
Report to : Resources and Audit Committee

Date of Meeting: 24 September 2015

Subject: External Audit Final report to Members on the 2014/15 Audit

Report by: Depute Chief Executive

1.0 Purpose

- 1.1. This report presents to Committee the report by our external auditors, Deloitte, on the Council's 2014/15 audit. This report represents the completion of the fourth year of Deloitte's audit appointment. The report is included as Appendix 1, titled '*Final Report to the Resources and Audit Committee and the Controller of audit on the 2014/15 Audit*'. This report includes the audit opinion on the 2014/15 Financial Statements.
- 1.2. Following the conclusion of the audit, the final amended Financial Statements for the year ended 31st March 2015 have been placed on the members portal in advance of this meeting to facilitate approval.

2.0 Recommendations

It is recommended that the Committee:

- 2.1. Notes the content of the External Audit report.
- 2.2. Agrees the final amended Financial Statements for the year ended 31 March 2015.
- 2.3. Commends the final amended Accounts for 2014/15 to Council for approval.

3.0 Considerations

- 3.1. A draft set of unaudited accounts was presented to Council at its meeting on 25th June 2015.
- 3.2. Our external auditors, Deloitte, have now completed the audit of these draft statements, and their report on the accounts is included within their Final report to Members at Appendix 1.
- 3.3. The report also covers the wider Code of Audit Practice areas reviewed by our External Auditors. These include best value, use of resources and performance and also risk management and internal control.

- 3.4. Members will note that the Partner Introduction indicates an unmodified or 'clean' audit opinion on the financial statements.
- 3.5. Following the completion of the audit, the Financial Statements have been revised to include any adjustments referred to within the auditors report. As a result of these adjustments the General Reserve balance has moved favourably from £11.335m as reported in the draft accounts to £11.609m. These finalised statements have been circulated to all elected members in advance of this meeting to facilitate approval.
- 3.6. It is the intention of Deloitte to attend this Committee meeting to present their Final Report and provide a further opportunity for elected members to ask questions.

4.0 Sustainability Implications

4.1. N/A

5.0 Resource Implications

5.1. *Financial Details*

5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes

5.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes

5.4. *Staffing - none*

6.0 Exempt Reports

6.1. Is this report exempt? Yes (please detail the reasons for exemption below) No

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box)

- The area has a positive image and attracts people and businesses
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported
- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing

The environment is protected and enhanced for all

The Council is effective, efficient and recognised for excellence

(2) Council Policies (Please detail)

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?
 Yes No

9.0 Legality

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix 1: Deloitte Final report to Members 2014/15

11.0 Background Papers



11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)
 Yes (please list the documents below) No

Final draft Financial Statements 2014/15

Author(s)

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Lindsay Sim	Chief Accountant	2078

Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Depute Chief Executive	
Elaine McPherson	Chief Executive	

Final Report to the Resources and Audit Committee and the Controller of Audit on the 2014/15 Audit



24 September 2015

the
Distinctive
audit

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Our final report

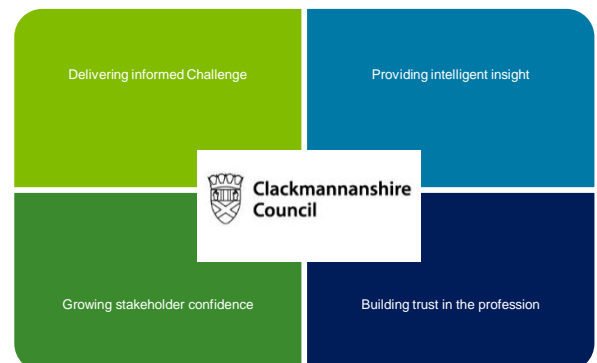
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A reminder of our audit plan:

- Materiality: £1,799k (2013/14: £1,643k).
- Performance materiality: £1,529k (2013/14: £1,397k).
- Threshold for reporting misstatements: £36k (2013/14: £33k).
- Significant risks over valuation of fixed assets, bad debt provision, revenue recognition and management override of controls.
- In line with prior years and our audit plan, we have not placed any reliance on controls and our audit work was fully substantive.
- We have not identified any additional significant risk areas since our plan was issued.
- There have been no changes to our audit plan presented to you in February 2015.



Partner introduction

Partner introduction

Financial statement audit

I have pleasure in presenting our final report for the 2014/15 audit. I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

- The key judgements in the audit process related to:
 - property, plant and equipment valuation;
 - calculation of the council tax and general debtors bad debt provision;
 - revenue recognition (being completeness of Council Tax and Housing Rent income); and
 - Management override of controls.
- We have identified three misstatements as detailed in Appendix 1, all of which have been corrected in the final financial statements.
- Based on the current status of our audit work, we anticipate issuing an unmodified audit opinion.

Insight

- We have raised a number of insights from our current year audit work which are discussed throughout the report and summarised in the action plan in Appendix 2.
- We have also followed up our prior year action plan and noted that while progress has been made on all of the actions, a number are only partially implemented, as detailed in Appendix 2. Management should ensure that achievable timescales are agreed so that these actions are implemented timeously.

Status of the audit

The audit is substantially complete subject to the completion of the following principal matters:

- Finalisation of quality control procedures;
- Receipt of updated financial statements;
- Receipt of signed management of representation letter; and
- Our review of subsequent events since 31 March 2015.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives for this audit:

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the Audit Scotland impact dimensions with regard to Clackmannanshire Council.

Financial sustainability

Financial sustainability continues to be one of the most significant challenges and risks for Clackmannanshire Council.

Whilst 2015/16 shows a balanced position, significant shortfalls are projected in future years with a cumulative funding gap of £21 million up to 2019/20. As a percentage of total budget, Clackmannanshire sits within the top end in comparison with other Councils across Scotland. While some progress has been made around the Making Clackmannanshire Better (MCB) programme to address this funding gap, work is still required as noted below.

Financial Management

The final outturn for FY14/15 was an underspend of £1.997 million against gross revenue expenditure of £179.937 million.

The Council's reserves policy stipulates a minimum level of reserves of 3% of net expenditure. Uncommitted balances at 31 March 2015 of £6.379 million is in excess of this balance at 5.5%.

Best Value

We have assessed the overall arrangements in place to deliver the Council's stated objectives above for the MCB programme. We have concluded that unless significant progress is made in the rest of 2015 calendar year, we do not believe that the objectives of MCB will be achieved (see separate best value report).

We have also considered the Council's progress with their integration plan of health & social care services. Whilst work is progressing across all identified work-streams, it is important that the partnership uses the integration of adult health and social care to make transformational change in order to make the most of the opportunity to improve service provision across Clackmannanshire and Stirling.

