

Falkirk Council

Report to those charged with governance on the 2012/13 audit



Prepared for Falkirk Council
September 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Audit Committee's consideration of the matters arising from the audit of the financial statements for 2012/13 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management, however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Falkirk Council and no responsibility to any third party is accepted.

Status of the Audit

3. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in matters arising schedules issued to the Depute Chief Finance Officer on a regular basis during the audit. The more significant issues arising were discussed with the Chief Finance Officer at a meeting on 13 September 2013.
4. We received the unaudited financial statements on 28 June 2013, in accordance with the agreed timetable. A comprehensive working papers package was available soon after this date. In 2013/14 we will work with officers to ensure that there is a process in place to provide audit with a complete working papers package on the date the unaudited financial statements are received. The working papers package for 2012/13 was of a good standard and finance staff dealt with audit queries promptly thereby enabling us to complete our on-site fieldwork by 6 September 2013.

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 25 March 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Fraud

7. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Audit Committee we seek confirmation from those charged with governance of any instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Audit opinion & representations

8. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 23 September 2013 (the proposed report is attached at [Appendix A](#)). There are no anticipated modifications to the audit report.
9. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
10. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements.
11. In addition, a number of monetary errors were identified which were not processed through the financial statements by management. If adjusted these would have a net effect of decreasing the excess of expenditure over income for the year shown in the comprehensive income and expenditure statement by £0.283 million. The net impact on the balance sheet would be that net assets would increase by £0.283 million. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management explained that these adjustments were not material to the financial statements. The effect of this unadjusted error is detailed in Appendix C.
12. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix B](#). This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Accounting and internal control systems

13. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Significant findings from the audit

14. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
15. **Equal pay provision:** The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay and are dissatisfied with the council's proposed resolution or compensation can elect to have a case heard before an employment tribunal. Falkirk Council has received a significant number of claims for compensation. The ultimate cost to the council remains uncertain despite recent developments in case law and it is likely that the issue will take some time to resolve. As the tribunal process unfolds the extent of the council's eventual liability will become clearer.

Resolution: The equal pay provision will be reviewed on an annual basis and take account of any legal developments.

16. **Council house valuations:** The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) states that the fair value of council dwellings shall be measured using the existing use value-social housing (EUV-SH) method of valuation. The council has been using a discounted cash flow approach to the valuation of its housing stock since 1 April 2010 which results in a significantly lower valuation. This is a recurring issue which will not be resolved for a number of years.

Resolution: The council will revise its method of housing stock valuation to align with the Code at the next due valuation in 2015/16.

17. **Non-depreciation of council house dwellings:** The council has not charged depreciation on its council housing stock on the grounds that the amount involved would not be material. In the current year we asked management to provide evidence supporting their assertion that depreciation was not material. In response, finance officers explained that as the residual value of council houses was equal to their carrying value no depreciation was chargeable. Management also consulted with specialist staff in the District Valuer's Office to confirm that this was a valid approach.

Resolution: The District Valuer's Office confirmed that council housing stock does not require to be depreciated. This is on the basis that housing assets are continually being maintained. The assumption is therefore that the value of the units should not be reducing, and accordingly the residual value of the housing stock, given the major capital investment in the stock over the life of the assets, does not require to be depreciated. On this basis I am satisfied with the council's accounting treatment.

- 18. Movement in pension liability:** The net pension liability has increased by £8.443 million since last year due to the accrual of pension liabilities in accordance with International Accounting Standard 19 (Employee Benefits). This is a significant amount in the accounts which requires the specialist knowledge of an actuary to verify. In terms of ISA620 (Using the Work of an Expert) I am able to rely on the work of an expert provided that I am satisfied that:
- the expert was suitably competent and objective
 - there was sufficient appropriate evidence that the scope of the expert's work at Falkirk Council was adequate for the purposes of our audit.

Resolution: Having considered the work of the actuary in relation to the IAS19 valuation, I am satisfied that this work provides appropriate evidence for retirement benefits recognised in the accounts of Falkirk Council.

- 19. Going Concern:** The group balance sheet as at 31 March 2013 discloses an excess of liabilities over assets of £195 million (2011/12 £119 million) due to the accrual of pension liabilities in accordance with International Accounting Standard 19 (Employee Benefits). The group net worth reflects both the IAS 19 liability for the council and the unfunded pension schemes in its associate bodies, Central Scotland Joint Police Board and Central Scotland Fire & Rescue Joint Board. The council and its group have adopted a 'going concern' basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's rate to meet the funds' commitments.

Resolution: This issue was resolved at 1 April 2013 when the police and fire functions were transferred to the Scottish Police Authority (SPA) and the Scottish Fire and Rescue Service (SFRS). The new bodies and their associated net pension liabilities no longer form part of the council's group accounts.

- 20. Provision for landfill site restoration and aftercare costs:** The council owns Kinneil Kerse, an inactive landfill site. As a result it has responsibilities regarding the restoration and aftercare costs of the landfill site. To comply with accounting requirements, IAS 37 *Provisions, contingent liabilities and contingent assets*, the council should recognise these costs as a provision in its Balance Sheet. The council has not included a provision in the accounts for this liability and finance officers have taken the decision not to amend the accounts as the amount was considered immaterial. At 1 April 2012 the District Valuer placed a value of £1.773 million on the necessary works over the next 60 years. This amount should have been recognised as a provision in the accounts through a prior year adjustment. This is therefore reflected as an unadjusted error at Appendix C. As restoration and aftercare work is capital in nature the adjustment would have no impact on the council's general fund balance at the year end.

