension asset of £797k in 2017/18 to a net pension liability of £610k in 2018/19. The decrease is primarily due to changes in assumptions, specifically the discount rate has reduced and salary increase rate has increased, together with the impact of McCloud and GMP indexation.



Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- we reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown in the table opposite;
- we assessed the reasonableness of the Board's share of the total assets of the scheme with the Pension Fund financial statements;
- we have reviewed and challenged the calculation of the impact of the McCloud case and GMP on pension liabilities;
- we reviewed the disclosures within the accounts against the Code; and
- we assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

	Board	Benchmark	Comments
Discount rate (% p.a.)	2.40	2.39	Reasonable, slightly optimistic
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.50	2.23	Prudent
Salary increase (% p.a.) (over CPI inflation)	1%	Council specific	Prudent
Pension increase in payment (% p.a.)	2.50	2.28	Prudent
Pension increase in deferment (% p.a.)	2.40	2.23	Prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.40	21.20	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.40	23.00	Reasonable

Other matters (continued)

Defined benefits pension scheme (continued)

Impact of McCloud ruling

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following changes made to public service pension scheme legislation in 2014. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

In December 2018, the Court of Appeal ruled that the transitional protection gave risk to unlawful discrimination on the basis of age. The Government requested leave to appeal the decision to the Supreme Court, however the request was denied on 27 June 2019. As a result, certain scheme members will need to be compensated for any discrimination suffered as a result of the transitional protections. As Scottish Public Service Pension Schemes implemented the changes to the legislation in 2015, this may impact benefits accrued from 1 April 2015 for these members.

The Council's actuary has provided an updated results schedule which included an allowance for the additional liability potentially arising as a result of the McCloud ruling. This has resulted in an audit adjustment of £9.315m for past service costs (c.1.8%) arising from this post balance sheet event.

The calculation of this amount was based on the Government Actuary Departments (GAD's) analysis, adjusted for local circumstances. Based on the limited information available, the amount appears reasonable.

Impact of Guaranteed Minimum Pension (GMP) indexation

In order to ensure smooth transition to the single tier State pension and equalisation of GMP benefits between males and females, the Government introduced an interim solution in 2016 in respect of people, who are in public service pension schemes and who have a State Pension Age (SPA) between 6 April 2016 and 5 December 2018, where full inflationary increases will be provided by the scheme.

In January 2018, this interim solution was subsequently extended to members who reach SPA between 6 December 2018 and 5 April 2021.

Details of any permanent solution are still unknown.

The Council's actuary has provided an updated results schedule including an allowance for the estimated additional liability arising as a result of GMP indexation. An amount of £2.183m has been identified as the additional liability for paying all GMP increases for members reaching SPA from 6 April 2016.

The allowance equates to c. 0.3% of the total defined benefit obligations. Typically, we would expect to see an allowance of between 0% and 0.4% of total defined benefit obligations, therefore the allowance made is within this range.

Deloitte view

On the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

The allowances made for the McCloud ruling and GMP are reasonable and within the expected range.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 14.