Governance and Transparency

In accordance with the Code of Audit Practice, we are required to report on certain key matters regarding:-

- Internal controls;
- Prevention and detection of fraud arrangements;
- Maintaining standards of conduct; and
- The effectiveness of Council committees

Our review procedures identified no issues regarding these areas.

Partner introduction (continued)

Significant risk dashboard



Fraud risk	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
PPE valuation			
✗	Evaluate design / implementation of key controls. No controls reliance taken. No significant observations.	●	Revaluations of PPE based on methodology and assumptions adopted by the Council's external valuer. We are satisfied that the correct guidance has been followed, with the exception of the revaluation adjustment of £1.777m as discussed on page 10.
Council Tax bad debt provision			
✗	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We are satisfied that the methodology used to calculate the council tax and general debtor bad debt provision is sufficiently robust and that the provision is accurately reflected in the financial statements, with no issues noted.
Revenue recognition			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We are satisfied that revenue has been appropriately recognised and have noted no issues regarding completeness of Council Tax and Housing Rent income.
Management override of controls			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations	●	We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements. Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.

Overly prudent, likely to lead to future credit



20

Overly optimistic, likely to lead to future debit.

Scope, nature and extent of audit

Scope, nature and extent of audit

Our overall responsibility as external auditor of the Council is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements of the local authority (including any assurance statement on whole of government accounts returns) and relevant registered charities;
- Providing the annual report on the audit addressed to the body and the Controller of Audit;
- Providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in National Fraud Initiative (NFI));
- Submitting fraud returns, including nil returns, to Audit Scotland;
- Certifying all grant claims submitted by the Council that have been approved for certification by Audit Scotland;
- Discharging the auditor's responsibilities in connection with bodies' publication of SPIs in accordance with the Accounts Commission's annual Direction;
- Provide existing evidence and intelligence for, and participate in, the Shared Risk Assessment (SRA) process leading to the preparation of a 3-year rolling Assurance Improvement Plan (AIP) and national scrutiny plan; and
- Report on the results of follow-up on Council's progress in implementing existing BV improvement plans.

In addition to this annual report, we have completed and reported the following matters to those charged with governance (the Resources and Audit Committee) of the Council:

- [Planning Report](#)
- [Best Value Report: Delivering Change and Financial Sustainability](#)

The key issues from this are summarised in these reports.



Significant risks

Property, Plant and Equipment Revaluations

Risk Identified

Changes in the property market and economic environment can drive significant movements in valuation. A full revaluation exercise was undertaken 2014/15, and there is a subsequent risk of material misstatement of the property, plant and equipment (PPE) on the balance sheet. IFRS requires assessment with significant regularity to ensure no significant divergence between carrying value and fair value of assets.

Net Book Value of Property, plant & equipment at 31 March 2015:
£352.220m (31 March 2014: £313.636m)

Key judgements

- We reviewed the external revaluations performed in the year and assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified independent individuals;
- We challenged the inputs made by management to the valuations;
- We tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts;
- We considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS 5; and
- We involved the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the internal valuer.

Deloitte response

We are satisfied that the correct guidance has been followed and the correct valuation bases are being adopted. The valuer is independent, appropriately qualified and appears to have the requisite experience to undertake the valuations.

The net book value of PPE has increased by £38.5m in the current year. The main drivers of this movement are:

- £37.4m upward revaluation of PPE assets. This is the net effect of the review of all PPE assets held by the council. The most significant movements were:
 - £9.5m downward revaluation in the council dwellings portfolio;
 - £48m upward revaluation in the other land and buildings relating mainly to school buildings and land and the new Alloa Alva and Lornshill Academies.
- Additions of £18m, which consists mainly of additions to council dwellings, infrastructure assets and assets under construction;
- Disposals of £1.9m, consisting of land and buildings;
- £3.4m of re-classification of assets to assets held for sale and investment properties; and
- £12.5m depreciation charge made during the year.

From our audit procedures, we identified that the accumulated depreciation had not been removed from the fixed asset register on the components of each property that were revalued leading to a understatement of £1.777m to the revaluation gain. Management agreed and corrected this misstatement. We can therefore conclude that the net book value is not materially misstated. We have also made some observations in relation to the methodology adopted by the valuer which are detailed on page 11.

Property, Plant and Equipment Revaluations (continued)

Observation 1 - Scope of agreed valuer work

It was noted that the valuer did not provide the key valuation inputs in their supporting valuation spreadsheet as requested in the Council's agreed scope and terms and conditions.

Conclusion

We concluded that this issue did not have a material impact on the current year valuation, however, we recommend that the Council improves its management and scrutiny of externally sourced valuation advice. It is vital that the Council ensures that there is an experienced internal contact, preferably with a detailed understanding of valuation requirements for financial reporting. **Appendix – Action Plan.**

Observation 2 - Modern Equivalent Asset (MEA)

RICS professional standards require valuers to take into account MEA in valuing assets on a Depreciated Replacement Cost (DRC) basis. Whilst the valuer has confirmed that the MEA has been assessed, this is largely restricted to the adoption of modern replacement build costs and functional obsolescence issues and does not extend to the consideration of sizes or location, for example, it may be rebuilt in an out of town location rather than current site. For example, if Lornshill Academy was to be rebuilt on the land of an out of town industrial estate, the land value would vary.

Conclusion

We concluded that this issue did not have a material impact on the current year valuation. However, with regard to MEA considerations for land, rather than adopting current site areas and valuing on the basis that assets will be located in the same geographical area, the valuer should consider MEA issues and where possible determine the land value reflecting an appropriate site size and if possible determine a site value reflecting least cost to replace basis. **Appendix – Action Plan.**

Observation 3 - Fair Value of Social Housing

The valuer is required to establish and set out an auditable methodology in arriving at the fair value of social housing. This information was either not provided within the valuation report, or the information provided lacked sufficient clarity. This resulted in us requesting the valuer to provide more information. While the valuer did provide an additional explanation on the approach adopted there is still a lack of detail.

