
Report To:	Audit Committee	Date:	23 September 2014
Report By:	Acting Corporate Director Environment, Regeneration & Resources	Report No:	FIN/52/14/AP/MT
Contact Officer:	Matt Thomson	Contact No:	01475 712223
Subject:	Audit of Inverclyde's Annual Accounts 2013/14 – International Standard on Auditing 260		

1.0 PURPOSE

- 1.1 The purpose of this report is to present to Members key documents in relation to the Final Accounts 2013/14 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 23 September 2014 highlighting the main matters arising in respect of prior years' accounts. This letter, (ISA260), does not replace the more substantial Member's letter which will be produced during September and which will be considered at Full Council on 4 December 2014
- 2.2 The ISA 260 is attached at Appendix 1 and includes the letter of representation from the Chief Financial Officer. This letter provides External Auditors with assurance regarding some of the key accounting requirements and assumptions utilised when closing the 2013/14 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 2014.
- 2.3 In addition to the above, a copy of the final 2013/14 Annual Accounts is also attached. The Committee will recall that it reviewed the draft accounts prior to their submission to Audit Scotland in June 2014 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 Head of Finance, Chief Executive and Chief Financial Officer 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 2013/14 has been of a high quality. This is a testament to the significant work by Officers in the Council and in particular the Finance Service and their positive working relationship with Grant Thornton, External Auditors.

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 2013/14 audited Annual Accounts.

Jan Buchanan
Head of Finance

4.0 BACKGROUND

- 4.1 All Council's are required to submit draft accounts by 30 June each year with final, Audited Accounts required by 30 September.
- 4.2 The Council's External Auditors, Grant Thornton, have carried out the audit and the main matters arriving are presented here in their ISA 260 document. All relevant changes resulting from the ISA 260 have been reflected in the Council's final Audited Accounts which are also attached.
- 4.3 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. Officers have worked closely with the External Auditors to ensure the audit process has been as efficient as possible. Both the accounts closure process and subsequent audit have produced a high quality Annual Accounts, this is a testament to the significant work by Officers in the Council, in particular the Finance Service, and their positive working relationship with Grant Thornton, External Auditors.

5.0 FINANCIAL IMPLICATIONS

- 5.1 All Financial Implications relating to the unaudited 2013/14 Annual Accounts have been previously reported to the relevant Committees with a full unaudited outturn report having been reported to Policy & Resources Committee. It should be noted that there is an increase in free reserves of £116,000 due to movements highlighted during the audit of the accounts. All movements are detailed in the External Auditors report at appendix 1.

5.2 One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
General Fund	Free Reserves	13/14	(116)	N/A	The free reserves balance as at the 1 April 2014 is now £4.793m

5.3 Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

6.0 CONSULTATION

- 6.1 All relevant Services were consulted in both the preparation of the Annual Accounts and during the Audit process

6.2 Legal

There are no specific legal issues arising from the content of this report and as such the Head of Legal and Property Services has not been consulted.

6.3 Human Resources

There are no direct staffing implications in respect of the report and as such the Head of Organisational Development, HR and Communications has not been consulted.

6.4 Equalities

There are no equalities implications in this report.

6.5 Repopulation

There are no repopulation implications in this report.

7.0 LIST OF BACKGROUND PAPERS

7.1 None



The Audit Findings for Inverclyde Council

Year ended 31 March 2014

September 2014

Gary Devlin
Engagement Lead
T 0131 659 8554
E gary.j.devlin@uk.gt.com

Claire Bailey
Manager
T 0141 223 0727
E claire.bailey@uk.gt.com



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.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Fees, non audit services and independence	20
4. Communication of audit matters	22
Appendices	
A Action plan	25
B Draft Audit opinion	26
C Draft Letter of Representation	28

Section 1: Executive summary

01. Executive summary

02. Audit findings

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 2014. It is also used to report our audit findings to the Controller of Audit, 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.

We will present our full audit findings for the 2013-14 year in our Annual Report to Members, which will we present to the Full Council.

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 January 2014 Audit Plan.

