

# Falkirk Council

Report to those charged with governance on the 2008/09 audit

September 2009



 AUDIT SCOTLAND



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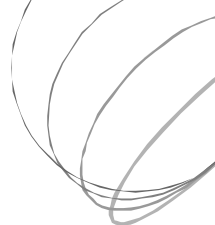
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# Key Issues

## Introduction

1. International Standard on Auditing 260 (ISA 260) requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in time to enable appropriate action.
2. ISA 260 requires us to highlight:
  - Relationships that may bear on our independence and the integrity and objectivity of the audit engagement lead and audit staff
  - the overall scope and approach to the audit, including any expected limitations, and the form of reports expected to be made
  - expected modifications to the audit report
  - management representations requested by us
  - unadjusted misstatements
  - material weaknesses in internal control identified during the audit
  - views about the qualitative aspects of accounting practices and financial reporting, including accounting policies
  - matters specifically required by other auditing standards to be communicated and any other matters that are relevant to the audit.
3. This report sets out for the Council's consideration the relevant matters arising from the audit of Falkirk Council financial statements for 2008/09 that require reporting under ISA 260. The contents should be brought to the attention of the Director of Finance, Chief Executive and Leader so that they can consider them before they sign the relevant pages of the financial statements. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. The report has been prepared for the use of Falkirk Council and no responsibility to any third party is accepted.



## **Status of the audit**

4. Our work on the financial statements is now complete and the matters identified during the audit have been discussed with the Director of Finance.

## **Matters to be reported to those charged with governance**

### **Conduct and scope of the audit**

5. Information on the integrity and objectivity of the audit engagement lead and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan submitted to management in February 2009 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.

### **Audit opinion & representations**

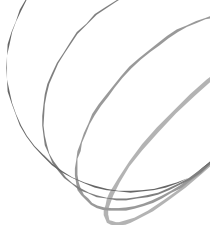
6. Our anticipated auditor's report (appendix A) is unqualified.
7. Several errors were identified during the audit, where if adjustments were made these would have a net effect of increasing by £0.335 million the deficit for the year shown in the income and expenditure account. The net impact on the general fund would have been a decrease of £0.313 million. These errors are immaterial to the accounts as a whole. Officers in finance propose not to adjust the accounts for these errors and we concur on this. The effect of these unadjusted errors are detailed in Appendix B.
8. We have received the formal representations from Director of Finance that we require for our audit.

### **Accounting and internal control systems**

9. 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 accounts.

### **Matters arising**

10. In our view, the following issues require to be brought to your attention regarding the appropriateness of the council's accounting policies or accounting estimates and judgements, the timing of transactions, the existence of any material unusual transactions or the potential effect on the financial statements of any uncertainties:

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11. **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. We have requested and received a specific representation from the Director of Finance that in his view this treatment is appropriate on the grounds that the impact of depreciation would not be material. We are satisfied that the approach adopted does not have a material impact on the accounts.

**Resolution:** No depreciation has been charged on council dwellings and we have accepted the Director of Finance's representation that depreciation of these assets is not material in 2008/09.

12. **Equal pay compensation costs:** We have requested and received a specific representation from the Director of Finance that actual and potential claims in relation to equal pay legislation have been reviewed and the amount recognised as a provision (£5 million) is the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date. While there remain uncertainties over the actual costs that will be incurred to settle these cases, we are satisfied that this is a reasonable approach.

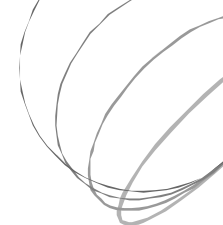
**Resolution:** Provision has been made in the accounts and the Director of Finance has provided management representation that this is the best estimate of the likely liability.

13. **Future pension commutations:** The Local Government Pension Scheme (Scotland) Amendment (No.2) Regulations 2006 amended the Local Government Pension Scheme (LGPS) rules which govern the amount of pension that can be taken as a lump sum. The effect of the commutation is likely to result in a saving to the LGPS because the reduced pension plus the additional lump sum is expected to be less than the value of the standard LGPS benefits. As it is not expected to be actuarially neutral, there is an impact on costs and liabilities under FRS 17 *Retirement benefits* for accounting purposes. The extent of this impact is uncertain.

14. Actuaries have made an assumption about the likely take up of commutation for FRS 17 cost calculation purposes in 2008/09. The actuary of Falkirk Council assumed a take up rate of 50%, an increase from the 2007/08 assumption of 25%.

15. Experience of take up since the introduction of the regulations has been around 67%. We understand that the actuary has advised that the period since the introduction of the regulations has not been sufficient to draw conclusions about the take up of commutations.

**Resolution:** we have accepted that the period since the introduction of the regulations has not been sufficient to draw conclusions about the take up of commutations. We intend to monitor the steps taken by the council to keep the assumption under review.



16. **Group Accounts:** Proper accounting practice requires local authorities to make a charge to the income and expenditure account for pension costs based on FRS 17 Retirement Benefits. The Local Government Pension Reserve Fund (Scotland) Regulations 2003 (the 2003 Regulations) provide the statutory basis for local authorities to remove the FRS 17-based costs from being a charge to the general fund so that only the actual pension payments are charged to that fund. However, the 2003 Regulations do not currently apply to the new pension schemes established with effect from 6 April 2006 by The Police Pensions (Scotland) Regulations 2007 and the Firefighters' Pension Scheme (Scotland) Order 2007. Although the Scottish Government intends to amend the regulations to include these new schemes, there is no statutory basis for removing the FRS 17 based costs from the general funds of Police and Fire and Rescue authorities in respect of these new schemes.
17. The council has adjusted its group accounts to reinstate FRS 17 costs amounting to £0.16 million in 2008/09 and £0.10 million in respect of previous years for the fire and rescue general fund. However, it has not reinstated FRS 17 costs amounting to £0.47 million in 2008/09 and £0.31 million in respect of previous years for the police general fund on the basis that the amount is not material to the financial position. This has resulted in the balance on the group's general fund as at 31 March 2009 being overstated by £0.78 million, with a corresponding understatement of the Pension Reserve.

**Resolution:** We note the decision not to adjust the financial statements and concur that the amounts involved are not material to the financial position of the council and its group.

## Acknowledgements

18. 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 Accounts which has enabled the appointed auditor to certify the Accounts by the Controller of Audit's target date.



September 2009



# 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 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the Housing Revenue Account Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, Common Good Funds account, Pension Fund Accounts and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 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 Director of Finance and auditor**

The Director of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

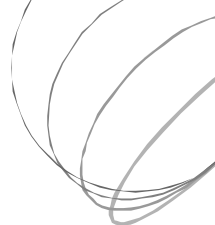
I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Falkirk Council and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Annual Governance Statement reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Introduction to the Accounts and the Foreword by the Director of Finance. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.





## **Basis of audit opinion**

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Falkirk Council and its group's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Falkirk Council and its group as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Mark Taylor CPFA, Assistant Director  
Audit Scotland – Audit Services  
Osborne House, 1/5 Osborne Terrace  
Edinburgh, EH12 5HG

30 September 2009

# Appendix B

## Non-Adjusted Errors within the 2008/09 Annual Accounts

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

Narrative	General Fund/ I&E		Balance Sheet	
	Dr	Cr	Dr	Cr
	£000	£000	£000	£000
Net Cost of Services Creditors <i>Under accrual in respect of 2008/09 payroll costs.</i>	405			405
Creditors Capital Receipts Reserve <i>Developer contribution not recognised as receipt.</i>			90	90
Net Cost of Services Fixed Assets <i>Revenue expenditure erroneously treated as capital expenditure.</i>	6			6
Fixed Assets Deferred Government Grants Reserve <i>Buy back of property netted against Deferred Government Grants Reserve in error.</i>			167	167
Net Cost of Services (Community Services) Revaluation reserve General fund (SMGFB) Capital adjustment account <i>Asset impairment charged against Revaluation Reserve instead of being charged to revenue and offset through SMGFB.</i>	22	22	22	22
Interest receivable Debtors <i>Dividend income due not accrued in Falkirk Council financial statements</i>		98	98	
<b>Totals</b>	<b>433</b>	<b>120</b>	<b>377</b>	<b>690</b>
<b>Net Total</b>	<b>313</b>			<b>313</b>

It can be seen that the net effect of the above transactions would be to:

- reduce the general fund balance carried forward by £313,000;
- decrease the net worth shown in the balance sheet by £313,000.