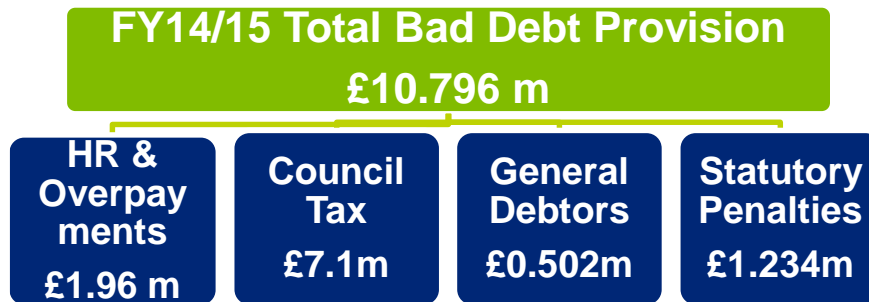
Conclusion

In line with above, we recommend that the Council ensure there is an experienced internal contact, preferably with a detailed understanding of valuation requirements for financial reporting, who can scrutinise information provided by external valuers. **Appendix – Action Plan.**

Bad Debt Provision – Council Tax and General Debtors

Nature of the risk

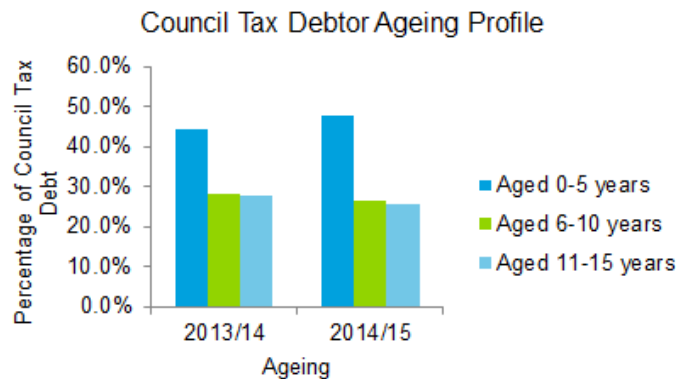
There is significant judgement and complexity around debtor provision calculations. There is a risk that the valuation of provisions is not appropriate and assumptions underpinning calculations are not accurate. Particularly given the current economic climate, assumptions on recoverability of amounts may not be reasonable. The risk has been pinpointed to the Council Tax provision given its level of materiality.



Key judgements

We have performed the following:

- Verified the gross debtor on which the provision is based to the Council Tax system;
- Reviewed and challenged the methodology applied by the Council for the bad debt provision calculation;
- Reviewed and challenged management’s judgements and assumptions included within the calculations; and
- Compared the council tax and general debtors provisions made with historical data on cash collection.



Deloitte response

From our audit procedures, we are satisfied that the provision and associated debtor are not materially misstated.

The council have accounted for FY 14/15 statutory penalties of £1.234m separately in the current year in line with the disclosure of other councils. We have reviewed the balances per the statutory penalties listing from the Orbis Council tax system and the costs paid as per the Crystal cash collection system to ascertain the debtor at year end and are comfortable that this balance is recoverable. The council have restated the FY 13/14 balance to improve comparability. While Deloitte has challenged that as this is not material it would not have required restatement, we accept the Council’s decision to enhance transparency.

The bad debt accounting policy to apply provision rates based on historical collection rates was reviewed and considered to be representative of the probable future recoverability.

Revenue Recognition: Completeness of income

Risk Identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The risk is pinpointed to completeness of council tax and housing rent income given the significance to the organisation. Other main components of income are government grants and business rates which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%.

Key judgements

We have performed the following:

- tested the council tax and housing rents reconciliations performed by the Council at 31 March 2015 to confirm all income correctly recorded in ledger;
- compared income recorded with expectations, based on Council Tax and rent levels agreed as part of budget process and number of properties; and
- confirmed that the reconciliations performed during 2014/15 have been reviewed on a regular basis.

Deloitte response

No issues noted from our testing of the treatment of income in the year, which was found to be correctly recognised.

Management override of controls

Risk Identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor.

This recognises that management may be able to override controls that are in place to present inaccurate or fraudulent financial reporting.

Key judgements

Our audit work is designed to test for instances of management override of controls.

Key estimates around, provisions, revenue recognition and valuation of property, plant and equipment have been covered through our significant risk assessment of those areas on pages 10 to 12. Other estimates which have are not considered significant risks including the pension liability, provisions and accruals have also been tested with no issues noted.

Deloitte response

- No issues noted around journal entries and other adjustments made in the preparation of the financial statements.
- Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.
- Retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.
- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year and noted no issues.

Other matters

Defined benefits pension scheme

Background

The Council participates in a defined benefit pension scheme. This scheme is administered by the Falkirk Council, therefore actuarial assumptions are not made by Clackmannanshire Council. There is a risk that the actuarial assumptions are not appropriate and therefore the valuation of the scheme is inaccurate. For the purposes of Clackmannanshire Council's financial statements, it is important to ensure that the assumptions applied are fully understood and challenged.

Audit work performed

We have performed the following:

- obtained a copy of the actuarial report produced by Hymans Robertson LLP, the scheme actuary, and agreed in the disclosures to notes 41 and 42 within the accounts;
- confirmed the total assets of the scheme with the Pension Fund financial statement;
- reviewed the disclosures within the accounts against the Code;
- assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- verified the split of assets and liabilities with Falkirk Council; and
- liaised with our in-house actuary regarding their assessment of the key assumptions.

No issues noted.

Deloitte response

We have reviewed the assumptions and on the whole, the set of assumptions is slightly towards the prudent end of the reasonable range at 31 March 2015. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

	Council	Benchmark	Comments
Discount rate	3.2%	3.2%	Reasonable
RPI inflation	3.3%	3.00%	Slightly prudent
CPI Inflation rate	2.4%	2.0%	Slightly prudent
Real Salary increase (over CPI inflation)	3.8%	Council specific	Consistent with previous year-end
Pension increase	2.4%	2.00%	Slightly prudent
Current mortality	Club Vita	Council specific	Consistent with the 2014 funding valuation of the Fund. Reasonable.
Mortality – future improvements (CMI – Continuous Mortality Investigation)	CMI 12 with a 1.25% p.a. long-term rate	CMI 12 with a 1.25% p.a. long-term rate	Reasonable

Charitable Trusts

Risk identified

From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each Charity, and a separate audit of each. Clackmannanshire Council administers 4 such registered charities. The Charities Accounts (Scotland) Regulation 2006 permits connected charities to prepare a single set of accounts. Clackmannanshire Council has taken the view that those registered charities with common trustees are connected, which has reduced the number of separate sets of accounts to one.

Key judgements

International Standards on Auditing require us to identify and assess the risk of material misstatement and to identify areas of risk that will require focussed consideration. The following are identified significant risks for the charitable trusts:

- Presumed risk over revenue recognition, specifically focused on allocation between restricted and unrestricted funds; and
- Presumed risk of management override of controls

Deloitte response

No issues noted from our testing of the charitable trusts accounts in the year, which were found to be correctly accounted for in accordance with the Charities SORP.