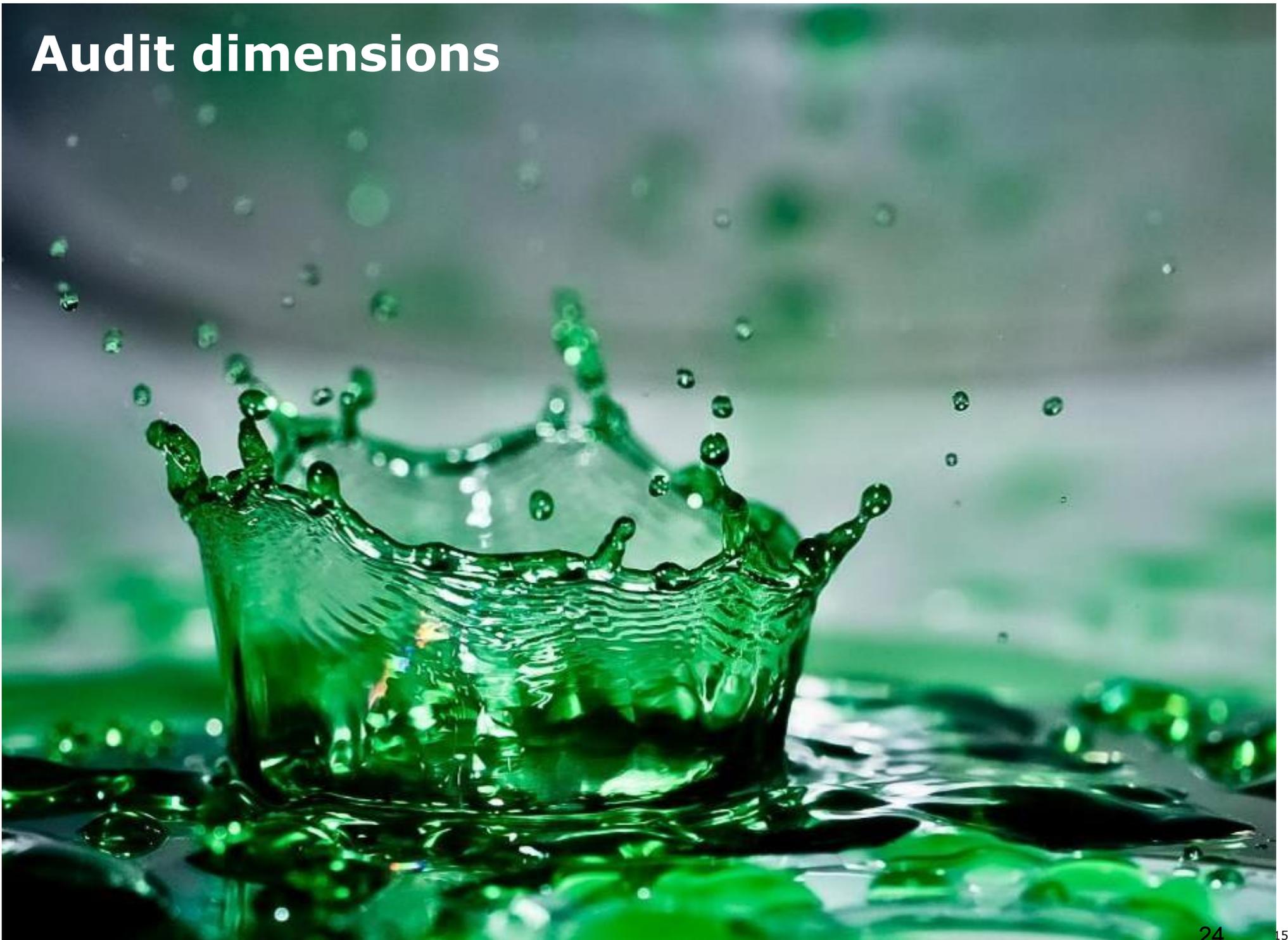


Your annual report

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Requirement	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Board also focusses on the strategic planning context.	We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Senior Employees and Senior Councillors.	We have audited the disclosures of remuneration and pension benefits, pay bands, and, apart from a few minor corrected disclosure errors which are detailed on pages 25-27, we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Board's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.

Audit dimensions



Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following areas. As set out in our plan, due to the relative size and scale of the functions delivered by the Ayrshire Valuation Joint Board, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement**; and
- The **financial sustainability** of the Board and the services that it delivers over the medium to longer term.

Our report is structured in accordance with these two specific areas, but also covers our specific audit requirements on best value and specific risks.

Best Value (BV)

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

We have considered the accountable officers' duty to secure BV as part of the governance arrangements considered as part of the wider scope audit work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

SR 1 – EU Withdrawal

SR 2 – Changing landscape for public financial management

SR 3 – Dependency on key suppliers

SR 4 – Openness and transparency

Governance statement

Overview

Regulation 5 of the accounts regulations requires local government bodies to report the results of their annual review of their system of internal control in an **annual governance statement** published as part of the annual accounts. The annual governance statement requires to be prepared in accordance with Delivering good governance in local government: framework 2016 published by CIPFA and SOLACE.

As set out in our audit plan, there is a risk that the governance statement is inconsistent with the financial statements and is not in accordance with the good governance framework. There is also a risk that the statement is inconsistent with our knowledge as auditors of the Board or is potentially misleading.

