



# The Audit Findings for Inverclyde Council

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**Year ended 31 March 2013**

18 September 2013

**Gary Devlin**

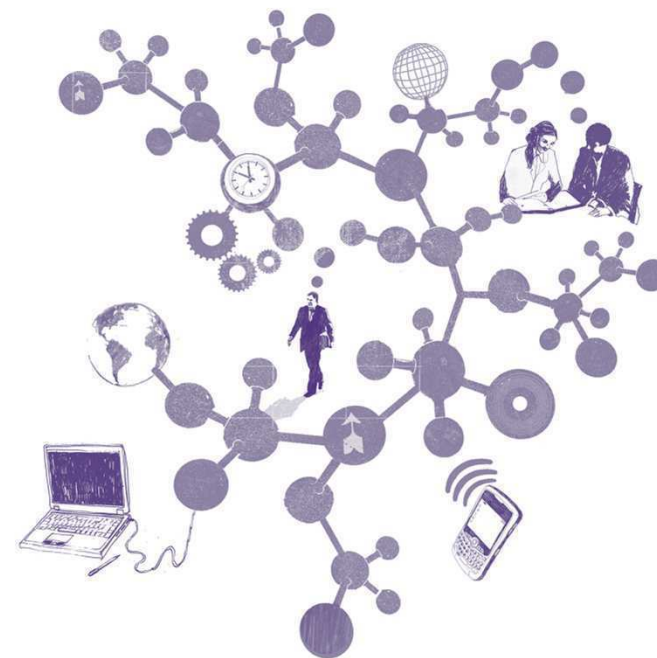
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Section 1: Executive summary

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**03. Fees, non audit services and independence**

**04. Communication of audit matters**

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Inverclyde Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Scotland Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in February 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the report to 'those charged with governance' for the Council's associates included in the Group accounts
- review of the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. The working papers and draft statements were of good quality, reflecting the work the Council undertook earlier in the year to enhance the financial statements.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified a small number of adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded a net deficit on the provision of service of £20,330k; the audited financial statements show a deficit of £20,379k. This change relates to the correction of a minor accounting error for disposals of assets and inclusion of a small number of accruals relating to 2012-13. We have also recommended a small number of amendments to improve the presentation of the financial statements and adjustments to financial disclosures in the notes.

The Group Accounts include an amendment to reflect an impairment in Riverside Inverclyde's investment in James Watt Dock LLP.

The key messages arising from our audit of the Council's financial statements are:

- the Council's financial statements are high quality and improving
- there were a small number of errors found from the audit, but these were of a technical nature and not indicative of any weaknesses in control.

Further details are set out in section 2 of this report.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. Our work has not identified any control weaknesses relating specifically to the finance function which we wish to highlight for your attention.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's internal control arrangements have been discussed with the Chief Financial Officer.

In October 2013 we will issue our Annual Report to Members. This report draws together the results of all our audit work throughout the year, including reporting on the Council's financial position, financial resilience, overall performance and governance.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2013**

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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee in February 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you in the February 2013 Audit Committee.

## **Audit opinion**

We anticipate that we will provide the Council with an unqualified opinion. Our proposed audit opinion is set out in Appendix 1.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

**Table 1: Significant Risks**

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of any unusual significant transactions</li> <li>• testing of journals.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journals entries</li> <li>• review of any unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out at table 4 in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

**Table 2: Other Risks**

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Operating expenses understated	<p>We have:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether they are designed effectively</li> <li>substantively sample tested operating expenses including a sample of expenditure post year end.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified. Management have corrected a small number of expenditure errors, all of which were of a trivial value. The Deficit on the Provision of Services has increased by £49k as a result of these minor corrections.
<b>Operating expenses</b>	Creditors not valid, misstated or recorded in the incorrect period	<p>In addition to the work above which also covers creditors, we have:</p> <ul style="list-style-type: none"> <li>substantively sample tested creditors to ensure they are valid</li> <li>reviewed the estimates and judgements used when calculating amounts for accruals.</li> </ul>	Our audit work has not identified any issues in relation to the risk identified.
<b>Employee remuneration</b>	Remuneration expenses not correct	<p>We have:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of these key controls to assess whether they are designed effectively</li> <li>completed detailed testing of a sample of payroll costs</li> <li>tested payroll related accruals and adjustments.</li> </ul>	Our audit work has not identified any issues in relation to the risk identified.