Best value, use of resources and financial performance

Financial performance and outlook

Value for money

In 2014/15, the Clackmannanshire Council funding gap of £6.754m was addressed as follows:

	2014/15 £'000
Net expenditure	121,965
Net funding	115,211
Cumulative indicative funding gap	6,754
<i>Indicative annual gap met by:</i>	
Savings targets	3,017
Unapplied capital receipts	1,936
Contribution from uncommitted reserves	1,801
Total to fill funding gap	6,754

Overall financial and quality performance

The table below illustrates how the Council's performance on the Provision of Service compares to budget for the current year:

	2014/15 Budget £'000	2014/15 Actual £'000	2014/15 Variance £'000
Cost of Service per Management Accounts	101,560	95,151	6,409
Not Reported in Service Management Accounts	N/a	15,751	N/a
Net Total Cost of Services	101,560	110,902	9,466

- **Housing Services: net expenditure: £7.0m (2014/15) vs £1.8m (2013/14):** increased due to the housing assets revaluation in the year and an increase in the payments made to contractors.
- **Social Work: net expenditure: £33.3m (2014/15) vs £30.6m (2013/14):** Adult care has increased due to a demographic shift towards a more ageing population. Child care has also increased due to an increased number of children in external foster care and high cost placements in secure accommodation.

Financial performance and outlook

Reserves

The Council's Usable Reserves balance has decreased by £2.643 million in the year to £17.683 million at 31 March 2015. This has fallen primarily as a result of the deficit on provision of services relating to the Housing Revenue Account and Capital Receipts earmarked reserve transfer.

The Council's policy is to hold minimum working balances of 3% of net expenditure (£3.1million in 2014/15) for the General Fund. The level of reserves at 31 March 2015 is in line within this policy.

A total of £5.230 million is being held as "Earmarked General Fund reserves" at 31 March 2015, to provide financing for specific future expenditure as shown below:

Specific Purpose	Total (£'000)
Developed School Management	216
Corporate Miscellaneous	560
MCB (Previously Spend to Save Fund)	555
Change Funds	288
Other Miscellaneous Service Commitments	810
Employment Fund	1,000
Sum Approved In Support of 2015/16 Budget	1,801
Net Committed Reserves	5,230

Conclusion

The Council should continue to monitor expenditure against the earmarked reserves as part of the ongoing budget monitoring commitments to ensure that there are robust Business Plans in place to ensure that these projects are taken forward in accordance with agreed timescales.

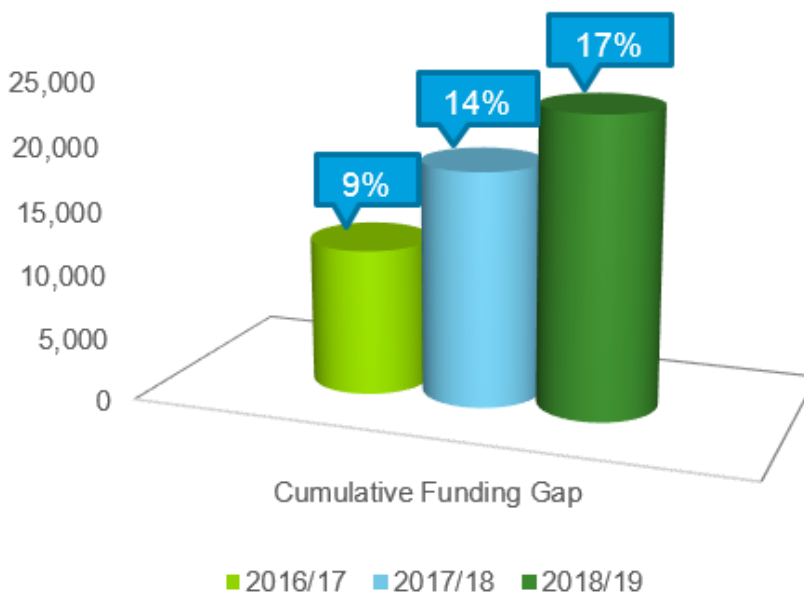
Financial performance and outlook (continued)

Financial outlook

The **2015/16 revenue budget** was approved by the Council on 24 February 2015. This budgeted net expenditure of £121.965 million, with approved savings of £6.754 million.

Indicative budgets are in place for the next three years, which note that significant shortfalls are projected in future years. This is based on expected funding levels and increasing demand pressures in future years. A recent report to the Accounts Commission (14 May 2015) noted that 16 of the 32 Councils in Scotland are reporting that they will have a cumulative funding gap in 2017/18, which equates to 2.5% of Council's budgets across Scotland. While each Council records this slightly differently, and so should be treated with caution, the gap in each Council ranges from 1.8% to 14.1%. Clackmannanshire therefore sits within the top end of all Scottish local authorities.

Funding gap (as a percentage of net expenditure)



The General Fund capital plan was also approved by the Council at its meeting on 24 February 2015 with total planned expenditure for 2015/16 of £9.475 million. This includes the following significant projects:

- Carriageways - £1.35 million;
- Making Clackmannanshire Better - £0.685 million;
- 3-12 School Development Project - £1.719 million;
- Vehicle Replacement Programme - £1.039 million; and
- Replacement financial management system - £0.5 million

The above are being funded by a combination of borrowing and capital grants.

Statutory performance indicators

Statutory duties and responsibilities

The **Local Government Act 1992** lays a duty upon each council to ensure that it has in place such arrangements for collecting, recording and publishing performance information that will allow it to comply with a Direction from the Commission.

The appointed auditor's statutory duty in relation to the performance information is set out in the **Local Government (Scotland) Act 1973**. The auditor's duty is to be satisfied that the council "*has made adequate arrangements for collecting and recording information, and for publishing it as required for the performance of their duties*".

The 2012 Accounts Commission Direction and guidance on auditing SPIs was issued in March 2013 and sets out the following approach:

The audit of SPI 1, 2 and 3 is a two stage process:

- Stage 1: Initial stage appraising the arrangements – see below for outcome of this work
- Stage 2: Assessing the quality of Public Performance Reporting (PPR). This will be reported by the Accounts Commission in April/ May 2015.

In July 2015, Audit Scotland reported the findings of its review of Public Performance Reporting (PPR) across Scottish local authorities for 2013/14. While the SPI Direction sets a flexible approach, it does define corporate management themes and service performance areas that should be included in PPR. Audit Scotland's approach to evaluating the quality of performance reports is based on these themes and the Council's approach to presenting and explaining its performance information.

The Council was reported as being fully compliant in 19 SPI areas (73%) and 7 areas were identified for improvement (27%), all relating to the Service Performance SPI. The results of this work have been discussed with the Council and are being taken forward in developing PPR for future years.

The Direction 2014 was issued in December 2014 and sets out the range of the range of performance information for the 2015/16 financial year that the Accounts Commission requires Council to collect and report in public.

Deloitte response

- Deloitte has considered the Council's arrangement for collecting, recording and publishing accurate and complete information in relation to the Public Performance Reporting (SPI 1 Corporate Management and SPI 2 Service Performance). We have gained assurance that the Council's process of verifying the SPI data and have controls tested a sample of SPIs for completeness and accuracy. No significant issues were identified within Stage 1 of the process.

Whole of Government Accounts

Background

Whole of government accounts (WGA) is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of the WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.