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

- obtaining and reviewing the final management letter of representation; and
- 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 draft financial statements were well presented.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified several adjustments affecting the financial statements and related notes. These changes resulted from a number of technical errors in the accounting for Property Plant and Equipment (PPE). The errors related to a small number of revalued assets, but the values involved are material because of the high value of the individual assets involved.

There have been a number of corrections to capital accounting errors. These are largely technical in nature and have increased the in-year surplus by £10.179 million. The prior year surplus has reduced by £9.194 million. There is no impact on the General Fund.

Further adjustments were made to the classification of debtors and creditors in the financial statements. We have also identified small a number of adjustments to further improve the presentation of the financial statements.

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

Key issues arising from our audit

Other audit procedures

We have carried out work to certify a number of grant claims and have audited the Council's s106 charities as directed by the Accounts Commission. Finally, we have reviewed the Council's Whole of Government Accounts (WGA) Data Collection Tool for consistency with the financial statements.

We conclude on our work on governance and performance issues, and other additional work mandated by Audit Scotland, in our Annual Report to Members. We will present this report to the Full Council in due course.

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.

As part of our testing of property, plant and equipment balances, we have identified that some of the errors identified, could have been detected had there been additional controls in place. This could include reconciling the total valuation given by the External Valuer in their report with the closing adjusted value of all the assets subject to revaluation. Further details are given in appendix A of this report.

The way forward

The council has made the improvements and adjustments to the financial statements recommended as a result of the audit. Management have committed to the action plan in appendix A. On receipt of the signed financial statements and letter of representation, we will be in a position to sign our audit opinion.

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 2014

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. We also set out the adjustments to the financial statements arising 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 January 2014.

Audit opinion

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

Audit findings against significant risks

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.

"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).

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle may include fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<ul style="list-style-type: none"> • Performance of substantive testing on material revenue streams • Substantive sample testing of debtors and income accruals • Review of revenue recognition policies • Review of unusual significant transactions • Testing of journal entries. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of internal controls may result in material mis-statement</p> <p>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Assessment of the design and implementation of controls in key systems • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions • Discussions with internal audit. 	<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 later 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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses and creditors</p>	<p>Operating expenses and associated creditors and accruals may be misstated or recorded in the incorrect period</p>	<ul style="list-style-type: none"> • We reviewed the systems and controls that the Council have in place to pay and record expenditure • We 'walked through' transactions to demonstrate that appropriate controls are in place and designed effectively • We performed substantive testing on a sample of expenditure items • We performed substantive testing of a sample of year end creditors and accruals • We tested expenditure transactions and a sample of creditors and accruals to ensure 'cut-off' is correct (ie. that they are recorded in the correct period). 	<p>We identified that an immaterial group of creditors were classified as short term when they should be shown as long term. There were no other issues identified from our audit.</p>
<p>Employee remuneration</p>	<p>Remuneration expenses and associated accruals may be misstated</p>	<ul style="list-style-type: none"> • We reviewed the systems and controls that the Council have in place to pay and record employee remuneration • We 'walked through' transactions to demonstrate that appropriate controls are in place and designed effectively • We performed substantive testing on a sample of payroll transactions and deductions • We substantively tested of a sample of year end payroll accruals • We performed analytical procedures to identify any discrepancies in monthly payrolls and consider whether the payroll expenditure was in line with our expectations • We tested the reconciliation between the payroll system and the amounts recorded in the financial statements • We reviewed the remuneration report in detail. 	<p>We identified two minor errors in the disclosures of exit packages.</p> <p>We identified one £11 understatement of change in accrued pension benefits within the disclosure of senior employees pension benefits.</p> <p>There were no other issues identified from our audit.</p>
<p>Welfare expenditure</p>	<p>Welfare benefits may be calculated incorrectly</p>	<ul style="list-style-type: none"> • We reviewed the systems and controls that the Council have in place to calculate, pay and record benefit expenditure • We 'walked through' transactions to demonstrate that appropriate controls are in place and designed effectively • We have completed our substantive testing of benefits transactions • We have completed our testing of the Housing Benefit Subsidy claim. 	<p>We have not identified any risks of material mis-statement.</p>





Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. We have not yet received final confirmation from auditors of the group components named below that their audits of the component accounts are complete.

