

Renfrewshire Council

2018/19 Report to those charged with governance



 **AUDIT SCOTLAND**

Prepared for the Members of Renfrewshire Council and the Controller of Audit
26 September 2019

Audit of 2018/19 annual accounts

The Council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Independent auditor's report

1. Our audit work on the 2018/19 annual accounts is at an advanced stage. Subject to the satisfactory conclusion of the outstanding matters referred to below (see paragraph 10) and receipt of a revised set of annual accounts for final review, we anticipate being able to issue an unqualified but modified audit opinion in the independent auditor's report (see significant issue 1). For the reasons outlined in more detail at paragraphs 2 to 7 below, we will not be in a position to issue our audit opinions by the statutory deadline of 30 September 2019.

Submission of the Council and its group annual accounts for audit

2. The unaudited annual accounts were approved by the Council in June 2019 and then passed to Audit Scotland on 27 June 2019 in line with the agreed audit timetable set out in our 2018/19 Annual Audit Plan. During the audit process we have identified a number of issues that required adjustments to be made to the financial statements. We have been working with finance officers within the Council to ensure any corrections or presentational changes agreed over the course of the audit process are reflected within revised working papers, and also within the Annual Accounts document itself.

3. Under the Council scheme of delegation, the Council has responsibility for approving the audited annual accounts, taking into account any recommendation from the Audit, Risk and Scrutiny Board in terms of this approval. For the 2018/19 audit, securing this recommendation has not been possible as outlined in the paper submitted by the Director of Finance and Resources.

4. It has been recommended in the paper by the Director of Finance and Resources that the Council agree to delegate authority to the Director of Finance & Resources, in consultation with the Convener of the Finance, Resources and Customer Services Policy Board, to agree any further immaterial adjustments to the annual accounts to satisfy audit requirements.

Annual audit report

5. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance in sufficient time to enable appropriate action. Our significant findings relating to audit work completed to date are included in Exhibit 1.

6. The Renfrewshire Council audited Annual Accounts for 2018/19 were scheduled to be considered by the Audit, Risk and Scrutiny Board on 23 September 2019, together with our Annual Audit Report which sets out the issues identified in respect of the annual accounts and the conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice. Due to the delays referred to above the report is not yet finalised.

7. Our Annual Audit Report (as opposed to the Report to those charged with governance) will be available for full consideration at the next Audit, Risk and Scrutiny Board meeting in November 2019. The Annual Audit Report will provide further detail in respect of the issues encountered in finalising the audited annual accounts.

Fraud, subsequent events and compliance with laws and regulations

8. In presenting this report to the Council we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

9. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made. This letter of representation should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

Outstanding audit work

10. The key elements of audit work outstanding as at 24 September 2019 are:

- Audit review to ensure all expected adjustments have been included throughout the revised financial statements provided by the Council on 16 September;
- Completion of substantive audit testing in respect of the revised financial statements provided by the Council on 16 September 2019;
- Receipt and assessment of component auditor assurances for Renfrewshire Leisure Limited;
- Final review by Audit Director of the completed work and revised financial statements; and
- Peer review of the proposed modification to the audit opinion.

Audit opinions on section 106 charities

11. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Renfrewshire Council are sole trustees, irrespective of the size of the charity.

12. The Council has made progress in reducing the number of charitable trusts where it is the sole trustee. Renfrew Burgh, Paisley Burgh and Renfrewshire Council Citizens Funds were fully wound up as at 28 March 2018 as agreed by the Office of the Scottish Charity Regulator (OSCR). There is one remaining trust fund, Coats' Observatory Trust.

13. The Common Good Funds continue to make grants available to local organisations through grant making process and will continue to fund recurring commitments. The Council will also continue to review the funding provided by the Common Good Funds to ensure it remains appropriate and in line with the objectives of the Funds and to the benefit of the inhabitants of the relevant Burghs.

14. We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's reports that:

- the financial statements give a true and fair view the section 106 charity's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

15. These were considered by the Audit, Risk and Scrutiny Board on 23 September and are included as a separate paper for Council approval.

Whole of Government Accounts

16. The deadline to submit the Whole of Government Accounts (WGA) consolidation pack for the 2018/19 unaudited accounts was 27 July 2019. The Council submitted the return to external audit on 8 September 2019. The audit of the WGA consolidation pack is ongoing.

Materiality

17. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

18. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

19. On receipt of the unaudited annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate. We subsequently revisited our planning materiality following receipt of the revised accounts on 16 September 2019. We concluded that our planned levels of materiality remain appropriate despite the adjustments made to the accounts outlined in Exhibit 2 below.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£7.539 million
Performance materiality	£3.770 million
Reporting threshold	£0.188 million

Source: Audit Scotland, Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260

20. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

21. The significant findings are summarised in [Exhibit 2](#).

Subjective aspects of the audit

22. We have no significant findings to report around the subjective aspects (e.g. accounting policies, accounting estimates/judgements, significant financial statements disclosures, impact of uncertainties etc) of the 2018/19 accounting practices.