Purpose

The WGA provides the most complete picture available of government finances and is a set of accounts for the whole UK public sector (over 5,500 bodies in 2013/14). The WGA is being used in a number of ways:

- Treasury are using as part of their spending teams work;
- Treasury are using to assess the impact of policy changes on long term financial position;
- Ministry of Justice and Department of Health working together to examine reducing the cost of clinical negligence;
- Treasury and Cabinet Office have formed a joint fraud, error and debt task force to tackle the level of losses; and
- Cabinet Office have drawn on WGA in their work on validating the Government estate.

Clackmannanshire perspective

Deadline of 24 July for draft return met

Management review checklist completed and signed by Chief Accountant as evidence of quality review.

Clackmannanshire Council falls below the threshold for auditor assurance so no testing performed.

Conclusions

Clackmannanshire Council has appropriate arrangements in place for completion of the WGA return. However, the Treasury have committed to faster delivery in future years, which is likely to have a knock on effect to Council deadlines. The Council should continue to standardise, streamline and simplify the close down process, taking into account all the information that is currently produced, including LFRs, Outturn Reports, Financial Statements and the WGA to ensure that they are produced in the most efficient manner.

Grant claim work

As part of our audit procedures, we have completed our review of the following grant claims / returns by the audit deadlines set by Audit Scotland:

Grant	Deadline	Status	Issues
Education maintenance allowance	31 July 2015	Completed	None
Criminal justice social work services grant claim	31 August 2015	Completed	1
Non-domestic rates income return	9 October 2015	On Target	None to date
Housing and Council tax benefit subsidy	30 November 2015	On Target	None to date

Issues:

One minor issue was highlighted in relation to the Criminal Justice Grant. For a sample of Criminal Justice expenditure amounts relating to independent sector providers, the Council was unable to locate a signed service level agreement between the independent provider and the local authority, which could be used to confirm expenditure related to specified service. Deloitte performed alternative procedures in order to gain some assurance that expenditure was for a qualifying project.

This issue was highlighted in last year's report where we recommended that the Council carry out a review to ensure that service level agreements are in place where services are provided by independent sector providers. We make the same recommendation this year. **Appendix – Action Plan.**

We are on target to complete all grant claim work in line with Audit Scotland deadlines.

Best Value

Integration of adult health and social care

In June 2014, the Council agreed to implement a Body Corporate Governance model as part of its Health and Social Care integration arrangements. The partnership entails Clackmannanshire Council, Stirling Council and NHS Forth Valley. Six key work-streams were identified to progress the challenges of successful integration and these are being co-ordinated by a core group of chief officers from across the three organisations.

The Integration Scheme was agreed in draft in June 2015 and was submitted to the Scottish Government. Following feedback, the revised Integration Scheme has been resubmitted and the partnership is awaiting final approval. Once the Integration Scheme has been signed off by Ministers, the Transitional Integrated Joint Board (IJB) will be superseded by the IJB proper.

The Chief Officer of the Partnership took up her post in early July 2015 and the Chief Financial Officer was appointed in August 2015. These are key appointments and are likely to act as a significant driver to transforming health and social care services for the people of Clackmannanshire and Stirling.

Work in preparing the Strategic Plan is ongoing. The Council has sought examples of practice from other Councils and liaises with colleagues through the CIPFA Directors of Finance Network. A first draft of the plan is due in September 2015 and local consultation events are planned thereafter, which will give local stakeholders an opportunity to understand and comment on this plan.

The governance arrangements for the partnership are working well, with the Chief Officer and the Head of Social Services indicating that the IJB, which includes three Members each from Clackmannanshire Council and Stirling Council, as well as representatives from the NHS, is adopting a positive and focussed approach to progressing the integration agenda. However there is still significant work required prior to the partnership going live on 1 April 2016. Whilst work is progressing across all identified work-streams, particularly the Finance work-stream, and this progress is reported regularly to Council Members, it is important that the partnership uses the integration of adult health and social care to make transformational change in order to make the most of the opportunity to improve service provision across Clackmannanshire and Stirling.

The 'shadow year' provides an opportunity for the partnership to gain an understanding of their baseline position before looking at options for service redesign and transformation, and to understand the scale of change required and the financial implications of meeting the nine National Health and Wellbeing outcomes set out by the Scottish Government. If capacity and capability are not available internally to support this exercise, then the partnership should consider seeking external support.

As part of setting their Strategic Plan, the partnership should continue to seek out examples of best practice both in Scotland and in the rest of the UK, where integration has had a real impact on outcomes and budgets, and use this to inform their prioritisation of transformation projects moving forward.

The case study on the following page details an example of work we completed on behalf of a Council and Clinical Commissioning Group, where both the assessment of the baseline and review of best practice approach were combined and followed very successfully to identify opportunities for cost avoidance and improving outcomes for service users.

Best Value (continued)

Integration of adult health and social care (continued)

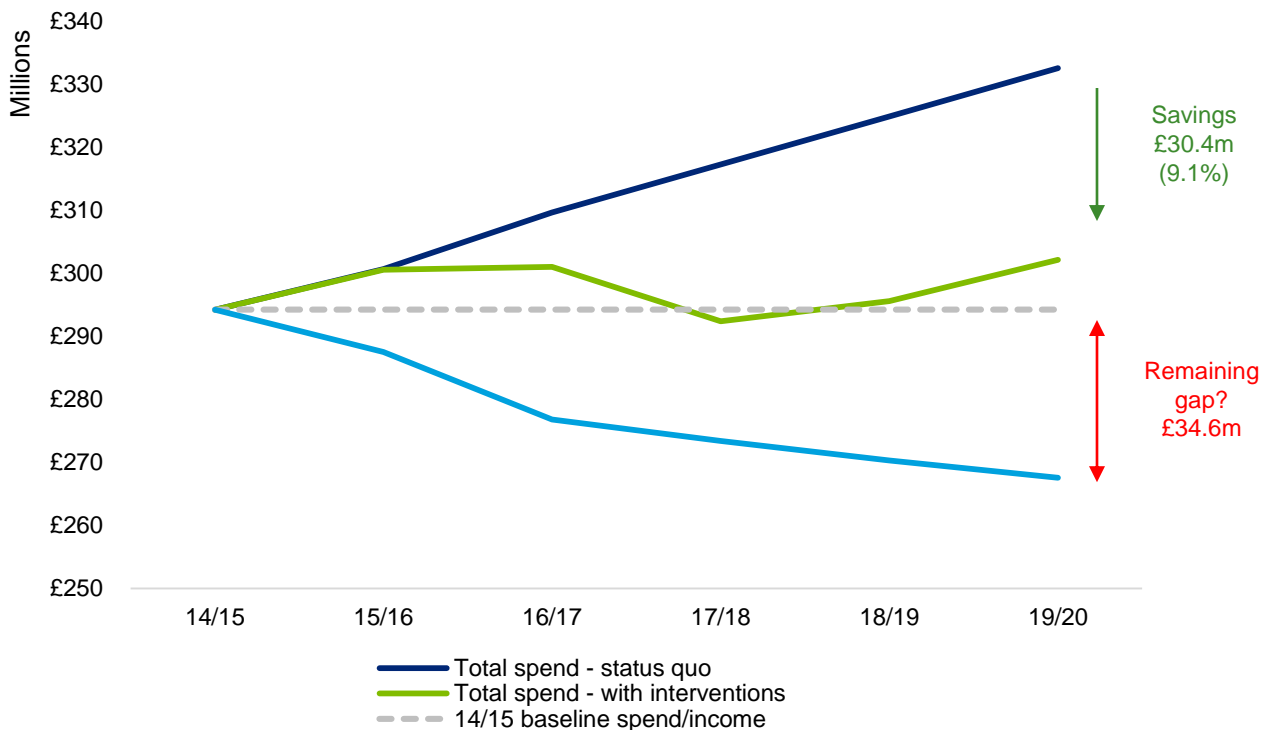
Insight

As both the health and local government sectors continue to be under huge financial pressure it is important that Councils use the integration of adult health and social care to make transformational changes.

Case Study – Early Intervention

Deloitte has been involved in work in England and carried out a case study on an organisation which had an early intervention programme and assisted living service within local communities due to go live in 2015/16. We estimated the benefits that might be possible from the programme, looking forward at the financial position on a “do nothing” baseline and then applying assumptions around reductions in activity based on best practice evidence available. We were then able to advise on the make up of the programme and make recommendations on the best approach to delivering the projects and on the governance structures and resourcing required to enable the programme to achieve its ambitions.

From this work we estimated that the programme could deliver £30m in cost avoidance as illustrated in the following diagram, which should at the same time improve outcomes.



Recommendation

We recommend that the Council consider applying a similar analysis to help identify how best to target its work on interventions and to deliver better outcomes from the new pooled budgets.

Welfare Reform

Management of Organisational Impact

The 2012 Welfare Reform Act brought fundamental changes to the UK Benefits System. With a phased introduction from 1 April 2013, the changes outlined within the Act, affected the majority of existing types of benefit resulting in a significant impact on a large percentage of people in receipt of benefits.

Housing benefits awards may be affected by Local Housing Allowance, the financial circumstances of applicants, any other benefits they receive and also the effects of the Spare Room Subsidy introduced in the aforementioned Act. It is therefore important that each case is calculated accurately based on all available information. Staff training and actively engaging with key stakeholders are key to assessing and managing the impact of, and risks associated with, these changes.

Universal credit was implemented on 23 May 2015 within Clackmannanshire and is currently only applicable to single adults with housing costs. In preparation for the implementation, the Council has been actively working with other bodies, including:

- regularly meeting with the Department for Work and Pensions (DWP), its two largest Registered Social Landlords and internal staff to raise awareness of issues around Universal credit and promote best practice;
- networking with other authorities who went live in earlier tranches to discuss common issues;
- Working with external consultants, Vanguard, to streamline the Council's processes and focus on early intervention when a customer presents with a debt issue.

The Council received funding from the DWP and Scottish Government to mitigate the impact of the social sector size criteria and it has awarded discretionary housing payments to all households affected. The Council is now working with the DWP to identify customers who will be further affected by the reduction in Benefit Cap to £20,000.

The Council is working with Scottish Government and CoSLA to promote the Scottish Welfare Fund and raise the profile of the fund regarding availability of crisis grants to alleviate debt pressures and its own Housing Options team to award community care grants to its vulnerable customers who move into a new tenancy. It is hoped that by doing this the Council is supporting its customers in sustaining their tenancy and reducing future bad debts to the Council.

On the basis of our review, we are satisfied that the Council has developed a clear understanding of the organisational impacts associated with welfare reform and has implemented appropriate mitigations.

Reducing the cost of welfare benefits continues to be a government focus. In the 8 July 2015 Budget Announcement, the Chancellor advised that a further £12 billion in savings to be made from welfare benefits had been identified, including:

- Freezing the uprating of working age benefits, tax credits and Local Housing Allowance for the next 4 years;
- Reduction in housing support benefits, and
- Capping of total benefits paid to a household at £20,000 (£23,000 in London).

As a result of this announcement and the inevitable changes to benefits administration that it will bring, maintaining an effective change management strategy and clear communication plan will remain key requirements of the Council's approach moving forward if the associated impact on financial sustainability and Council service delivery are to be managed.

We will continue to monitor the impact of the reform during the period of our appointment.

Shared Services

In our planning paper, we noted that we would review the key developments in relation to shared services, and specifically the decisions flowing from the shared services options appraisal currently being completed by Ernst & Young.

In June 2015, Ernst & Young provided the Council with a full business case for lead authority model for social care and education. This has explored three options:

1. As-is
2. Full Lead Authority Model
3. Revert back to Autonomous Services

Each option has been considered for economic assessment, qualitative benefits and risk assessment.

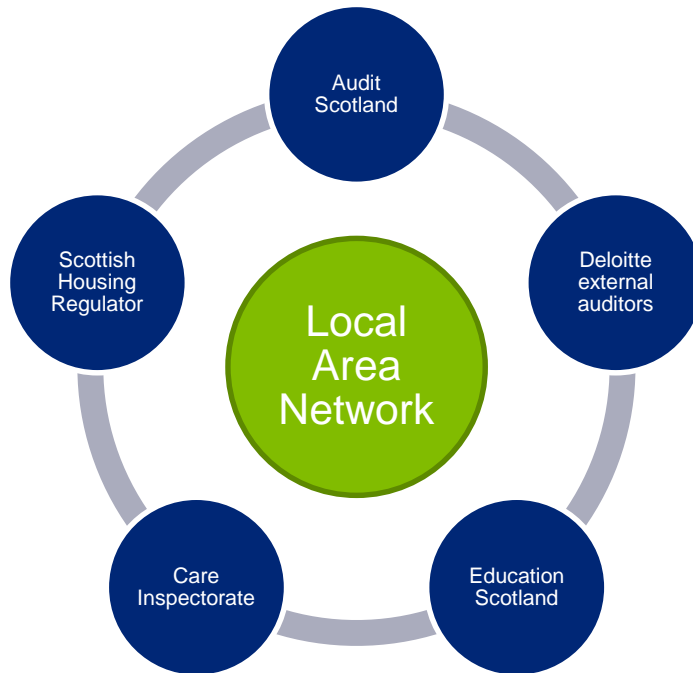
The report highlights that while the current single management team serving both Councils has delivered significant savings in excess of £1M per annum, greater market influence and improved practices, significant challenges remain with the current model. These include operational barriers with retained legacy systems, variations in staff pay between the two councils, governance and management capacity to support two separate workforces.