Deloitte View

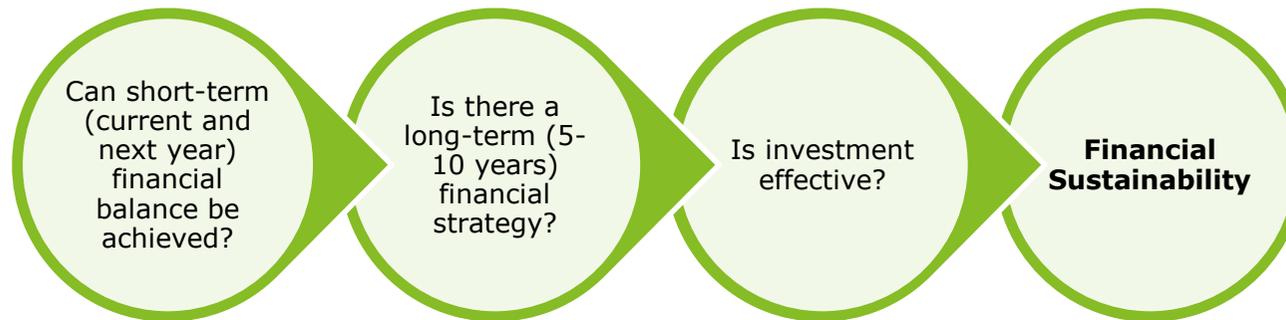
We have reviewed the draft governance statement for consistency with the financial statements and our knowledge gained during the audit. No inconsistencies have been noted.

We have also reviewed to assess compliance with the good governance framework and have confirmed that it meets the requirements.

Financial sustainability

Overview

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.



Audit risks

Within our audit plan we identified a number of risk as follows:

- the Board does not achieve financial balance in this financial year and is unable to identify future sources of savings and efficiencies to ensure future financial sustainability; and
- the Board's long-term financial planning could be inconsistent with the Scottish Government's five-year plan.

Financial sustainability (continued)

2019/20 budget

The Board has achieved financial balance in 2018/19 with a surplus of £12k, which represents an underspend of £158k compared to the original planned deficit of £146k. The carried forward uncommitted reserves for 2018/19 are £451k.

The Board approved a net expenditure budget of £2,291k for 2019/20 on 5 March 2019, which is to be met from requisitions of 2,092k and uncommitted reserves of £199k. This incorporated £43k of savings/additional income to be made.

Key areas of targeted budget savings are as follows:

- Payroll turnover deduction (£30k); and
- Rental income (£8k) - this rental income (for 3 months, based on an annual projection of £30k) is not considered to be achievable by management, given current market conditions.

In setting its budget the Board has recognised that a number of risks and cost pressures existing, including:

- *Dependency on uncommitted reserves* – the projected closing balance of £223k is healthy, representing 9.7% of the net expenditure budget. The Board are currently considering, in consultation with the constituent authorities, how best to utilise these reserves in the short to medium term.
- *Reduced IER funding (£7k)* – originally budgeted for a fall in IER funding of £25k but this has now been confirmed as a £7k reduction
- *Additional Barclay Review funding (£125k)* – additional funding of £125k to reflect the impact of the Barclay Review;
- *Employee costs increase (£68k)* – an increase in employee costs due to the Scottish Government pay award policy set against the backdrop of no change to the requisition levels agreed by the three constituent authorities.

Financial sustainability (continued)

Medium term financial planning

We previously recommended in the 2017/18 audit report that efficiencies and savings be identified to ensure medium to longer term financial sustainability and maintenance of healthy reserve levels. While a balanced budget has been agreed for 2019/20, if uncommitted reserves continue to be used at the same level, this will be fully depleted by the next financial year.

We acknowledge that work is ongoing to implement a new operating system and to digitise all of the Board's paper records. This work is ongoing and therefore it is not possible to quantify the expected savings. The achievement of savings and efficiencies will continue to be monitored over the audit contract to determine whether the Board have been successful at implementing recurring savings into their annual budget.

We also recommended in 2017/18 that the Board implement a medium term Financial Strategy (2-4 years) which includes a Capital Plan, scenario planning and sensitivity analysis. We can confirm that this is still not in place. Therefore, the Board should continue to focus on implementing this and to also ensure that this is consistent with the Scottish Government's Medium Term Financial Strategy (MTFS).

Deloitte View – Financial sustainability

The Board achieved short term financial balance in 2018/19, and a balanced budget has been set for 2019/20. While increasing employee costs and downward pressures on requisition and other income sources risk depleting uncommitted reserve levels by 2020/21, we acknowledge that work is ongoing to implement modernisation of the operating system and digitise paper records, which should help with achieving future savings and efficiencies. It is, however, paramount that these developments be realised sooner rather than later given the risk of reserve levels being completely depleted by 2020/21. Therefore, the Board should focus on completing the modernisation work as soon as possible. The recommendation raised in last year's action plan therefore still stands. We will continue to monitor this over the audit contract.