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Trade receivables and trade payables</p> <p>We noted that balances within the financial ledger in respect of trade receivables and trade payables were not properly reflected within the accounts presented for audit. Journals continued to be posted to the ledger, after the accounts had been provided to us at the end of June 2019. This resulted in a difference between the accounts presented for audit and the ledger. This also resulted in the working papers to support the accounts not reflecting the financial ledger position.</p> <p>Officers provided a revised set of accounts and updated working papers on 16 September to reflect the adjustments that had been processed through the ledger and to reflect additional adjustments requested as part of the audit.</p>	<p>Audit work is ongoing to complete the review of the required adjustments to the annual accounts.</p>
<p>2. Restructure of trading operations</p> <p>The Council has changed the disclosure / accounting treatment for trading operations in 2018/19. In prior years trading operations were presented in a separate note to the accounts and the net surplus/deficit for the year was reflected within the Comprehensive Income and Expenditure Statement (CIES).</p> <p>For 2018/19 the note is no longer disclosed. The Council correctly reflected the gross figures within the CIES. However as this was a material change in accounting treatment the 2017/18 comparative figures should have been restated to reflect this change. Additional disclosure notes to explain the change in accounting treatment should be provided</p>	<p>The financial statements have been updated to reflect the recommended change.</p>
<p>3. Removal of Internal recharges</p> <p>To comply with a change in the 2018/19 guidance internal transactions cannot be included in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>Our audit highlighted that the presentation within the CIES was inconsistent with the LASAAC advisory note. The removal of internal recharges should be applied directly to relevant service. The unaudited accounts disclosed this as an adjusting item as a single line after the cost of services within the CIES.</p>	<p>The financial statements have been updated to reflect the recommended change.</p>

Issue	Resolution
Additional disclosure notes to explain the change in accounting treatment should be provided	
<p>4. Comprehensive income and Expenditure Statement (CIES)</p> <p>The format of the CIES within the unaudited accounts had been updated in the 2018/19 accounts with the incorrect removal of the gross expenditure and income figures from the 2017/18 comparative column.</p>	<p>The financial statements have been updated to reflect the recommended change.</p>
<p>5. Non Domestic Rates (NDR)</p> <p>We noted that the council recognised debtor and creditor balances in relation to the collection of NDR in its unaudited accounts.</p> <p>The council acts as an agent of the Scottish Government in NDR transactions. While it is necessary for the council to maintain records relating to the collection of NDR, only amounts due to or from the NDR rate pool should be recognised in the annual accounts.</p> <p>To apply the correct accounting treatment an adjustment has been required to decrease debtors by £5.194 million with a corresponding increase in creditors.</p> <p>The 2017/18 figures have also been restated to show a decrease in debtors of £2.083 million with a corresponding increase in creditors.</p>	<p>The financial statements have been updated to reflect the recommended change.</p>
Source: Audit Scotland	

How we evaluate misstatements

23. It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. In discussions with officers we anticipate that all misstatements will be corrected within the revised set of accounts.

Amendments to the accounts arising from legal and other judgements made after the accounts had been submitted for audit

24. Legal cases were brought against the government regarding the transition arrangements made in each of the pensions schemes for judges and firefighters. These arrangements came into effect as part of the move from a Final Salary Pension Scheme to a Career Average Pension Scheme in 2015 and included certain protections for active members of the schemes. The claimants successfully argued, in the resultant Employment Tribunal hearing, that some elements of the protection measures were unlawful on the grounds of age discrimination. The Employment Tribunal's ruling on this matter was upheld by the Supreme Court in June 2019. As this would have an impact on the transition arrangements of all government backed pension schemes, the council instructed the actuary to the Strathclyde Pension Fund to quantify the impact on the council's pension fund liability.

25. The actuary estimated that the impact from this case is to increase the councils' pension fund liability by £14.459 million. This also results in a £14.459 million

increase in the pension cost charge incorporated within the Comprehensive Income and Expenditure Statement in the accounts. As these adjustments are fully mitigated by a statutory adjustment, they have no impact on the general fund reserve balance in the unaudited accounts.

Other findings

26. Our audit identified several presentational and disclosure issues which were discussed with management. This included the need to disclose more information regarding the restatement of prior year group accounts figures. These were adjusted and reflected in the audited annual accounts. This is normal audit practice and none of the presentational changes have any impact on the council's outturn for the year.

Objections

27. The Local Authority Accounts (Scotland) Regulations 2014 required the Council to give public notice for inspection and objection of the 2018/19 unaudited annual report and accounts by 17 June 2019. The public notice was published on the Council website on 26 June 2019 and in a newspaper on 28 June 2019, meaning the Council did not comply with the regulations.

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