## Audit findings against other risks (continued)

Table 2: Other Risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefits improperly computed	<p>We have:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of these key controls to assess whether they are designed effectively</li> <li>we have substantially completed our certification of the Housing and Council Tax Benefit subsidy claim.</li> </ul>	Our audit work to date has not identified any issues in relation to the risk identified.
<b>Property, plant &amp; equipment (PPE)</b>	Revaluation adjustments not correct	<p>We have:</p> <ul style="list-style-type: none"> <li>reviewed the revaluation methodology used</li> <li>tested that the revaluations have been accounted for correctly</li> <li>reviewed the disclosures associated with PPE for consistency and accuracy.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified. We identified a number of small errors in the PPE disclosures throughout the financial statements, which management have amended.

## Audit findings – arising from the Group audit

In accordance with ISA 600, we provided Group instructions to the auditors of the associates of Inverclyde Council in May 2013.

**Table 3: Group Audit Findings**

Component	Component auditor	Finding	Group audit impact
<b>Riverside Inverclyde</b>	Scott Moncrieff	<ul style="list-style-type: none"> <li>The Council commissioned a report into the effectiveness of Riverside Inverclyde which has received £59million of public investment since it formed in 2006. The report examined a Joint Venture between RI and Peel Holding which identified potential significant abnormalities.</li> <li>Possible impairment relating to the cost of remedial work required to land owned by the Riverside Inverclyde joint venture James Watt Dock LLP. The accounts of James Watt Dock and Riverside Inverclyde have not yet been finalised, the draft financial statements of Riverside Inverclyde do not include the impairment in relation to James Watt Dock's assets.</li> </ul>	<ul style="list-style-type: none"> <li>Impairment of £2 million to investments in Associates.</li> </ul>
<b>Strathclyde Joint Police Board</b>	Grant Thornton	<ul style="list-style-type: none"> <li>The audit is complete. There are no findings to report.</li> </ul>	<ul style="list-style-type: none"> <li>No adjustments affecting the group accounts</li> </ul>
<b>Strathclyde Fire and Rescue Joint Board</b>	Grant Thornton	<ul style="list-style-type: none"> <li>The audit is substantially complete. There are no findings to report</li> </ul>	<ul style="list-style-type: none"> <li>No adjustments affecting the group accounts</li> </ul>

## Audit findings – arising from the Group audit (continued)




Table 3: Group Audit Findings continued

Component	Component auditor	Finding	Group audit impact
<b>Strathclyde Partnership for Transport</b>	KPMG	<ul style="list-style-type: none"> <li>The audit is substantially complete. There are no findings to report.</li> </ul>	<ul style="list-style-type: none"> <li>We are not aware of any adjustments affecting the group accounts</li> </ul>
<b>Strathclyde Concessionary Travel Scheme Joint Board</b>	KPMG	<ul style="list-style-type: none"> <li>The audit is substantially complete. There are no findings to report.</li> </ul>	<ul style="list-style-type: none"> <li>We are not aware of any adjustments affecting the group accounts</li> </ul>
<b>Renfrewshire Valuation Joint Board</b>	Audit Scotland	<ul style="list-style-type: none"> <li>The audit is substantially complete. There are no findings to report.</li> </ul>	<ul style="list-style-type: none"> <li>We are not aware of any adjustments affecting the group accounts</li> </ul>
<b>Inverclyde Leisure</b>	Welsh Walker	<ul style="list-style-type: none"> <li>The audit is substantially complete. There are no findings to report.</li> </ul>	<ul style="list-style-type: none"> <li>We are not aware of any adjustments affecting the group accounts</li> </ul>



# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

**Table 4: Accounting policies, estimates and judgements**

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Revenue is recognised when it is certain that the Council will receive cash, and only recognised in the year in which it has provided the service to earn the revenue.</li> </ul>	<ul style="list-style-type: none"> <li>the revenue recognition policies are appropriate under the CIPFA/ LASAAC Code of Practice</li> <li>in a small number of cases, judgements are made regarding levels of accrued income, no issues have been identified from work performed during the audit</li> <li>the disclosure of the accounting policy is adequate</li> </ul>	
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions.</li> </ul> </li> </ul>	<p>For all material items, we have reviewed:</p> <ul style="list-style-type: none"> <li>the appropriateness of your policies under the CIPFA / LASAAC Code of Practice</li> <li>the extent of judgement involved</li> <li>the potential financial statement impact of different assumptions</li> <li>the adequacy of disclosure of the accounting policy.</li> </ul> <p>Our audit work has not identified any issues in relation to the judgements and estimates within the accounts.</p>	
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA / LASAAC Code and accounting standards.</li> </ul>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	

**Assessment**

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

## Adjusted financial misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management.

### Impact of adjusted misstatements on the key financial statements

Table 5.1 summarises the adjustments to the group accounts arising from the audit which have been processed by management.

Table 5.2 summarises the adjustments made to the single entity draft accounts.

### Unadjusted misstatements

We are required to provide details of certain errors identified during the audit which have not been corrected within the final set of financial statements. There are no un-adjusted errors to report.

**Table 5.1: Adjusted misstatements – Group financial statements**

	Detail of Adjustments with a value above that we deem trivial	Group Comprehensive Income and Expenditure Statement £'000	Group Balance Sheet £'000	Impact on total Group net expenditure £'000
1	Impairment of the Council's share of Riverside Inverclyde reserves in the Council's Group Financial Statements. This impairment relates to the cost of remedial work required to land owned by the Riverside Inverclyde joint venture James Watt Dock LLP. The accounts of James Watt Dock and Riverside Inverclyde have not yet been finalised, the draft financial statements of Riverside Inverclyde do not include the impairment in relation to James Watt Dock's assets.	Dr share of other comprehensive income and expenditure £2,020k	Cr investment in associates £2,020k	Increases total comprehensive expenditure by £2,020k
	<b>Overall impact</b>	<b>£2,020k</b>	<b>£2,020k</b>	<b>£2,020k</b>

## Adjusted financial misstatements- continued

**Table 5.2: Adjusted misstatements – Single entity financial statements**

	Detail of Adjustments with a value above that we deem trivial	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1	The costs in relation to the voluntary severance scheme should be included within Non-Distributed Costs	Dr non distributed costs £1,085k Cr various service lines £1,085k	-	-
2	Creditors payable after 31 <sup>st</sup> March 2014 should be classified as long term in a separate line of the balance sheet.	-	Dr current creditors £799k Cr long term creditors £799k	-



## Adjusted disclosure changes

### Disclosure and presentational changes

We identified a number of minor errors and inconsistencies in the notes to the financial statements. Management have agreed to amend all those which are above a level we deem trivial. These are set out in table 6 below. In addition, management also amended the notes for some below-trivial misstatements, presentational issues and to improve clarity. These issues are sufficiently minor in nature that we are not required to report these to you.

**Table 6: Disclosure changes**

Note number	Adjustment type	Value £'000	Impact on the financial statements notes
12	Cost and value disclosure error	Adjust £184,029k to £323,612k	The revaluation programme table in note 12 contained several material financial errors, but these are disclosure only and do not impact the key financial statements. Management have amended the figures.
15	Financial liabilities at amortised cost disclosures	Adjust £29,279k to £24,226k	The financial liabilities disclosures should only include liabilities under contract, not those under statute. This means that liabilities for tax and pension contributions payable should be excluded from this disclosure note. Management have amended the disclosures to correct this.
15	Financial assets fair values of loans and receivables disclosures	Adjust £58,560k to remove £25,553k cash equivalents from fair value disclosure	For consistency, only the fair values of long term financial assets should be calculated and disclosed. Adopting this approach removes the current element of cash invested with a maturity date less than 3 months from 31 March 2013. This is disclosure only and does not impact the financial statements. Management have amended the disclosure note appropriately.
35	Exit package value error and disclosure enhancements	Reduce the overall cost of exit packages by £102k to apply discounting as required by the Code	Accounting standards require exit packages to be discounted where the payment will be made more than one year after the balance sheet date. This reduces the value in the 12-13 notes by £102k. Management have corrected this note and made improvements to the layout and clarity.
Remuneration report	Correction of staff number disclosed in bandings	An additional two staff have been included in the 12-13 bandings	Total remuneration relating to employment for the year should be included in bandings of £5k for all employees receiving £50k or over. This should include any amounts employees receive through exit packages. As a result of including severance payments, an additional two staff members have been included in the disclosure.

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

We have no observations to report.

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

**Table 7: Other Communication requirements**

	<b>Issue</b>	<b>Commentary</b>
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee and been made aware of the issues faced by the Council in the year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council and is included at Appendix 2.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material narrative or disclosure omissions in the financial statements. We worked with the Council early in the audit process to ensure the disclosures met with best practice.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed. Management have agreed to make amendments to the related party note to include an additional related party we identified as part of our audit.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Fees, non audit services and independence

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## Fees, non audit services and independence

We confirm below final fees payable to Audit Scotland for the audit and confirm that there were no fees for the provision of non audit services.

### Fees

	Per Audit plan £	Actual fees £
Fee payable to Audit Scotland	265,000	265,000
<b>Total audit fees</b>	<b>265,000</b>	<b>265,000</b>

### Fees for other services

Service	Fees £
None	Nil

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 4: Communication of audit matters

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04. Communication of audit matters

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the Group's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to Going Concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

International Auditing Standard (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

### Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISA's (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.





## **Appendix 1 Proposed Auditor's Report**

### **Independent auditor's report to the Members of Inverclyde Council and the Accounts Commission for Scotland**

We certify that we have audited the financial statements of Inverclyde Council and its group for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets and the authority-only Cash-Flow Statement, Council Tax Income Account, Non-domestic Rate 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 2012/13 (the 2012/13 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, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Responsible Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities for the Annual Accounts, the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our 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 us 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 Responsible Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of

any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the state of the affairs of the group and of the body as at 31 March 2013 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 2012/13 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 our 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 Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if, in our 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
- we have not received all the information and explanations we require for our audit; or
- the Statement on the System of Internal Financial Control does not comply with the 2012/13 Code; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Grant Thornton UK LLP

7 Exchange Crescent  
Conference Square  
Edinburgh  
EH3 4AN

26 September 2013

Chief Financial Officer: Alan Puckrin CPFA

Our Ref:

Environment, Regeneration & Resources  
Corporate Director: Aubrey Fawcett

Date: 26<sup>th</sup> September 2013

Municipal Buildings  
Clyde Square  
Greenock  
PA15 1LY  
Tel: 01475 717171

Grant Thornton UK LLP  
7 Exchange Crescent  
Edinburgh  
EH3 4AN

Dear Sirs

### **Inverclyde Council Financial Statements for the year ended 31 March 2013**

This representation letter is provided in connection with the audit of the financial statements of Inverclyde Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that



all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- ix The financial statements are free of material misstatements, including omissions. We have made all adjustments to the financial statements required by the auditors.
- x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

#### **Information Provided**

- xii We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xiii We have communicated to you all deficiencies in internal control of which management is aware.
- xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

**Statement on the System of Internal Financial Control**

We are satisfied that the Statement on the System of Internal Financial Control (SSIFC) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the SSIFC.

**Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 26<sup>th</sup> September 2013.

**Signed on behalf of the Audit Committee and Council**

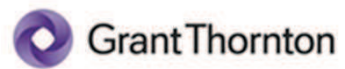
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Position.....

Date.....







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