As there is no medium term financial strategy in place, we cannot conclude on whether or not this is inconsistent with the Scottish Government's MTFS. Therefore, the prior year recommendation that the Board implement a medium term Financial Strategy remains and we have elaborated on this to include that it should be consistent with the MTFS.

Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Board has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	<p>EU Withdrawal is unlikely to have much, if any, impact on the Board. This is because:</p> <ol style="list-style-type: none"> 1) the Board has no non-UK EU nationals in their staff; 2) all funding comes from either the three constituent authorities (main requisition funding), the Cabinet Office (IER funding), or the Scottish Government (Barclay Review funding); and 3) EU regulations don't have an impact on the work performed by the Board. <p>Overall, EU Withdrawal is not likely to have much of an impact, if any, on the Board. Finance shares any relevant developments with the Board as they develop.</p> <p>We will continue to monitor the Board's response to EU withdrawal during the audit contract in case there are any developments that will have an impact on the Board.</p>
Changing landscape for public financial management	As part of our audit work on financial sustainability (see pages 18 – 20) we have considered how the Board has reviewed the potential implications of the Scottish Government's MTFS for its own finances, including long term planning.	As mentioned on our discussion of financial sustainability on page 20 we have concluded that there is no medium term Financial Strategy covering a 2-4 period. Therefore, in line with the existing action plan from the 2017/18 audit, we have concluded that the Board should continue to focus on implementing this and to also ensure that this is consistent with the Scottish Government's MTFS.

Other specific risks (continued)

Risk	Areas considered	Conclusion
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers. We used a benchmark threshold of 10% as a starting point for determining whether or not there existed a risk of dependency.	No specific risks of key supplier failure have been identified through our work. We have concluded this on the basis of an analysis of expenditure by supplier for the year and have not identified any suppliers which made up more than 10% of gross expenditure.
Openness and transparency	We have considered the Board's approach to openness and transparency as part of our audit work on governance and transparency.	<p>The Board has a good attitude to openness and transparency. This has been demonstrated from our review of a number of key documents, such as the staff questionnaire, communications strategy, the annual performance report, the delivering good governance report, and from a review of the availability of key strategy documents and Board minutes on the Board's website.</p> <p>This is further corroborated from a review of action plans in place to address findings from key consultations, e.g. the Barclay Review and staff questionnaire, which demonstrates that action is being taken in response.</p>

Appendices



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 help the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

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

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Board, 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.

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



Pat Kenny

for and on behalf of Deloitte LLP
Glasgow

10 September 2019

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

		Debit/ (credit) CIES £k	Debit/ (credit) in net assets £k	Debit/ (credit) reserves £k	If applicable, control deficiency identified
Misstatements identified in current year					
Pensions – McCloud judgement	[1]	242	(242)		
Pensions – GMP	[2]	86	(86)		
Pensions – interest on defined benefit obligation	[3]	4	(4)		
Total		332	(332)		

[1] As discussed on pages 11-12 the McCloud judgment has been confirmed as final following the Supreme Court's refusal of leave for the UK Government to appeal the ruling. This has resulted in the pension liability being adjusted to account for the impact of this judgment, with a corresponding increase in the pension reserve. The impact of this is a £242k increase in both the liability and the reserve. This has no impact on the General Fund.

[2] As discussed on pages 11-12 the pension liability is also impacted by the Government's 'interim solution' for funding inflationary increases for GMP. This has resulted in the pension liability being adjusted to account for the impact of this judgment, with a corresponding increase in the pension reserve. The impact of this is a £86k increase in both the liability and the reserve. This has no impact on the General Fund.

[3] As a result of the first two adjustments the liability as a whole is higher which has had a knock on effect on the calculation of interest on the pension liability which has increased by £4k. This has no impact on the General Fund.

See next page for continuation of correct misstatements identified from our audit work performed to date.

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

		Debit/ (credit) CIES £k	Debit/ (credit) in net assets £k	Debit/ (credit) reserves £k	If applicable, control deficiency identified
Misstatements identified in current year					
Employee costs overstatement	[4]	(6)	6		
Property depreciation	[5]	(13)		13	
Total					

[4] Employee costs have been overstated in the Employee Costs line in the CIES by £6k.