Resolution: The council will process a prior year adjustment in the 2013/14 accounts to recognise a provision for the restoration and aftercare costs of Kinneil Kerse landfill site in line with IAS 37.

- 21. Accounting for unspent revenue grants:** Where grant income is received but unspent at the year end and the council has confirmed its right to carry forward this funding, then this money

should be treated as part of the surplus for the year and form part of the earmarked general fund at the year end. In 2011/12, the council incorrectly treated unspent revenue grants to a value of £0.883 million as short term creditors. Finance officers have decided not to process a prior year adjustment on the basis that the amount is not material.

Resolution: The council has created a revenue grant earmarked fund and applied the correct accounting treatment to unspent revenue grants in 2012/13. A note has been included in the accounts to explain this change in treatment.

22. There are no outstanding matters which require to be followed-up.

Acknowledgements

23. We would like to express our thanks to the staff of Falkirk Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Falkirk Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Falkirk Council and its group for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Balance Sheets, Cash Flow Statements and Movement in Reserves Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-Domestic Rates Account, the Common Good Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code).

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My 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 me 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 Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If I become

aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the state of the affairs of the group and of the body as at 31 March 2013 and of the income and expenditure of the group and the body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my 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 I am required to report by exception

I am required to report to you if, in my 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
- I have not received all the information and explanations I require for my 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.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight FCA
Assistant Director, Audit Services
Audit Scotland
4th Floor, The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

23 September 2013

Appendix B: ISA 580 - Letter of Representation

Fiona Mitchell-Knight
Assistant Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
Nelson Mandela Place
Glasgow
G2 1BT

23 September 2013

Dear Fiona,

Falkirk Council

Annual Accounts 2012/13

1. This representation letter is provided in connection with your audit of the financial statements of Falkirk Council and its group for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Falkirk Council and its group as at 31 March 2013 and its income and expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Corporate Management Team and the Council, the following representations given to you in connection with your audit of Falkirk Council for the year ended 31 March 2013.

General

3. I acknowledge my responsibility and that of Falkirk Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Falkirk Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all council and other meetings.
4. The information given in the annual report to the financial statements, including the explanatory foreword and remuneration report, presents a balanced picture of Falkirk Council and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected

misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and in accordance with the requirements of Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Falkirk Council and its group for the year ended 31 March 2013.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. The Chief Officers have assessed the ability of the council and its group to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Remuneration Report

12. The remuneration report has been prepared in accordance with the requirements and includes all eligible remuneration for the disclosed council officers and elected members.
13. All exit packages agreed in 2012/13 and included in the accounts were notified to Falkirk Council Pension Fund to enable complete information to be provided to the actuaries for the IAS19 disclosures.

Events Subsequent to the Balance Sheet Date

14. There have been no material events since the date of the balance sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
15. Since the date of the balance sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

16. I acknowledge, as the officer with responsibility for the corporate governance arrangements that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
17. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2013, which require disclosure.

Fraud

18. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

19. The assets shown in the Balance Sheet at 31 March 2013 were owned by Falkirk Council, other than assets which have been purchased under lease. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Heritage Assets

20. With the exception of civic regalia assets heritage assets have not been subject to a valuation because it is considered that reliable cost or valuation information cannot be obtained or that the cost of obtaining such information would be disproportionate to the benefits to the users of the Council's financial statements.

Inventories

21. The Council's inventories have been valued at the lower of cost and estimated net realisable value, at average cost or at latest invoice price and all inventories are included in the financial statements. The use of average cost or at latest invoice price does not comply with the Code and this is disclosed in the Statement of Accounting Policies. The departure from the Code is not considered material.

Liabilities

22. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2013.

Employee Benefit Accrual

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

Carrying Value of Assets and Liabilities

24. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

25. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2013 and of which Falkirk Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2013.

Yours sincerely

Bryan Smail

Chief Finance Officer

Appendix C: Non-Adjusted Errors within the 2012/13 Financial Statements

Below is a summary of the non-adjusted error which has not been processed in the financial statements, with an explanation.

Narrative	DR £000	CR £000
Comprehensive Income and Expenditure Statement		
General fund Write off of inventories double counted in error		25
General fund Depreciation charge on an asset understated	13	13
General fund Under accrual of flexi time balance at the year end reversed out through general fund	115	115
General fund Impairment charged to comprehensive income and expenditure statement in error		258
Total	128	411
Net total	283	

Statement of Financial Position		
Inventories Write off of inventories double counted in error	25	
Capital adjustments account Provisions Provision for restoration of landfill site - created	1,773	1,773
Provisions Non-current assets (assets under construction) Provision for restoration of landfill site - amount utilised	251	251

Statement of Financial Position		
Capital adjustments account	13	
Non-current assets (land and buildings)		13
Depreciation charge on an asset understated		
Accumulated absences account	115	
Short term creditors		115
Under accrual of flexi time balance at the year end reversed out through general fund		
Revaluation reserve	129	
Capital adjustments account	129	
Impairment charged to comprehensive income and expenditure statement in error		
Cash	12	
Short term debtors		12
Income incorrectly coded to the pension fund		
Revaluation reserve	40	
Capital adjustments account		40
11/12 coding error carried forward		
Total	2,487	2,204
Net total		283