We are satisfied that the Council is examining these options in a robust manner and recognise the benefits and risks involved in moving to a full lead authority model which is the recommended direction of travel. It is important that the Council now moves at pace to agree next steps for further integration of shared services while fully recognising and managing the significant risks involved.

Local Area Network

Council's responsibilities

The Local Area Network (LAN) met in December 2014 to update the shared risk assessment, and met with the Chief Executive and two of her Senior Managers in February 2015. The Local Scrutiny Plan 2015/16 was published by Audit Scotland in March 2015 and was presented to the Full Council meeting on 18 June 2015.



Conclusions

No specific risks were identified in the shared risk assessment this year. However, the LAN identified a number of areas which form part of the on-going oversight and monitoring work carried out by scrutiny partners. This work includes the following issues:

- **Shared Education and Social Work Services** – the pace of progressing full shared education and social work services, including the outcome of an options appraisal commission by both Clackmannanshire and Stirling Councils around viability of full lead authority/ shared service approach. See page 28.
- **Making Clackmannanshire Better (MCB)** – progress made in implementing and evidencing visible benefits in the delivery of re-aligned council services through MCB will be monitored. See next page for further details.
- **Public Protection** – The G5 group, previously responsible for governance arrangements decided to place public protection within local community planning partnership structures. In December 2014, the Clackmannanshire and Stirling Public Protection Forum (CSPPF) was established to provide leadership and oversight of the governance arrangements for public protection. The LAN will look to monitor how the CSPPF governance arrangements progress.

Delivering Change and Financial Sustainability

As agreed with you last year, our current year best value work has included specific focus on the progress made in delivering change and financial sustainability across Clackmannanshire Council. As part of this work we have consulted with a wide cross-section of members, senior officers, heads of service, senior/ middle management and the trades unions. We have also reviewed relevant MCB papers prepared during the year, including output from the MCB Member Forum, the Administration Finance Group and budget strategy updates as well as considering leading practices applied elsewhere.

The key findings from this work are included in our separate report to you also dated 24 September 2015 “Best Value Report to the Resources and Audit Committee: Delivering Change and Financial Sustainability”.

We are concerned that the pace and scale of delivery from the programme is not yet sufficient to meet the Council’s stated objectives and to address the Council’s very significant short to medium term financial challenges. Amongst the observations that are detailed in our report we noted the following:

- Whilst officers have given the programme significant time and attention and have presented a lot of alternative scenarios and financial modelling options as well as leading practices from elsewhere, there seems to be limited traction in terms of engagement by the Council in agreeing on priorities and next steps and in tackling difficult decisions head-on.
- There is evidence of significant and difficult decisions being deferred by the Council for over a year. This includes decisions on schools estates strategy, leisure services and reviews of discretionary spending.
- There also does not yet appear to be political consensus around the current policy position on certain of the more difficult areas for decision and prioritisation.
- Based on our discussions there still appears to be a wide range of views within the Administration, with some members accepting that prioritisation and difficult decisions were inevitable whilst others were less persuaded that this was necessary and still see the use of reserves as the main solution to the medium term financial challenges.
- This lack of consensus, prioritisation and decision-making has resulted in a lack of feedback and direction for officers and, in our opinion, is starting to create an impasse and understandable frustration between the Council members and key officers.

Given the financial imperative and the limited progress made to date we believe that significant time and effort must be invested by the Council and its constituent groups in order to demonstrate clear leadership and responsibility and acceleration of the decision-making progress on medium-term policy matters and actions.

Unless significant progress is made in the rest of the 2015 calendar year we do not believe that the objectives of Making Clackmannanshire Better will be achieved.

National Fraud Initiative

Council's responsibilities

As part of the 2014/15 NFI exercise, local authorities were required to submit data in October 2014. Matches for investigation were then communicated to all at the start of 2015. All bodies should investigate the recommended matches plus further matches based on findings and the risk of error or fraud. Match investigation work should be largely completed by 30 September 2015 and the results recorded on the NFI system. Some investigations may continue beyond this date.

Auditor's responsibilities

We are required to monitor the Council's participation and progress during 2014/15 and into 2015/16 as part of our consideration of the arrangements for the prevention and detection of fraud. As part of this, two completed questionnaires have been submitted to Audit Scotland during the year reflecting the activity undertaken by Clackmannanshire following receipt of the matches for investigation.

Status

Council Tax to Electoral Register matches

- This NFI match is very simple in that it matches council tax records to the electoral register and identifies cases where single person discount (SPD) has been awarded when the electoral register indicates that another countable adult is living at the same address.
- Clackmannanshire Council is committed to the NFI exercise. The Council was one of the first to complete the investigation of matches during the 2012/13 exercise. The Council was also recognised in the Audit Scotland NFI Published Report as one of the highest outcomes results.

NFI Exercise 2014/15

- Clackmannanshire Council will transfer to the Single Fraud Investigation Service (SFIS) in November 2015. There has been combined internal audit and fraud team created to contribute to investigations of non-housing benefit or corporate frauds.
- All mandatory data sets were submitted on time and work is progressing well with current match investigations.

Conclusions

Overall, Clackmannanshire Council is fully engaged with the NFI exercise.

We have also offered management the opportunity to make use of our free Moneyback tool which is designed to supplement the work of NFI through applying advanced analytics to the creditors ledger focusing on the identification of duplicate invoices, untaken credits and other anomalies within the purchases ledger.

Governance and accountability

Governance and Transparency

Governance arrangements are operating effectively

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



We confirm that we have reviewed the arrangements in each of the four areas. Whilst there is evidence of governance, scrutiny and challenge, our best value work (as summarised on page 30) has identified a number of concerns regarding political decision-making and prioritisation.

We are comfortable with the fraud arrangements in place and confirm we have not been made aware of any financially significant frauds in the year.

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Scrutiny and Audit Committee our observations on the annual report. We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Deloitte response

Management Commentary

The 2014 Regulation introduced a requirement for the annual accounts to include a Management Commentary, which aligns the requirements to that of the Government Financial Reporting Manual and the Companies Act.

The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The council also focussed on the strategic planning context.

Remuneration Report

The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Councillors and Senior Employees of the Council.

Governance Statement

The Governance Statement reports that Clackmannanshire Council is in compliance with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable.

We have reviewed the systems in place to ensure that there is sufficient evidence available to the Chief Executive and Leader of Clackmannanshire Council to sign the Governance Statement.

The statement notes the Internal Audit Annual Report provides reasonable assurance as regards the effectiveness of the Council’s framework of governance, risk management and control in the year to 31 March 2015. This is consistent with our knowledge based on evidence collected in the course of the audit.

Governance and Transparency (continued)

Governance arrangements are operating effectively

Following the Public Pound

The statutory requirements to comply with the Following the Public Pound Code, in conjunction with the wider statutory duty to ensure Best Value, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them.

We have considered the appropriateness of the Council's arrangements to meet their obligations to comply with the Code and note the following:

- Consideration of the arrangements included within the Internal Audit plan. This was last reviewed in 2013/14 and was included in the plan for 2014/15. A robust control environment was identified during this review and as a result no findings have been reported and no further management action is required.
- As a follow-up to the national report Arm's length organisations: Are you getting it right?, we reported in June 2014 that appropriate governance arrangements are in place where elected members are nominated to and involved with external bodies. We made a number of recommendations which have all been addressed.

Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

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

Deloitte LLP

Deloitte LLP

Chartered Accountants

Edinburgh

16 September 2015

Appendices



Audit adjustments



Summary of uncorrected and corrected misstatements

Uncorrected misstatements

There were no uncorrected misstatements noted during the process of our audit work.

Corrected misstatements

There were three corrected misstatements noted during the process of our audit work as per below:

Adjustment	Credit/ (charge) to current year CIES £'000	(Increase)/ decrease in net assets £'000	(Increase)/ decrease in reserves £'000
Dr Property, Plant and Equipment Cr Revaluation reserve <i>Being the correction to the fixed assets revaluation calculation.</i>	- -	1,777 -	- 1,777
Dr Trade debtors Cr Trade creditors <i>Being the reclassification of debit balances in the trade creditors' listing.</i>	- -	60 (60)	- -
Dr Accruals Cr Expenditure <i>Being the correction of the over-accrual of social work expenditure.</i>	- (130)	130 -	- -
Total	(130)	1,913	1,783



Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. There were no disclosure misstatements noted in the course of our work.

Action Plan

Our recommendations for improvement

We present a summary of observations on the Council’s internal control and risk management processes

Area	Observation	Management response	Priority
<p>Accrued expenses</p>	<p>Invoices received after year-end of low value are not always reflected in the year-end accounts. We recommend that all post year end invoices relating to pre year end are accounted.</p>	<p>Current practice is to set a cut off date for the processing of accruals. If we are made aware of any invoices after this date they will be considered on a materiality basis and accrued if material. Entries processed through the first 2 periods of the new year are also checked and accrued if material. The audit sample taken was quite small and an amount was extrapolated based on this small sample. We will ask Internal Audit to examine an extended sample to assess the materiality and findings will be taken into account for the 2015/16 year end.</p> <p>Responsible Officer: Acting Chief Accountant Target Date: 30 June 2016</p>	
<p>Trade creditors</p>	<p>Our testing found instances of credit notes not being allocated against the corresponding credit balances which led to creditors being overpaid, and outstanding credit notes creating debit balances which the Council had to chase for repayment. We recommend credit notes are allocated as they are received to avoid creditors being overpaid.</p>	<p>Accepted. This has now been put in place for regular reviews.</p> <p>Responsible Officer: Acting Chief Accountant Target Date: now in place</p>	

Key:



High Priority





Medium Priority



Low Priority

Action Plan (continued)

Our recommendations for improvement (continued)

Area	Observation	Management response	Priority
Property, Plant and Equipment Revaluations	We recommend that the Council ensure there is an experienced internal contact who can manage and challenge the advice of externally sourced valuation.	Accepted. There are resource limitations to undertake this work internally, however, we are currently reviewing options to secure an independent resource that could support this task. Responsible Officer: Acting Chief Accountant Target Date: 30 June 2016	
Property, Plant and Equipment Revaluations	With regard to MEA considerations for land, we recommend that the valuer should, where possible, determine the land value reflecting an appropriate site size for a MEA facility and if possible determine a site value reflecting least cost to replace basis.	Accepted. We will ensure that future valuations consistently take this into account. Responsible Officer: Acting Chief Accountant Target Date: 30 June 2016	

Key:



High Priority



Medium Priority



Low Priority

Action Plan (continued)

Follow up of prior year actions

We have followed up the recommendations included in our 2013/14 annual report and summarised below the progress made against each of these. The more significant outstanding recommendations have been included again within our action plan on page 40.

Key Areas	Fully Implemented	Partially Implemented
Making Clackmannanshire Better – detailed benefits realisation planning		1
Clackmannanshire Council Sundry Trust Funds – appointment of independent trustee		1
Clackmannanshire Council Sundry Trust Funds – basis of preparation	1	
Criminal Justice Social Work Services – service level agreements		1
Some key reports not available to audit at year end date	1	
Difficulties obtaining information in relation to the reconciled Council Tax ledger	1	
Education Maintenance Allowance – archiving procedures	1	
Format and contents of financial statements	1	
ALEOs – disclosure within financial statements.	1	
Total	6	3
	67%	33%

Fraud responsibilities and representations

Responsibilities explained



Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations

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

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

Audit work performed

- In our planning we identified the risk of fraud in other income recognition and management override of controls as a key audit risk for the Council.
- During course of our audit, we have had discussions with management and those charged with governance.
- In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

Concerns

- As set out above we have identified the inherent risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Independence and fees

There are no issues we wish to raise to you



As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for the year has been agreed at £209,000 (inclusive of VAT and Audit Scotland fixed charged) and is within the indicative fee range set by Audit Scotland. Note that this includes £6,000 of fees recharged in relation to the charity audit work.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Board's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Future developments

Additional information on current and future technical developments

Transport infrastructure assets

The 2016/17 Code will adopt the measurement requirements of the Code of practice on transport infrastructure assets, and require highways to be measured on a Depreciated Replacement Cost basis.

CIPFA has issued **LAAP Bulletin 100: Project plan for implementation of the measurement requirements for transport infrastructure assets by 2016/17** and seeks to identify the key areas and milestones which bodies should take into consideration in developing their implementation plans.

It is essential that finance, asset management practitioners and engineering professionals work together to develop and action their project plan as soon as possible in order to achieve successful implementation, although it is likely that the finance professionals will take the lead on the accounting issues.

Councils should discuss their project plan with their external auditors and agree review timetable.

The Council should establish information collection arrangements to allow them to apply full retrospective restatement. This will require changes to the way these assets are recorded within the fixed asset register.

FRS 102 "The Financial Reporting Standard Applicable in the UK and Ireland" was published in March 2013 and replaces current UK GAAP. For periods beginning on or after 1 January 2015, charities will need to move to FRS 102.

A new Charities SORP will assist in interpretation of the new standard and a consultation draft was published July 2013 and the consultation closed on 4 November 2013. Early adoption of the SORP or FRS 102 will not be possible. The revised SORP is modular in approach and amongst other changes sets out a simplified SOFA, and place greater emphasis on the disclosures relating to risk management and going concern in the trustees report. Further details can be found in the charities alert July 2013.

www.deloitte.co.uk/charitiesandnotforprofit