Component	Significant to the group accounts?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained and issues raised
Inverclyde Leisure	No	Analytical	No risks identified other than ISA presumed risks	Full scope UK statutory audit is being performed by Welsh Walker accountants	Our audit work and discussions with the component auditor has not identified any issues to date.
Riverside Inverclyde	No	Analytical	Potential governance risks and risks associated with the timing of the component's audit were identified	Full scope UK statutory audit is being performed by Scott Moncrieff. We have also review the arrangements for the development of the governance framework and how the Council ensure Best Value.	Our audit work and discussions with the component auditor has not identified any issues to date.
Renfrewshire Valuation Joint Board	No	Analytical	No risks identified other than ISA presumed risks	Full scope UK statutory audit is being performed by Audit Scotland.	Our audit work and discussions with the component auditor has not identified any issues to date.
Strathclyde Partnership for Transport	Yes	Targeted	No risks identified other than ISA presumed risks	Full scope UK statutory audit is being performed by KPMG.	Our audit work and discussions with the component auditor has not identified any issues to date.
Strathclyde Concessionary Travel Scheme Joint Board	No	Analytical	No risks identified other than ISA presumed risks	Full scope UK statutory audit is being performed by KPMG	Our audit work and discussions with the component auditor has not identified any issues to date.
Inverclyde Common Good	No	Analytical	No risks identified other than ISA presumed risks	We have reviewed a sample of transactions and agreed the Common Good accounts to the ledger	Our audit work and discussions with the component auditor has not identified any issues to date.
Subsidiary Charities and Trusts	No	Analytical	No risks identified other than ISA presumed risks	We have reviewed the disclosures and agreed the charity figures to the ledger	Our audit work and discussions with the component auditor has not identified any issues to date.

Accounting policies, estimates and 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.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue is recognised when it is certain that the Council will receive the cash, and only recognised in the year in which it has provided the service to earn the revenue. 	<ul style="list-style-type: none"> the revenue recognition policies are appropriate under the CIPFA / LASAAC Code of Practice (the Code) in a small number of cases, judgements are made regarding levels of accrued income, no issues have been identified the disclosure of the accounting policy is adequate. 	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of capital equipment – pension fund valuations and settlements – revaluations – impairments – Provisions. 	<p>For all material items, we have reviewed:</p> <ul style="list-style-type: none"> the appropriateness of your policies under Code the extent of judgement involved the potential financial statement impact of different assumptions the adequacy of disclosure of the accounting policy. <p>Our review has not identified any areas of concern.</p>	 Green
Property plant and equipment (PPE) valuations	<ul style="list-style-type: none"> The Council value their land and buildings every five years, with interim valuations each year for those assets where management believe there may have been a significant change in valuation. Management also review whether the carrying value of PPE remains materially reasonable each year. 	<ul style="list-style-type: none"> by valuing only a small number of assets in 2013-14, the Council has not met the Code's requirement in paragraph 4.1.2.35 to value items within a class of PPE simultaneously however, we do not consider this a material departure from the Code; the revaluations in 2013-14, where specific impairment reviews of assets were significant, capital work had been completed in the year. As a result, we have not required any changes to the PPE valuation cycle. 	 Green
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA LASAAC Code and accounting standards. 	<ul style="list-style-type: none"> our review of accounting policies has not highlighted any issues which we wish to bring to your attention. 	 Green

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 misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

Due to the nature of the changes that have been made to the accounts, for ease of reference, a summary of the key changes to the CIES and Balance Sheet is detailed below. All adjusted misstatements are set out in detail on page 15. There are no unadjusted miss-statements.

