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| Report To: | Audit Committee | Date: | 27 September 2011 |
| Report By: | Chief Financial Officer | Report No: | FIN/90/11/AP/LM |
| Contact Officer: | Alan Puckrin | Contact No: | 01475 712223 |
| Subject: | Audit of Inverclyde's Annual Accounts 2010/11 – International Standard on Accounting 260 | | |

1.0 PURPOSE

- 1.1 The purpose of this report is to present to Members key documents in relation to the Final Accounts 2010/11 and to consider the matters raised in the documents presented.

2.0 SUMMARY

- 2.1 It is a statutory requirement of the accounts closure process that Members of the Council receive a letter from the appointed External Auditors prior to the 27 September 2011 highlighting the main matters arising in respect of the prior year's accounts. This letter, (ISA260), does not replace the more substantial Member's letter which will be produced during October and which will be considered at Full Council on 1 December 2011.

- 2.2 Attached is:

Letter of representation from the Chief Financial Officer (Appendix 1):

This letter provides External Auditors with assurance regarding some of the key accounting requirements and assumptions utilised when closing the 2010/11 Accounts. From this letter the Council's External Auditors can arrive at a view when expressing an opinion as to whether the financial statement presented a true and fair view of the financial position of Inverclyde Council at 31 March 2011.

- 2.3 In addition to the above, a copy of the final 2010//11 Annual Accounts will be available prior to the meeting of the Committee. The Committee will recall that it reviewed the draft accounts prior to their submission to Audit Scotland in June 2011 and based on all the above information it can be seen that there are limited changes arising from the audit. The ISA 260 document is prepared by the Council's External Auditors. It covers the nature and scope of the audit, details any qualifications, details of any unadjusted misstatements, details of any material weaknesses in the accounting and internal control systems, gives a view on the qualitative aspects of the accounting practices and any other matters specifically required to be communicated to Members.
- 2.4 The Chief Financial Officer, Chief Executive and other relevant Officers will be present at the meeting to answer any questions Members may have in regard to the documentation referred to in paragraph 2.2 or the Annual Accounts.
- 2.5 The information provided to Committee is the culmination of significant amount of work within Finance Services, other Services of the Council and the Council's External Auditors. Based on the reports presented today, the Committee are advised that the accounts closure process for 2010/11 has been the highest quality yet achieved by Inverclyde Council. This year was particularly challenging due to the requirement to comply with International Financial Reporting Standards and is testament to the significant work by Officers in the Council and in particular the Finance Service.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Committee note the contents of this report, welcome the achievement of another qualification free set of accounts and consider the issues raised in the attached appendices relating to the 2010/11 audited Annual Accounts.

Alan Puckrin
Chief Financial Officer

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Chief Financial Officer : Alan Puckrin CPFA

Our Ref: JB/CM

Your Ref:

Date: 13th September 2011

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Mr Peter Tait
Assistant Director
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Dear Peter

2010/11 FINANCIAL STATEMENTS

This representation letter is provided in connection with your audit of the financial statements of Inverclyde Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements present a true and fair view of the financial position of Inverclyde Council as at 31 March 2011 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 Inverclyde 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.

Accounting Policies

2. All material accounting policies adopted are as shown in the Statement of Accounting Policies. The continuing appropriateness of the Council's accounting policies and estimation techniques has been reviewed in the transition to International Financial Reporting Standards, having regard to the concepts and qualitative characteristics set out in the *Code of Practice on Local Authority Accounting in the United Kingdom 2010* ("the Code").

3. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.
4. The Corporate Management Team have assessed the Council's ability to carry on as a going concern, and have disclosed, in the accounts, any material uncertainties that have arisen as a result.

Assets

General

5. The assets shown in the books and accounts at 31 March 2011 were owned by Inverclyde Council.

Fixed Assets

6. During 2008/09 the Council commenced a project to conduct an examination of the title to the Council's heritable property within Inverclyde and this work was concluded in 2010/11. The project identified common good property within Inverclyde and a report was presented to the Policy and Resources Committee in March 2011 highlighting land and buildings held within the balance sheet of the Council that are Common Good Assets. Part of the management arrangements agreed at the Policy and Resources Committee meeting, where land and buildings are confirmed as belonging to the Common Good, and where the Council is incurring costs or receiving income relating to these assets as the managing agent, then the Common Good pays a nominal annual £1 fee to the Council (if asked) in return for management of the asset. The Council remains responsible for all costs and any income relating to the asset and is entitled to the use of the asset. All assets except for the advertising hoardings and the Bogston site are covered by these arrangements.
7. 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 2011, 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.
8. At 31 March 2011, Inverclyde Council have obligations under finance leases relating to the provision of office equipment and the appropriate disclosures are made in the financial statements. The council has entered into finance lease for Common Good land and building.
9. Intangible assets have been recognised in accordance with the Code and IAS 38, as disclosed at note 13 to the accounts.

Long Term Debtors & Prepayments

10. All such known debtors and prepayments have been fully provided for in the books of account.

Inventories

11. The Council's inventories have been valued at a lower of cost or net realisable value cost and all stocks are included in the financial statements.

Bank Accounts

12. All bank accounts and designated client accounts relating to Inverclyde Council are included within the financial statements.

Other Current Assets

13. On realisation in the ordinary course of Inverclyde Council 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 to which title has passed prior to 31 March 2011.

Contingent Liabilities

15. There are no significant contingent liabilities, other than those disclosed in Note 24 to the accounts, arising either under formal agreements or through informal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided for under the Code and IAS 37.

Provisions

16. Provisions have been made in the accounts for all material liabilities which have resulted, or may be expected to result, by legal action or otherwise, from events which had occurred by the balance sheet date, and of which Inverclyde Council could reasonably be expected to be aware.
17. Actual and potential claims in relation to equal pay legislation have been reviewed and the probability that some transfer of economic benefits will be needed to settle this class of potential obligations as a whole has been assessed. Provision has been made where required for such liabilities that remained unpaid at 31 March 2011 in accordance with the Code and IAS 37. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date.

Employee Benefit Accrual

18. The employee benefit accrual has been calculated by extrapolating actual costs from a sample of staff. In my opinion the sample selected is representative of the council as a whole.

Commitments

19. All commitments under capital contracts have been disclosed in Note 33 to the accounts. Any other significant commitments or obligations which might adversely affect the Council have been disclosed.

Loans Fund

20. All borrowings have been confirmed as being compliant with the provisions of the Local Government (Scotland) Act 1975.

Other Matters

21. Expenditure on the purchase of furniture, office equipment and computer equipment and software below £6,000 has been charged to the income and expenditure account. Items costing more than this de minimis level have been treated as fixed assets.

22. 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 Inverclyde 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.

23. All related party transactions have been identified and disclosed at Note 32 to the accounts in accordance with the Code.

24. The pension assumptions made by the actuary in the IAS 19 report on Inverclyde Council have been reviewed and I confirm that they are consistent with management's own view.

25. All financial statement misstatements identified in the course of the audit have been corrected.

Local Government in Scotland Act 2003

26. Following the introduction of the statutory duty to demonstrate Best Value under the above Act, trading service accounts have been prepared for all significant trading operations in accordance with guidance issued by CIPFA / LASAAC.

Remuneration Report

27. The remuneration report has been prepared in accordance with the requirements and includes all eligible remuneration for the disclosed council officers and elected members.

Common Good Fund

28. In my opinion the common good assets, liabilities and revenue transactions within the financial statements are materially complete.

Pension Fund

29. There are no material non-adjusting events which have occurred subsequent to the period end which have not been notified to audit, which could impact significantly on the council's financial statements.

Group Accounts

30. In my opinion the group assets, liabilities and revenue transactions within the financial statements are materially complete. The change in accounting policy relating to calculation of pension injury benefits for Strathclyde Police Joint Board and Strathclyde Fire and Rescue Joint Board is an actuarial estimation and have been adjusted to reflect the changes.
31. 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.
32. Any significant issues with the financial statements of group entities, including qualifications, have been advised to audit.

Corporate Governance

33. I acknowledge, as the officer with responsibility for the proper administration of the Council's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the systems for internal control and that the disclosures I have made are in accordance with guidance on statements on the system of internal control. There have been no changes in the corporate governance arrangements or issues identified, since the balance sheet date which require disclosure.
34. I acknowledge that it is the responsibility of the Council to prevent and detect fraud and other irregularity. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor the results of this review, including 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.

General

35. I acknowledge my responsibility, and that of the 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 Inverclyde Council have been properly reflected in the financial statements. Monthly payroll reconciliations were not completed in the first half of the financial year. Since then payroll reconciliations have been performed monthly and duly authorised in the month following the period to which they relate. All other records and information have been made available to you, including minutes of all Council and other meetings.

36. Disclosure has been made in the financial statements of all matters necessary to give a true and fair view of the financial position of Inverclyde Council and its group as at 31 March 2011 and the income and expenditure for the year then ended.
37. 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.

Events Subsequent to the Date of the Balance Sheet

38. 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.
39. Since the date of the balance sheet no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should be brought to your notice.

Yours sincerely

Alan Puckrin
Chief Financial Officer