[5] This relates to depreciation charged in the year incorrectly given that the asset was revalued in the year effective 31/03/19. However, this has a nil impact on the general fund as all amounts are adjusted through the capital adjustment account (CAA) and revaluation reserve.

No other corrected misstatements have been identified from our audit work performed to date.

Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have identified the following disclosure deficiencies in the course of our audit work to date.

Note	Description
Remuneration Report	The in-year pension contributions for 2017/18 and the closing pension accrual as at 31 March 2019 were both misstated. The in-year pension contributions for 2017/18, closing accrual as at 31 March 2019, and difference between 31 March 2019 and 31 March 2018 have all be amended to reflect the correct figures.
Remuneration Report	No disclosure of remuneration or accrued pension and pension contributions should be made for senior councillors and officers where they have not been remunerated in 2018/19.

Action plan

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual audit report and we note that none of the recommendations have been implemented. We have updated these recommendations for management's response below, as well as updated the second recommendation to make reference to the Scottish Government's MTFS. We will continue to monitor these as part of our 2019/20 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial Planning – savings and efficiencies	The continued use of reserves is not sustainable in the medium to longer term. Efforts are ongoing to identify future sources of savings and efficiencies to ensure the maintenance of healthy reserve levels. This includes potential efficiencies from the implementation of a new operating system, the implementation of which is still ongoing. The achievement of savings and efficiencies will continue to be monitored over the audit contract.	The Board and its management acknowledge this and continue to take action in order to improve financial sustainability in the medium to longer term. It is expected that this will be realised through operational efficiencies arising from the Board's ongoing programme of modernisation.	T Baulk/ H McPhee	31/3/2019	Medium	<p><i>Partially implemented:</i> as discussed on page 20 this recommendation has only been partially implemented to the extent that modernisation is still ongoing, although it is not possible at this early stage to quantify the efficiencies/savings. Therefore this recommendation is still open.</p> <p>Updated management response: Action has been ongoing during 2018/19 to progress the Board's modernisation programme. The existing projects are expected to be completed during 2020/21 at which point operational efficiencies can be realised.</p> <p>Updated target date: 31/12/2020</p>

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual audit report and we note that none of the recommendations have been implemented. We have updated these recommendations for management's response below, as well as updated the second recommendation to make reference to the Scottish Government's MTFS. We will continue to monitor these as part of our 2019/20 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial Planning	The implementation of a medium term Financial Strategy (2-4 years) which includes a Capital Plan, scenario planning and sensitivity analysis.	Financial planning has been incorporated into the 2017/18 budget setting process. However this has not been formally recorded at the Board meeting. Scenario planning and capital planning has been incorporated in the 2017/18 budget setting process.	T Baulk	31/3/2018	Medium	<p><i>Partially implemented:</i> as discussed on page 20 a medium term Financial Strategy has not been implemented, although we acknowledge that this is being progressed. Furthermore, the Board should ensure that the medium-term Financial Strategy is aligned with the Scottish Government's MTFS.</p> <p>Updated management response: Although not yet formalised, scenario planning and capital planning continues to be incorporated into the budget setting process, both during discussions with constituent authorities and Board considerations. Discussions with constituent authorities are ongoing regarding a three-year funding agreement, including the potential impact of capital investment projects designed to realise operational efficiencies.</p> <p>Updated target date: 31/3/2020</p>

Fraud responsibilities and representations

Responsibilities explained



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. 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.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the occurrence of income and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Board on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.



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 that we comply with FRC's Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.												
Fees	<p>The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £7,280 as broken down below:</p> <table><thead><tr><th></th><th>£</th></tr></thead><tbody><tr><td>Auditor remuneration</td><td>6,280</td></tr><tr><td>Audit Scotland fixed charges:</td><td></td></tr><tr><td> Pooled costs</td><td>610</td></tr><tr><td> Audit support costs</td><td>390</td></tr><tr><td>Total agreed fee</td><td>7,280</td></tr></tbody></table> <p>No non-audit fees have been charged by Deloitte in the period.</p>		£	Auditor remuneration	6,280	Audit Scotland fixed charges:		Pooled costs	610	Audit support costs	390	Total agreed fee	7,280
	£												
Auditor remuneration	6,280												
Audit Scotland fixed charges:													
Pooled costs	610												
Audit support costs	390												
Total agreed fee	7,280												
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Board'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	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>												



Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.