Impact on CIES	Original £'000	Revised £'000	Change £'000	
Total Comprehensive (Income) and Expenditure	6,051	(4,128)	(10,179)	The net impact of all changes made to the CIES
Charges for depreciation and impairment of non-current assets within Cost of Services	25,450	7,042	(18,408)	This relates to capital adjustments that have now been charged to the Revaluation Reserve
(Surplus) or deficit on the revaluation of non-current assets	(37,492)	(11,093)	26,399	This relates to capital adjustments that have now been charged to the Revaluation Reserve
Impact on Balance Sheet	Original £'000	Revised £'000	Change £'000	
Total Reserves	52,588	53,573	985	The net impact of all changes made to the balance sheet
Revaluation Reserve	127,502	110,107	(17,395)	The net impact of all changes made to the Revaluation Reserve (see page 14)
Capital Adjustment Account	19,274	37,513	18,239	The net impact of all changes made to the Capital Adjustment Account (see page 14)

Adjusted misstatements (continued)

Impact on Revaluation Reserve	Change £'000
To correct in year correction of duplicate prior year asset. This is now shown as a Prior Period Adjustment	(9,194)
To correct capital adjustments charged to the CIES in error	(8,201)
Net change	(17,395)
Impact on Capital Adjustment Account	Change £'000
Correction of charges for depreciation and impairment following amendments made to PPE note	18,408
Other miscellaneous changes	(169)
Net change	18,239

Adjusted misstatements (continued)

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total (surplus)/deficit £'000
1 The balance sheet as at 31 March 2013 included a duplicate asset of £9.481m. The Council corrected this in 2013/14 through in-year accounting entries. However, as the adjustment is material, the correct treatment is to create a Prior Period Adjustment (PPA). As a result, an adjustment was required to reverse the in year accounting entries.	(9,481)	9,481	(9,481)
2 Prior Period Adjustment to remove duplicate asset – impact on 2012/13.	9,481	(9,481)	9,481
3 Capital expenditure of £24.694m had been written off to the CIES. Of this, £18.578m was subsequently revalued upwards. The adjustment in the accounts should have only reflected the net movement.	(18,578)	0	(18,578)
4 Reversals of previous impairments of £8.728m have been credited to the revaluation reserve. However, these represent the reversal of previous impairments to the CIES, and so should be credited to the CIES.	(8,728)	0	(8,728)
5 The PPE balance in the balance sheet and note 10 is understated due to an error in accounting for a school. The total PPE figure and note 10 disclosures have been increased by £1.567m to correctly reflect this asset in the financial statements.	0	1,567	0
6 Assets under construction additions were understated due to an omission of a retention payment of £551,000 and revaluation was overstated by the same amount. The associated capital accrual was also understated and the short-term creditors have also been increased. Capital expenditure reported to members was understated at the year end by £551,000.	0	0	0

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made to the notes in the final set of financial statements.

note	Detail	Impact on note to the financial statements
Remuneration Report	The change in Accrued Benefits for one individual was understated by £11.	Change has been made within the remuneration report, no additional changes required
Note 10	There were a number of misclassifications within the asset categories of the PPE note.	<p>Other land and buildings has increased by £14.367m Community assets have reduced by £14.367m Asset under construction additions have increased by £18.580m Other land and buildings additions have reduced by £18.417m Other category additions reduced by £163,000</p> <p>There was no impact on the Net Book Value of the assets as a result of these changes.</p>
Note 13	Financial instruments disclosures of debtors and creditors included balances which are not financial instruments and excluded balances that are financial instruments.	<p>Short term debtors in note 13 were reduced by £5.487m Short term creditors in note 13 were increased by £2.388m</p> <p>This note is disclosure only.</p>
Note 14	VAT debtors of £1.42m were incorrectly disclosed as trade debtors in note 14. These have now been moved to the 'central government bodies' line within note 14.	<p>Trade debtors has reduced by £1.42m Central Government debtors has increased by £1.42m</p> <p>There was no change to the overall value of debtors.</p>
Note 16	£480,000 of exit package creditors were included as short-term. The payments are not expected to be made till after 12 months and have therefore been moved to long-term creditors.	<p>Short term creditors were reduced by £480,000 Long term creditors were increased by £480,000</p> <p>The Balance sheet has been amended to reflect the change.</p>

Misclassifications and disclosure changes (continued)

The table below provides details of misclassification and disclosure changes identified during the audit which have been made to the notes in the final set of financial statements.

note	Detail	Impact on note to the financial statements
Note 27	It was identified that the creditor to Strathclyde Partnership for Transport disclosed within the related party transactions note was understated by £44,000.	The creditor to Strathclyde partnership for Transport has increased by £44,000.
Note 31	We identified that 6 exit packages were incorrectly aggregated together and shown as one payment in the £150k-£200k band. We identified one individual who had been included in the exit package disclosure in error.	The total number of departures has increased from 36 to 40. The following bands have been adjusted: £0-20,000 +1 £20,001- £40,000 +3 £40,001- £60,000 +1 £150,001 - £200,000 -1
Note 35	During the audit, the Council became aware of an EU ruling that highlighted the Council could have a liability in respect of additional Holiday Pay entitlement.	This has now been disclosed as a contingent liability.

Adjusted misstatements - Group

A number of adjustments to the draft Group financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total (surplus)/deficit £'000
1 The Group share of other comprehensive income and expenditure included transactions relating to Strathclyde Police and Strathclyde Fire. These have been removed.	246,305	0	246,305
2 An audit adjustment was processed to the gain on revaluation of land for Riverside Inverclyde.	(1,033)	1,033	(1,033)

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 in this report.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and been made aware of an immaterial issue relating to housing benefits. 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
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. The Council have worked well to improve and clarify the disclosures in recent years, and have made a small number of suggested changes in 2013-14 as part of this process of continually enhancing the financial statement
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services].

Fees

	Per Audit plan £	Actual fees £
Council audit, grant certification and review of WGA	259,500	259,500

There have been no variations in actual fees from the planned fee

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.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

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 Standards on Auditing (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.

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	After large scale revaluation adjustments have been made to assets in the asset register, there should be a check that the new carrying value given by the valuer for all revalued assets is equal to the asset register carrying value for all of those individual assets combined. This will demonstrate that no revaluations have been missed or duplicated.	Medium	Management will review procedures in order to implement adequate checks and/or reconciliations to ensure where possible that no revaluations are omitted or duplicated.	On revaluations from 2014/15 Head of Finance
2	When revaluing the asset base, accumulated depreciation should be reset to nil for each revalued asset. This will ensure that the Council fully complies with paragraph 4.1.2.31 of the CIPFA / LASAAC Code.	Medium	Management will review procedures in order to implement adequate checks and/or reconciliations to ensure where possible that no revaluations are omitted or duplicated.	On revaluations from 2014/15 Head of Finance

Appendix B: Audit opinion

We anticipate we will provide the Council with an unqualified audit 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 2014 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 Cash-Flow Statements, the Council Tax Income Account, the Non-domestic Rates Income Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority’s Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit.

If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 and of the income and expenditure of the group and the body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; 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 Explanatory 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 Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government'; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Gary Devlin, for and on behalf of Grant Thornton UK LLP
7 Exchange Crescent
Edinburgh
EH3 8AN
September 2014

Appendix C Letter of Representation

Finance Services
Municipal Buildings
Greenock PA15 1LX

Inverclyde
council

Chief Financial Officer: Alan Puckrin CPFA

Our Ref:

Date: 23rd September 2014

Environment, Regeneration & Resources
Corporate Director: Aubrey Fawcett

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 2014

This representation letter is provided in connection with the audit of the financial statements of Inverclyde Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view 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. The Council have complied with all aspects of contractual agreements that could have material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi. Specifically, we confirm that the valuation of land and buildings in the financial statement is materially consistent with the fair value at the year end. We are not aware of any indications of material change in valuation since the last revaluation date.



Healthy
Working
Lives



- vii. 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.
- viii. Except as stated in the financial statements:
- a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no additional material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- ix. 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.
- x. 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.
- xi. 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.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. The financial statements are free of material misstatements, including omissions. We have made all adjustments to the financial statements required by the auditors.
- xiv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xv. 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

- xvi. 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.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. 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.

- xx. 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.
- xxi. 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.
- xxii. 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.
- xxiii. 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.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxv. We are satisfied that the Annual Governance Statement (AGS) 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 AGS.

Annual Governance Statement

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 23rd September 2014.

Signed on behalf of the Audit Committee and Council

Signed

Name: Alan Puckrin

Position: Acting Corporate Director

Date: 23rd September 2014



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk