



East Ayrshire Council  
Report to the Governance and Scrutiny Committee and the Controller of  
Audit on the 2017/18 audit

# Contents

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## 01 Our final report

Introduction	3
Our audit explained	7
<i>Financial statements audit</i>	8
Significant risks	9
Other matters	13
Other significant findings	15
Our audit report	17
Your annual accounts	18
<i>Audit dimensions</i>	20
Overview	21
Financial sustainability	23
Financial management	29
Governance and transparency	33
Value for money	37
Sharing best practice	41
Wider scope audit work	44

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## 02 Technical update

New standards for 2018/19 Code	47
IFRS 16 – Leases	48

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## 03 Appendices

Purpose of our report and responsibility statement	50
Audit adjustments	51
Action plan	52
Fraud responsibilities and representations	54
Independence and fees	55
Events and publications	56

# Introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have 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.

I have pleasure in presenting our final report to the Governance and Scrutiny Committee for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the [financial statements](#); and
- Consideration of the [four audit dimensions](#) that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of Best Value and the five Strategic Audit Priorities agreed by the Accounts Commission.



# Introduction (continued)

## The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

### Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
  - recognition of grant income;
  - management override of controls; and
  - valuation of property assets.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- We identified a small number of audit adjustments from our procedures which have been corrected by management. These included two material adjustments in relation to the pension asset and liabilities as a result of amendments made by the actuary within the final Actuarial Report. The adjustments originated from the initial IAS actuarial report and arose as a result of changes in the market value of **investments and an error in the actuary's calculation of the Council's liability.**
- The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the council.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we have issued an unmodified audit opinion.
- We have performed a separate audit of the charitable trusts within the Council and have issued unmodified audit opinions.

### Insights

- We have utilised Spotlight, **Deloitte's** patented analytics tool, to perform analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from this testing.
- We have raised insights relating to the valuation of property assets which have been identified throughout the course of the audit and are detailed on page 15.

### Status of the audit

The audit is complete.

# Introduction (continued)

## The key messages in this report – audit dimensions

The following two pages set out the key messages of this paper in relation to the four audit dimensions:

### Financial sustainability

Each of the service lines within the Council ended the year under budget with the exception of Health and Social Care which saw an over spend of £2.220m due to an increased requirement to procure external placements for children resulting in the Council providing additional **funding to the Health and Social Care Partnership**. **The Council's un-**earmarked General Fund reserve as at 31 March 2018 was £13.205m, approximately 4% of net revenue expenditure, after £1.5m was used to balance the 2017/18 budget in accordance with approved budget.

The Council achieved significant savings with its first Transformation Strategy (2012-2017). It has recognised that if it continues with current service levels and delivery models, there would be a funding gap over the next 5 years. The new Transformation Strategy (2018-2022), which is aligned to the Community Plan and Single Outcome Agreement, will require the council to make major changes to the way it provides services. Details of such transformative activity were approved by the Council in June 2018. The council is working with councillors, staff and communities to help develop detailed plans. The Head of Finance and ICT will lead on transformation and a dedicated Transformation Team has been appointed to implement the new strategies.

At 31 March 2018, the <b>Council's</b> General Fund Uncommitted balance was £13.205m, which is at the higher end of the best practice threshold.	A balanced budget for 2018/19 was approved in February 2018 stating that there will be no draw on the Uncommitted Revenue balance to support recurrent expenditure.	The council achieved £34 million of savings during the period 2012-2017 by reducing costs across a number of areas at the same time as seeking to improve the delivery of services.	<b>The council's</b> Medium/ Long term plan estimates a funding gap of between £23 million and £53 million by 2021/22 with the mid line assessment at approximately £32 million.	A one-year budget has been set for 2018/19 with all services required to deliver recurring efficiency savings totalling £3.503m which equates to 2.16% in line with the objectives of the Transformation Strategy.
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### Financial management

The council has effective financial planning and management arrangements in place.

It prepares medium and long-term financial plans and senior management and councillors regularly review progress. Financial plans are linked to priorities and other strategic developments. Councillors challenge management where performance departs from plans. Progress is **discussed at Cabinet and at the Governance and Scrutiny Committee and there are regular presentations at members' seminars on both finances and wider developments**. **The council's spending is clearly linked to its priorities but it could improve how it demonstrates the impact that spending makes to these areas.**

# Introduction (continued)

## The key messages in this report – audit dimensions (continued)

### Governance and transparency

The council and its partners have a clear and shared vision which is set out in the East Ayrshire Community Planning Partnership's (CPP) Community Plan. The CPP has a good understanding of the challenges facing East Ayrshire and is focussing on three priority areas: economy and skills, safer communities and wellbeing.

The council has strong executive leadership. The relationship between councillors and officers is good, and there is evidence of effective challenge from councillors.

The council is open **and transparent in its decision making with all minutes available through the council's website.** The council also encourages people to get involved in decisions about council services and spending public money.

### Value for Money

The Council has a well-established Performance Management Strategy. The Community Planning Partners (CPP) have recently produced the Local Outcomes Improvement Plan (LOIP), which replaced the Single Outcome Agreement. The LOIP provides the strategic direction for the CPP partners and its priorities are reflected in the plans of the individual organisations.

The council and its partners report improvement in more than two-thirds of the indicators they use to monitor performance against their **priorities. Compared to other councils, the council's overall performance has improved in recent years, and the majority of residents** are satisfied with council services. The council and its partners can show where their actions have improved performance. Challenges remain in some areas, including employment and planning, but the implementation of the Transformation Strategy approved by Elected Members in February 2018 looks to address these issues.

The Best Value Assurance Report was published by the Accounts Commission in May 2018. This reported that the Council has maintained the strong performance that was reported in the previous Best Value reports in 2006 and 2010. Such performance has been achieved against substantial socio-economic challenges in East Ayrshire. It is based on a record of effective community planning and partnership working, underlined by a genuine commitment by partners to work and empower local communities. The report highlighted that the Council faces a substantial budget gap which will test this record. Recommendations were made within the report for the Council to take forward around transformation, workforce planning and its relationship with the IJB. In response to the report and the five recommendations made within it, the Council developed an Improvement Plan which was approved by the Council at its meeting in June **2018. In addition, a separate detailed report on the Council's Transformation Strategy was presented to the Council setting** out a number of proposals. We will monitor the progress of the Improvement Plan and measure performance against established milestones.

# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 10 provides a summary of our risk assessment of your significant risks.

## Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

## Key developments in your business

As noted in our planning report, the council continues to face significant financial challenges due to an increase in costs whilst facing increased demand for services. The integration of health and social care continues to be a challenge.

## Materiality

The group materiality of £8.4m and performance materiality of £6.3m has been based on the benchmark of gross expenditure and is a slight increase from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £0.25m.

## Scope of the audit

We have audited the financial statements for the year ended 31 March 2018 of East Ayrshire Council group. We have also audited the separate financial statements of the Council's charitable trusts.



## Timeline 2017/18

November 2017 – February 2018  
Meetings with management and other staff to update understanding of the processes and controls.

March 2018  
Presented planning paper to the Governance and Scrutiny Committee

July – August 2018  
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

March 2018  
Year end

11 September 2018  
Audit close meeting

27 September 2018  
Governance and Scrutiny Committee meeting

27 September 2018  
Accounts sign off

## Quality and Independence

We confirm we are independent of East Ayrshire Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

# Financial statements audit



# Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Recognition of grant income			D+I	Satisfactory		Satisfactory	10
Management Override of Controls			D+I	Satisfactory		Satisfactory	11
Valuation of property assets			D+I	Satisfactory		See insights	12

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

# Significant risks (continued)

## Risk 1 - Recognition of grant income

### Risk identified

International Standards on Auditing (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.

Key components of income for the council, as summarised in the table below, are the Government Grant and non-domestic 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%.

The significant risk is pinpointed to the recognition of grant income (excluding General Revenue Grant income). Council tax, non-domestic rates and housing rent income are set through the annual budget process with no management judgement and therefore have a low risk of fraud. Similarly, other Service Income includes fees and charges across all Services, which are set through formal approval processes, with no history of fraud or error.



### Key judgements and our challenge of them

There is significant management judgement around determining if there are any conditions attached to a grant and if so whether the conditions have been met. The complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.



### Deloitte response

We have performed the following:

- assessed **management's** controls around recognition of grant income; and
- tested a sample of capital grants and contributions and grant income credited to Service Income and confirmed these have been recognised in accordance with any conditions applicable.

Type of income	2017/18 (€m)	Significant risk
<u>Taxation and Non-Specific Grant Income</u>		
Council tax income	46.0	
Non domestic rates	29.4	
Government Grant	190.9	
Capital grants and contributions	14.7	✓
<u>Service Income</u>		
Service Specific Grant income	28.0	✓
Housing Benefit Subsidy	40.7	
Housing Revenue Account	45.2	
IJB commission income (book entry)	106.2	
Other Service Income	48.4	

### Deloitte view

We have concluded that grant income has been correctly recognised in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting.

# Significant risks (continued)

## Risk 2 - Management override of controls



### Risk identified

In accordance with ISA 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the **council's** controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of grant income and valuation of property assets. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.

### Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- Testing of journal entries made in the year have not indicated any instances of fraud or error in the year.

### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the **council's** results throughout the year were projecting to stay within budget and this was closely monitored with confidence that the council would be able to meet its overall financial targets.
- senior **management's remuneration is** not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Significant transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

### Journals

We have made inquiries of individuals involved in the financial reporting process regarding whether they were aware of any unusual activity relating to the processing of journal entries and other adjustments.

We performed design and implementation testing of the controls in place for journal approval. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. We did not identify any issues with journal postings from our testing.

### Accounting estimates

In addition to our work on key accounting estimates discussed above, our **retrospective review of management's significant estimates reflected in last year's** financial statements has been completed with no issues noted.

# Significant risks (continued)

## Risk 3 - Valuation of property assets

### Risk identified

The council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.



### Key judgements and our challenge of them

The council held £886.5m of property assets at 31 March 2018. The financial year to 31 March 2018 represented the final year of the 5 year rolling programme in which 20% of the portfolio was revalued along with a subset of council dwellings added in the year.



### Deloitte response

- We **assessed management's controls around the valuation of property assets**;
- We reviewed the 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 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 material changes in assets not subject to full revaluation during the year;
- We considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS; and
- We involved the use of our internal property specialists to review and **challenge the assumptions and methodology adopted by the council's** internal valuation specialists, including sample testing of inputs to the valuation.

#### Deloitte view

We have concluded that the NBV is not materially misstated. The **council's valuation** assumptions are in line with other councils and fall within the expected range highlighted by Deloitte Real Estate. We have raised recommendations in relation to the valuation process and methodologies used, see page 15.

# Other matters

## Defined benefits pension scheme

### Background

The council participates in two defined benefits schemes:

- Scottish **Teachers'** Superannuation Scheme, administered by the Scottish Government; and
- The Strathclyde Pension Scheme, administered by Glasgow City Council.

The net pension liability has decreased from £260.0m in 2016/17 to £118.0m in 2017/18 as a result of a reduction in both the rate of increase in salaries and expected return and fair value of pension assets.



### Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown in the table opposite using the help of our internal pensions specialists;
- We assessed the reasonableness of the **council's** share of the total assets of the scheme with the Pension Fund financial statements;
- We reviewed the disclosures within the accounts against the Code; and
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.70	2.57	Reasonable, slightly optimistic
Retail Price Index (RPI) Inflation rate (% p.a.)	3.40	3.05	Prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.40	2.05	Prudent
Salary increase (% p.a.) (over RPI inflation)	0.20	Council specific	Reasonable
Pension increase in payment (% p.a.)	2.40	2.05	Reasonable, slightly prudent
Pension increase in deferment (% p.a.)	2.40	2.05	Reasonable, slightly prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.40	22.10	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.40	23.60	Reasonable

### Deloitte view

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the reasonable range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19 (Actuary Report).

Our testing has identified two errors in the actuary reports to EAC. The pension assets closing figure has increased from £841.8m to £856.9m due to an update to the Return on Assets figure of £15m after a review of the asset valuation.

The other error relates to the decrease of the Other Experience balance within the Pension Liability figure by £64.8m due to an error in the original figures provided by the actuary.

Both adjustments are as a result of errors made within the **actuary's** initial calculations which were being amended. These adjustments have been made therefore the audited accounts are materially correct.

# Other matters (continued)

## 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. East Ayrshire council administers three such registered charities.

As the gross income of each trust is less than £100,000, the council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with The Charities Accounts (Scotland) Regulation 2006. Fully compliant Charities SORP accounts are therefore not required and disclosure is limited to that specified in the Regulations.

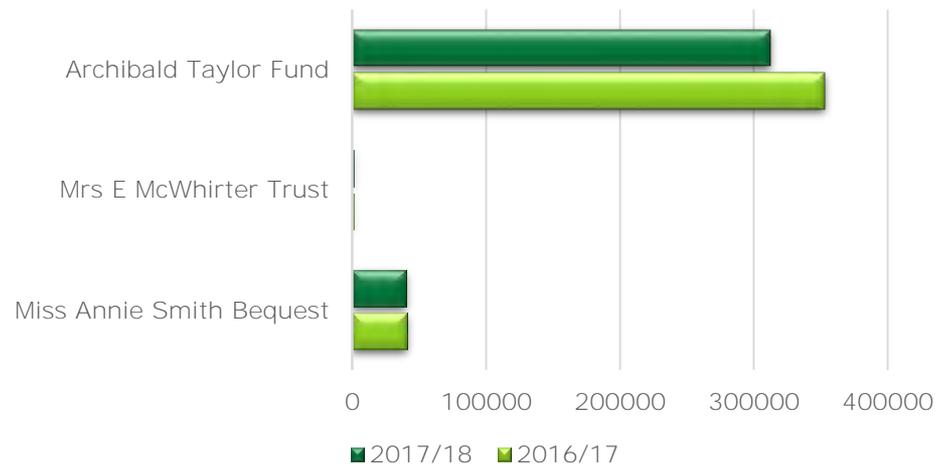


### Deloitte response

We have assessed that the statement of receipts and payments and the statement of balances have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006. No issues have been noted.

A summary of the charitable trusts that have been audited is provided in the table adjacent. We note that there has been very little movement in these trusts over the last 12 months, with the movements largely relating to a higher level of grants and donations made by the Fund. We would encourage the council to ensure that appropriate plans are in place to ensure these funds are used in accordance with the donors wishes.

Charitable Trust Balances (£)



### Deloitte view

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 Regulations.

# Other significant findings

## Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Asset Valuation Process	<p>There are areas of the Asset Valuation process within East Ayrshire Council where we have noted that improvements are required in order to allow for a more robust valuation process to be undertaken in 2018/19:</p> <ul style="list-style-type: none"><li>- From our review of the valuation of council dwelling additions in the current year it was noted that the adjustment factor that is applied to adjust the market value to the Existing Use Value–Social Housing (EUV-SH) was above the level we would have expected. The impact in the current year was below our clearly trivial threshold but given that a full revaluation of council dwelling is to be undertaken in 2018/19, we would recommend that the council obtain specialist advice to ensure that the appropriate adjustment when undertaking the valuations.</li><li>- In the prior year a number of recommendations were made in relation to improving the underlying valuation documentation. Whilst some improvement has been made, the detail included within the <b>valuer's</b> reports should be improved to ensure that all the necessary information is included to allow a proper assessment without the significant number queries that are currently required.</li></ul>	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

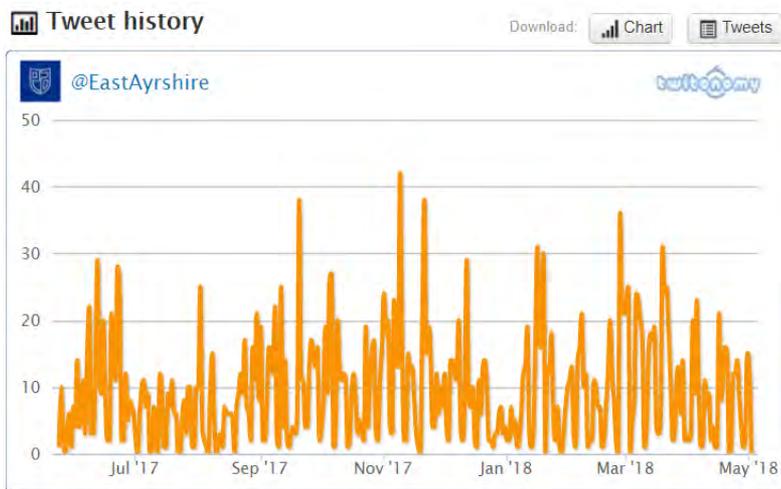
High Priority

# Other significant findings (continued)

## Insights delivered

Given the increasing importance of social media for community engagement and accessibility, we have reviewed the **Council's** Twitter account for any areas where improvements can be made.

Activity on social media has remained relatively consistent throughout the year, as shown to the left.



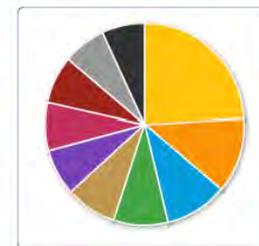
Twitter reports that the time most people checked Twitter is 10am – 6pm Monday to Friday, with a spike in activity at 5pm. There is little activity during **the weekends**. We note that the **Council's posts** occur evenly throughout the working week, with the timing of the posts also spread evenly.

We noted from review of the Council's Twitter account that it regularly posts images and this practice should be continued: according to Twitter, this increases retweets by 41% and favourites by 48%.

From our review, we are satisfied that the Council is utilising social media appropriately to increase its visibility and the accessibility of information for the residents of East Ayrshire.

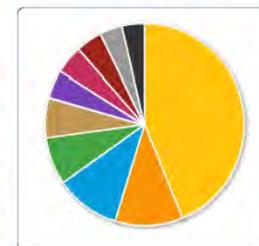
### @ Users most mentioned

@EACChiefExec	38	@LoudounAcademy1	19
@ExploreKillie	16	@VibrantEAC	14
@EAHSCP	13	@AyrshireRoads	12
@roonthetoon	12	@SeanBattySTV	12
@EALeisure	11	@BBCSportsound	11



### # Hashtags most used

#eastayrshire	155	#galston	39
#vibrantvoices	37	#kilmarnock	27
#ourday	23	#16daysea	16
#ge2017	16	#killie	15
#thinkeastayrshire	13	#catrine	13



The 'hashtags' most used by the Council are as expected and should be accessible for the Council's residents. Note that the absolute quantities are still relatively low compared to the population of East Ayrshire, which may suggest scope for improving use of social media as a means for engaging with the community and encouraging public input on annual budget consultations.

# Our audit report

## Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of the audit report, including how different sections are presented.



### Our opinion on the financial statements

Our opinion on the financial statements is unmodified based on our work completed during the audit.



### Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



### Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant **to users' understanding of the** audit that we consider necessary to communicate in an other matter paragraph.



### Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 19.

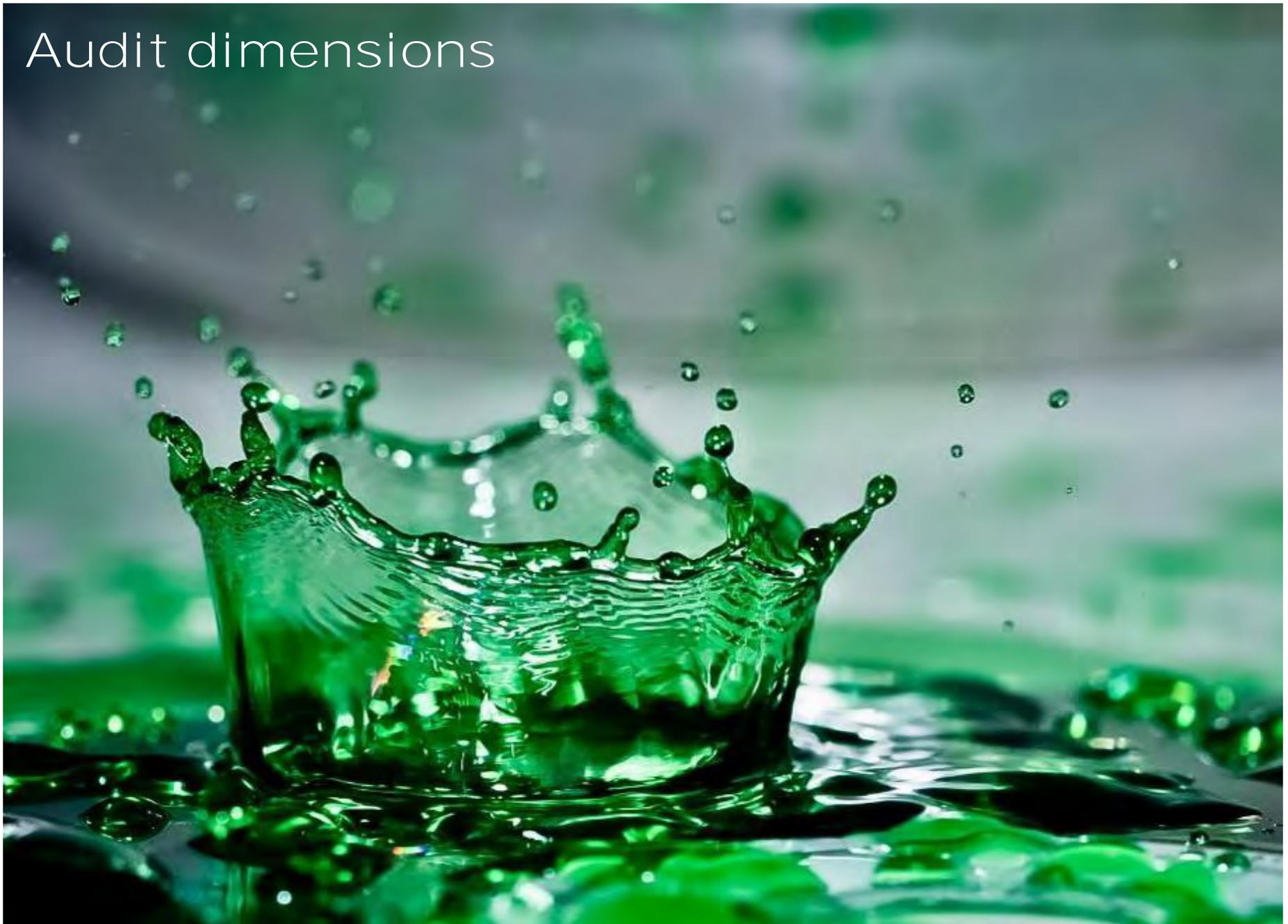
# Your annual accounts

We welcome this opportunity to set out for the Governance and Scrutiny Committee our observations on the annual accounts. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Requirement	Deloitte response
Management Commentary	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 focusses on the strategic planning context.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. No exceptions noted.</p> <p>We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>See Best Practice recommendations on the next page.</p>
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.	We have audited the disclosures of remuneration and pension benefit, pay bands, and exit packages and confirmed that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that East Ayrshire Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.



# Audit dimensions



# Audit dimensions

## Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following:

### Audit dimensions

- The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Auditor General for Scotland and for the Accounts Commission.

### Strategic audit priorities

- In its Strategy, which is updated annually, the Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. Within this, the Commission also sets out five Strategic Audit Priorities (SAPs).

### Shared risk assessment

- Local Area Networks (LANs) bring together scrutiny body representatives to agree and write a Shared Risk Assessment (SRA). The output of the SRA process informs an annual Local Scrutiny Plan (LSP) which summarises the results of the shared risk assessment of the council and the proposed scrutiny response.

### Best value

- The Commission formally agreed the overall framework for the approach to auditing Best Value (BV) in councils in June 2016. Best Value is assessed over the five year audit appointment, as part of the annual audit work. The BVAR report for East Ayrshire Council was published in May 2018. We have followed up on the areas reported in the BVAR report in our 2017/18 annual audit report and considered these as part of the work on the four audit dimensions to focus on the councils arrangements for demonstrating Best Value.

### Statutory performance indicators

- The 2015 Statutory Performance Information (SPI) Direction published by the Commission requires councils to report a range of information in accordance with, but not confined to, the requirements of the Local Government Benchmarking Framework. **One of the Accounts Commission's Strategic Audit Priorities is "the quality of councils' reporting of their performance to enhance accountability to citizens and communities". Accordingly, we have considered this as part of our work within these areas. It is also to be addressed in more depth in those councils subject to a Best Value Assurance Report.**

### Specific risks

- As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

# Audit dimensions (continued)

## Overview (continued)

This section of our report is structured in accordance with the four audit dimensions, but also covers our specific audit requirements on SAPs, BV, SR, LSP and **SPI's**, as summarised below.

### Strategic Audit Priorities (SAP)

- SAP 1 - Council priorities and long term planning
- SAP 2 - Changes in service delivery
- SAP 3 - Members and officers knowledge, skills and support
- SAP 4 - Citizen involvement
- SAP 5 - Quality of reporting

### Best Value (BV)

The BVAR report for East Ayrshire Council in May 2018.



### Local Scrutiny Plan (LSP)

Given the publication of the BVAR report in May 2018, no LSP was published for East Ayrshire Council in 2017/18.

### Specific risks (SR)

- SR 1 – EU Withdrawal
- SR 2 – New Financial Powers
- SR 3 – Ending public sector pay cap
- SR 4 – Cyber security risk
- SR 5 – Openness and transparency

SPI's

# Audit dimensions (continued)

## Financial sustainability

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

#### Areas considered



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.
- Workforce planning.

#### Deloitte response



From our work in 2016/17 we found that the council had been successful in making significant savings over the previous 5 years as a result of the success of the first Transformation Strategy, however estimated further savings of between £23 to £53 million, per the revised Transformation Strategy 2 (TS2) reported in June 2018, were required to meet future budget constraints.

We have assessed whether the council continues to have effective short, medium and long term financial planning systems in place so it can achieve financial sustainability over the next 5-10 years.

**We have also assessed the effectiveness of the council's efforts to achieve further sustainable efficiencies, in particular through the Transformation Strategy 2.**

#### Deloitte view

The council has a clear process in place for long term and medium term financial planning and the current level of reserves held is within the best practice threshold. The planned use of reserves to fund investments will be sustainable in the short term, however, going forward, the council should continue to ensure that such an approach is taken only where the level of reserves can continue to be maintained within recommended levels.

The council has achieved significant savings over the last 5 years, however due to increasing demand for services and the continuing restraint in relation to council funding settlements, it will have to consider how it can continue to transform service delivery through its TS2 Programme in order to minimise the impact on service levels within reducing budgets. An update on TS2 progress was reported to the Council in June 2018, including a detailed Transformation Strategy and individual Workstream Project Plans. Significant steps are being made in using transferable skills across business units as well as steps being made to increase awareness within the Council of the new initiatives.

The **council's** current level of reserves held is at the higher end of the range and the planned use of reserves is expected to see this continue to be maintained within recommended levels.

The council and its partners have a strong unified vision which is set out in the Community Plan. This vision is supported by a single high level set of priorities/outcomes, with Delivery Plans, KPIs and funding decisions linked to these priorities.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Short term financial position

For 2017/18, the council approved a balanced budget of £332 million (2016/17: £329 million), which included the use of £1.5 million from reserves (2016/17: £5 million). The final position for 2017/18, as discussed further on page 30, was a transfer to uncommitted general fund balances of £0.727m.

The 2018/19 budget was approved by the council on 21 February 2018. This budgeted total expenditure of £336 million incorporates £3.503 million of savings.

In setting its budget the council has recognised that a number of risks exist, such as demand and demographic changes. The full introduction of Universal Credits to claimants residing in East Ayrshire and the potential changes that may take place as a result of the further devolution of powers including welfare will all require to be assessed and factored into future budget assumptions.

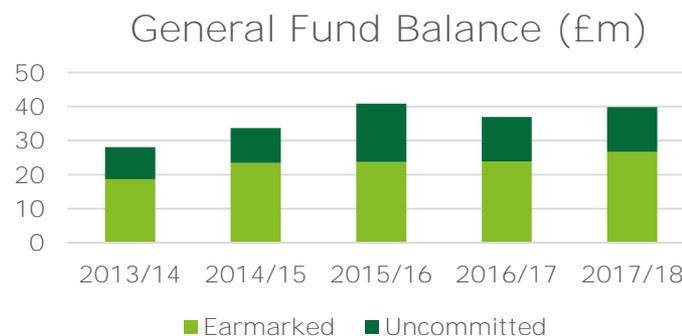
The budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. It is noted that the local government pay is out with the remit of the Scottish Government and negotiations for 2018/19 remain live. A pay award in excess of the level provided for would require further savings to be made.

The council has adopted a [Reserve Strategy](#) that is in line with the current economic climate. Good practice recommends that local authorities should retain uncommitted reserves of between 2% and 4% of their annual running costs, which is equivalent to between £6.5m and £13.2m for the council.

The General Fund Uncommitted Balance as at 31 March 2018 was £13.205 million, representing 4% of the net revenue expenditure.

The General Fund earmarked balance at 31 March 2018 was £26.63 million. Approximately 89% of this earmarked balance is in relation to service balances (£23.7m) as well as £2.9m within the Transformation Fund.

The movement in uncommitted and earmarked reserves over the last five years is illustrated below:



# Audit dimensions (continued)

## Financial sustainability (continued)

### Medium to long term financial sustainability

The council has achieved significant savings over the last 5 years with its first Transformation Strategy, as illustrated below, however due to increasing demand for services and the continuing restraint in relation to council funding settlements, it will have to consider how it can fundamentally transform service delivery in order to continue to meet citizen needs with reducing budgets.

Cumulative Savings Achieved 2013-2018 (£m)



The council recognises that if it continues with current service levels and delivery models, there will be a funding gap over the next five years. Based on a number of assumptions, including grant funding, council tax, pay inflation, demand pressures and known policy positions, it has estimated the gap could be between £23 million and £53 million by 2021/22. The mid-point of the funding gap estimates is £32 million. By 2022 this would require savings of **around 20% of the council's current departmental budget.**

The Cabinet approved a new Transformation Strategy (2017-2022) in October 2017. This highlighted that the council needs to make further changes to how it runs services and that these will be much more difficult to deliver. The new strategy will encompass the financial plan to 2022 and the continuing transformation process through to 2030 to coincide with the community planning period.

The transformation strategy acknowledges the impact that EU withdrawal will have on potential funding and has the potential to provide material financial uncertainty.

The council and its partners have developed their vision from a good understanding of the challenges facing East Ayrshire. They are focussing on the three priorities that local people feel are the most important:



The council has clear plans to achieve these priorities, and regularly reports on its progress to councillors and to local people. As part of the Transformation Strategy, the council is looking at a range of ways to make savings while continuing to deliver its priorities.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Medium to long term financial sustainability (continued)

In February 2018, the council agreed six transformational workstreams arising from Vibrant Voices, along with initial actions. The council reported back to councillors in June 2018 with a detailed project plan for each of the workstreams. The workstreams are as follows:



An update was provided to Council in June 2018 where it endorsed a detailed Transformation Strategy along with individual worksteam project plans. This also took on board the recommendations raised in the Accounts Commissions BVAR report, in particular:

- Establish a programme management approach, led by the Head of Finance and ICT
- **Embed the “Vibrant Voices” approach** by raising awareness across each service line.
- Ensure that each Transformation Strategy worksteam clearly identifies the skills and resources required to achieve implementation
- Clear definition and planning of transformational activities and outcomes will allow any gaps in specific and specialist skills to be identified
- An organisation wide workforce plan will be developed in 2018/19.
- A project board, chaired by the Depute Chief Executive (Safer Communities) will be established to oversee development of the Workforce Plan.

#### Best practice

As reported within the BVAR report, English councils that have delivered and sustained transformational change on the scale required by East Ayrshire Council have tended to focus on the following six key requirements:

- A Strategic driven response
- **Being a ‘place’ leader**
- Digital data analytics and insights
- Efficiency, productivity and income generation
- Outcome-focused partnership working
- Reframing the relationship between the citizen and the state

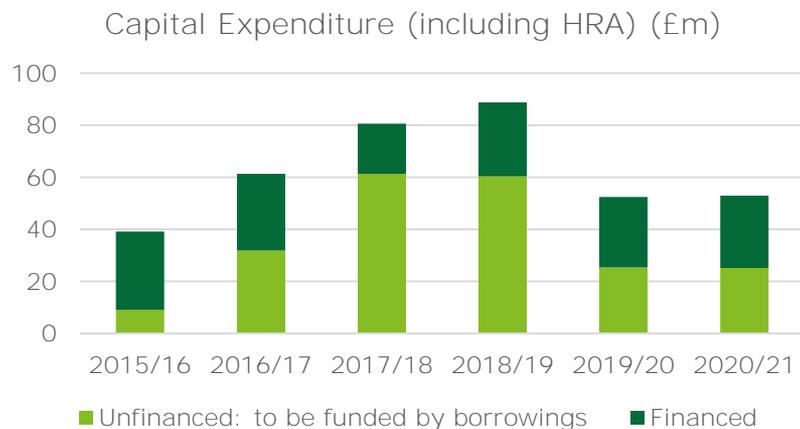
See Page 42 for examples of Best Practice in use.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Treasury management

The council updates its Treasury Management Strategy on an annual basis, which covers the next five year period. This details the **council's** expected borrowing requirement compared to its operational boundaries and details interest increase in underlying borrowing requirements between 2017/18 and 2020/21 arising from planned capital investment in General Fund and rates. The latest strategy acknowledges the significant Housing services.



The increase in Short Term Borrowing as per the Balance Sheet within the annual accounts is due to the repayment of a temporary loan in the year whilst Long Term Borrowing has seen a decrease of approx. £9m due to the repayment of a long-term loan outstanding with PWLB.

The reduction in planned spending as per the graph above is in line with the **Council's** aim to reduce their asset base as part of the Transformation Strategy.

### Capital investment

In 2017/18 the council set itself a challenging capital programme across roads, schools, infrastructure and housing which was part of the **council's** 10 year plan, extended in April 2016 to 2025/26. Key projects within this plan included the delivery of new schools and the extensive refurbishment of certain existing schools, technological and other improvements to enable older people to live independently in their own homes and new council house building.

In 2017/18, the council planned to spend £137 million on capital programmes covering both the General Fund and the HRA. The final position reported an underspend against budget mainly as a result of changes in scheme commencement dates and changes to scheme design.

The main schemes, in terms of spending within this included:

- Opening of the new Whattriggs Primary School;
- Completion of the William McIlvanney Campus;
- Completion of the Muirkirk Primary School; and

The majority of other spending is in relation to schools.

Due to the size of the planned current year capital spend, the council will need to ensure that there is sufficient project management capacity to improve timely delivery of projects.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Workforce strategy and plan

The **council's** People Strategy 2017-2022 describes the **council's** vision for supporting and developing its staff. It sets out the factors it needs to take into account when developing and planning its workforce. For example, staff will need to work more collaboratively, there will be a greater emphasis on prevention and staff will need to use new technologies. The **council's** new Transformation Strategy also notes the council will be smaller and will employ fewer people.

The council is currently developing an organisation-wide workforce plan as part of its transformation work on workforce planning and, as noted on page 27, a Project Board chaired by the Depute Chief Executive (Safer Communities) has been established to oversee the development of the Workforce Plan. The update to the Council in June 2018 noted the following:

- A number of areas of the Council are growing in response to national priorities
- The Council has seen average staff turnover of 360 per annum over the last three years.
- The natural reduction of employee numbers will support the delivery of savings, but it is important to recognise the impact this will have on services and the need for significant service redesign.

### Members

This council is made up of 32 elected Members and following the local election in May 2017, there is now a minority SNP administration.

Subsequent to the Local elections the council developed an induction programme for all the elected council Members which took place over an eight week period, with 2-3 events held each week. The induction included overviews of the Community Plan and all of the **council's** other key strategies, challenges facing the council and the support they will receive in their role as council Members.

Members also have a development plan for each year. This includes core training, one to one meetings, improvement service workshops and bespoke training where a need is identified.

The Cabinet reviews financial performance each quarter as part of the East Ayrshire Performs summary report. The Governance and Scrutiny Committee also scrutinises these reports. Further information is available on the **councillors'** intranet site and officers are available to discuss any aspects of the report with councillors. The level of scrutiny and debate is increasing as **members'** knowledge and understanding grows.

It was noted within the Accounts Commission Best Value Report that councillors and officers continue to work well together in delivering significant changes and that the strong record of self-assessment will be helpful in this going forward.

# Audit dimensions (continued)

## Financial management

### Audit dimension

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



### Areas considered

- Budgetary control system.
- Systems of internal control.
- Financial capacity and skills.
- Arrangements for the prevention and detection of fraud.



### Deloitte response

We have reviewed the budget and monitoring reporting to the council during the year and the year-end position to assess whether financial management and budget setting is effective.

We have evaluated the key financial systems and internal control as part of our financial statements audit work and considered the work of internal audit.

We have considered the capacity and skills within the senior management of the finance team.

**We have reviewed the council's arrangements for the prevention and detection of fraud and irregularities, including their participation in the NFI exercise.**

### Deloitte view

We are satisfied the council has strong budget setting and financial monitoring arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges to the achievement of financial targets.

We have also reviewed internal audit reports issued in the year and note our agreement with their findings and conclusions.

From our testing throughout the audit we are satisfied that the council appears to have an adequate systems of internal controls in place.

East Ayrshire council has a Corporate Anti Fraud service, delivered in conjunction with North Ayrshire, which provides pro-active fraud prevention advice and investigates fraud within and against the council. Additionally, the council also participates in the NFI.

We are satisfied East Ayrshire Council has appropriate arrangements in place for the prevention and detection of fraud and corruption.

# Audit dimensions (continued)

## Financial management

### Budgetary control systems

The council has effective financial planning and management arrangements in place. Senior management and councillors regularly review progress. As discussed on page 28, the Cabinet and the Governance and Scrutiny Committee review financial performance each quarter.

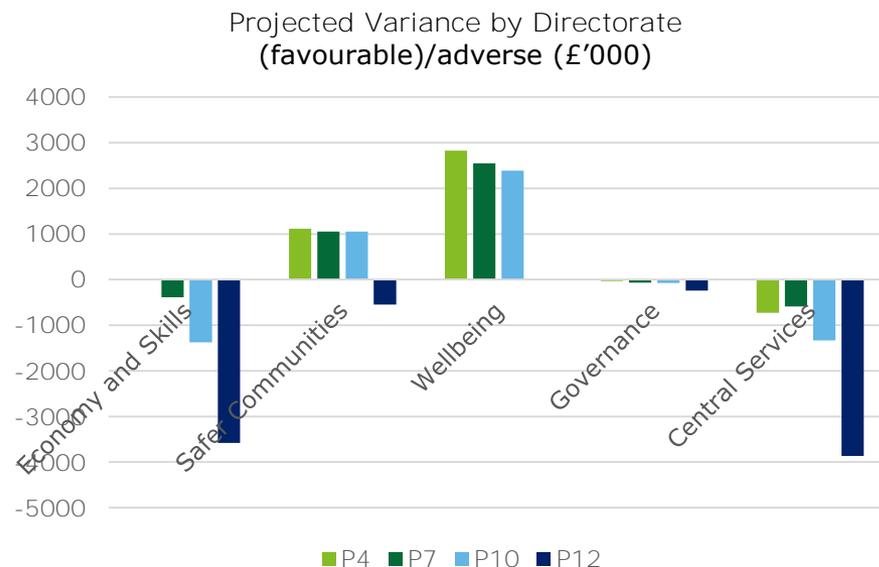
The finance team is led by the Depute Chief Executive and Chief Financial Officer, Head of Finance and ICT and the Corporate Accounting Manager, who are all experienced in local government finance roles for a number of years. We have not identified any issues with the financial skills, capacity and capability of the finance team. This is an area that the council should monitor closely in view of the transformation programme and the key role that finance play.

### Financial performance – General Fund

The Comprehensive Income and Expenditure Statement (CIES) reported a deficit of £63.1m on the provision of services in 2017/18. Adjusting this balance to remove the accounting entries required by the Code of Practice for Local Authority Accounting, the **council's** usable reserves increased within the year. This compared to budget is summarised in the table below.

	Budget (£m)	Actual (£m)	Variance (£m)
Expenditure	339.181	338.546	(0.635)
Income	(331.463)	(331.555)	(0.092)
Use of Balances within year	(7.718)	(7.718)	0.000
Underspend	0.000	(0.727)	(0.727)

The variances to budget reported throughout the year are summarised below by Directorate:



The key reasons for the underspend were:

- £1.1m of allocated £3.3m Pupil Equity Funding utilised was outstanding at 31 March 2018 (required to be spent by 30 June as per PEF Guidance).
- Savings within the education budget predominately relating to the timing of future spend in relation to Early Years
- Timing of filling vacancies within the Council.

Countering this is the £2.2m additional allocation to HSCP in the year as discussed in page 5.

Monitoring performed by the Council is deemed to be sufficiently accurate based on projections made prior to 2017/18.

# Audit dimensions (continued)

## Financial management

### Financial performance –Housing Revenue Account

The Housing Revenue Account reported a deficit of £8.104m on the provision of services in 2017/18. Adjusting this balance to remove the accounting entries required by the Code of Practice for Local Authority Accounting, the **council's** HRA fund increased by £0.650m. This compared to budget as summarised in the table below.

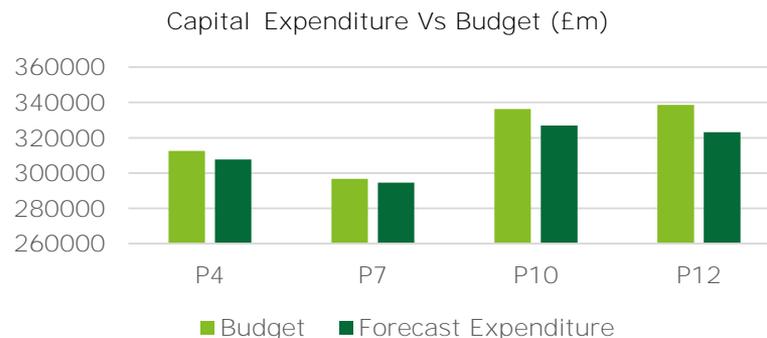
	Budget (£m)	Actual (£m)	Variance (£m)
Expenditure	56.030	56.330	0.300
Income	(56.030)	(56.980)	(0.950)
Net Income Adjustment	-	(0.650)	(0.650)

### Capital expenditure

The key areas of capital expenditure in 2017/18 by the council were roads, schools, infrastructure and housing which totalled £61m, compared to £55m in 2016/17. Funding of this spend came from a number of sources:

- Capital receipts
- Government Grants and contributions
- Sums set aside from revenue
- Borrowings

The movement in budget and forecast allocation in the year is illustrated below:



In all main categories of capital spend, the council underspent against its budget. However, it needs to be recognised that this under spend is caused by a re-profiling of the commencement dates of certain capital schemes due to the need to revisit tender prices and design amendments rather than projects being under budget.

# Audit dimensions (continued)

## Financial management

### Systems of internal financial control

As discussed further on page 15, we have evaluated the council's key financial systems and internal control to determine whether they are adequate to prevent misstatements in the annual accounts. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

No material weaknesses have been identified from our audit work performed. Insights have been made (see pages 15 to 16) where we have identified areas for improvement.

### *Fraud and irregularity*

We have reviewed the council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the council's arrangements to be operating effectively.

In accordance with Audit Scotland planning guidance, we are required to monitor the council's participation and progress in the National Fraud Initiative (NFI) during 2016/17 and 2017/18. An NFI audit questionnaire was completed and submitted to Audit Scotland on 28 February 2018, which concluded that the council was fully engaged in the exercise.

### Internal Audit

In addition to providing internal audit services to the council, the internal audit team are also appointed to provide internal audit services to the East Ayrshire Leisure Trust, through a service level agreement, and the IJB. Some additional resources have been provided to build capacity within the team and there have been no issues noted with regards to delivery of the agreed plan for East Ayrshire Council.

The council's Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have reviewed all internal audits presented to the Governance and Scrutiny Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

From our review of the internal audit reports issued during 2017/18, we have noted a small number of "Amber/Mostly Adequate" graded recommendations, including issues identified from internal audit around lack of internal controls. We have considered the issues identified and any potential impact they may have had on our proposed audit approach but no significant changes were required.

# Audit dimensions (continued)

## Governance and transparency

### Audit dimension

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

### Areas considered



- Governance arrangements.
- Scrutiny, challenge and transparency on decision making and financial and performance reports.
- Quality and timeliness of financial and performance reporting.

### Deloitte response



We have reviewed the financial and performance reporting to the council during the year as well as minutes of Committee meetings to assess the effectiveness of the governance arrangements. Our attendance at Governance and Scrutiny Committees has also informed our work in this area.

We have also reviewed the governance arrangements in relation to the IJB.

### Deloitte view

The council and its partners have a clear and shared vision which is set out in the East Ayrshire Community Planning Partnership's (CPP) Community Plan. The CPP has a good understanding of the challenges facing East Ayrshire and is focussing on three priority areas: economy and skills, safer communities and wellbeing.

The council has strong executive leadership. The relationship between councillors and officers is good, and there is evidence of effective challenge from councillors.

**The council is open and transparent in its decision making with all minutes available through the council's website. The council also encourages people to get involved in decisions about council services and spending public money.**

# Audit dimensions (continued)

## Governance and transparency (continued)

### Leadership and vision

The council has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of East Ayrshire, which is supported by councillors and staff.

**The council's Executive Management Team (EMT) has six members, including the Director of the Health and Social Care Partnership.** From the work performed as part of the BVAR report, the EMT members were **consistent in the way they interpreted and explained the council's vision and the council and its partners' strategic priorities.**

The Community Plan for 2015-2030 sets out both national and local priorities and specifies three key priority areas for the life of the plan. Measures of success for each priority are set out in the plan. These are predominantly aspirational and the actions and detailed/proxy measures used to assess progress are set out in individual delivery plans.

### Governance arrangements

Following the local government elections in May 2017, the council appointed elected members to the **council's decision making structure, including Leader, Deputy Leader and Cabinet members.** The council is a minority SNP led administration.

There are 11 councillors on the Governance and Scrutiny Committee which is chaired by a member of the opposition party in accordance with best practice. Six of the members (including the chair and vice chair) were new to the committee following the election. From our observations at these meetings, they are generally well attended with a good level of scrutiny and debate.

**Council meetings are held in public and all papers and minutes are available through the council's website.** The council is open and transparent about the way it conducts its business and decisions made.

### 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. Within the quarterly East Ayrshire Perform reports presented to Cabinet and the Governance and Scrutiny Committee, there is a section covering **"Alternative Delivery Models"** to provide members with performance information on the Leisure Trust and the Ayrshire Road Alliance.

The Community Planning Partnership's (CPP) vision is:

"East Ayrshire is a place with strong, safe and vibrant communities where everyone has a good quality of life and access to opportunities, choices and high quality services which are sustainable, accessible and meet people's needs."

The CPP has agreed on three key priority areas on which the delivery of services will be focussed:

Economy and skills

Safer Communities

Wellbeing

# Audit dimensions (continued)

## Governance and transparency (continued)

### Health and social care integration

The council and the NHS have a well established partnership, strengthened by the East Ayrshire Integration Joint Board (IJB) which was established in April 2015, ahead of most other areas in Scotland. The IJB worked quickly to agree its plans, which reflect both national and local commitments.

For 2017/18, the IJB approved a balanced budget of £223.693 million (2016/17: £216.818 million), which included cash releasing savings targets of £5.432 million for council managed services and £2.634 million for NHS). The final position for 2017/18, was an overspend against budget of £3.289 million. This comprises a £2.392 million overspend against services commissioned from the council and £0.897 million overspend against services commissioned from the NHS. The Council is currently reviewing procedures to ensure that the IJB are not reliant on non-recurring funding provided by the funding partners.

The 2018/19 budget was approved by the IJB on 26 April 2018. This budgeted total expenditure of £84.3 million

	2017/18 budget (£'000)	2017/18 revised budget (£'000)	2017/18 actual (£'000)	2018/19 draft budget (£'000)
Council managed budget	84,351	97,189	96,688	87,533
NHS managed budget	139,342	130,803	130,803	140,576
IJB Total	223,693	227,992	227,491	228,109

The partnership recognises that increasing demand, less money and the need to make savings means that it needs to think and work differently. The IJB approved a medium term financial plan (2017/18-2021/22) for the partnership in November 2017. The plan identified an indicative budget gap of around £38 million to 2021/22, with around £21 million of this gap needing to be delivered by radically transforming how the IJB provides services.

The IJB has made significant progress to date but recognises that challenging areas remain. In common with other IJBs across Scotland, it has not managed to resolve issues around the 'set-aside budget'. Scottish Government guidance recommends that the NHS Board set aside a budget for large hospital services that are used by the associated IJB population. East Ayrshire was an early adopter of integrated care. But there is no evidence that the NHS set-aside budget is integrated into the IJB's budget.

The IJB is looking at ways to provide more care in the community rather than in an acute setting, such as hospitals. It has improved its performance in some important health and social care indicators since the Health and Social Care Partnership (HSCP) was formed in 2015, with more people being supported in the community. But there is increased demand for both community and hospital care. As a result, pressure on acute hospitals remain high and local health partners do not believe that they are in a position to safely reduce the services. This issue applies across Scotland, and the council and its partners have been proactive in attempting to resolve it. Significant challenges remain, however, in delivering the full benefits of integration.

# Audit dimensions (continued)

## Governance and transparency (continued)

### Community engagement

The Community Empowerment (Scotland) Act 2015 gives people more influence over how their council and its partners plan services. It provides more formal ways for people to get involved. For example, people can ask to take part in decisions about council services, which is called a Participation Request. The Act also makes it easier for communities to take ownership of land and buildings in a process known as asset transfers. This allows them to have a say in how the council should spend money locally.

East Ayrshire Council fully supports community empowerment and recognises the importance of building community capacity. This means supporting people to be more active in their community. It is about helping people recognise the skills, strength and experience that exists locally and using these skills to deal with issues most important to local people. The council is doing this through its Vibrant Communities service.

The **Vibrant Communities** service began in 2013. It brought together employees from a range of council services including: Leisure Development, Community Learning and Development, Democratic Services, Social Work and Active Schools. The aim of Vibrant Communities is to move away from the traditional way of **working 'for people' to working 'with people'**. This has been achieved in a number of ways:

- Since 2014 the council has supported 18 communities to develop and implement **community-led action plans**. Each **five year plan sets out the community's vision, its priorities and needs and the actions it will take to address issues**. There are many examples across East Ayrshire of community groups successfully addressing their local needs and priorities, as highlighted in the recent BVAR report.

- Vibrant Communities has a dedicated **community asset transfer** team to help communities apply for an asset transfer. Since 2014, the council has successfully transferred 44 assets to local groups.
- The Vibrant Communities Investment Team has been working closely with local communities to raise awareness of the **participatory budgeting** process. With the support of this team, community groups in East Ayrshire led 19 participatory budgeting events in 2016/17 and 250 projects shared £220,000. These have enabled local communities to have a say in where and how money should be spent.

The council also engages with its communities about the services **it delivers in many other ways, for example tenants' surveys and children and young people surveys**.

# Audit dimensions (continued)

## Value for money

### Audit dimension

Value for money is concerned with using resources effectively and continually improving services.

### Areas considered



- Value for money in the use of resources.
- Link between money spent and outputs and the outcomes delivered.
- Improvement of outcomes.
- Focus on and pace of improvement.

### Deloitte response



During the 2017/18 reporting period, the Best Value and Assurance Report (BVAR) was published by Audit Scotland (June 2018). We have followed up on the recommendations made within this report and provide an update on Page 41 as to the progress made on these recommendations.

### Deloitte view

There is a clear framework in place to ensure that council performance is monitored and reported.

Performance information is readily available to East Ayrshire citizens via the Community Plan website.

We are satisfied that the performance is appropriately discussed within the Management Commentary in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory. But more work could be done to evidence the link between spend and outcomes delivered at both a council and Partnership level. This links with the new Scottish Government strategy from the new financial powers, discussed further on page 44, where there is a move to for public bodies to clearly articulate achievement against outcomes.

# Audit dimensions (continued)

## Value for money (continued)

### Performance Management

The council gathers performance information to monitor, track and improve service delivery to the community. The East Ayrshire Community Plan and the Single Outcome Agreement are the main strategic tools which are used to plan for and report on the councils performance. Individual services use performance against indicators set out in Service Improvement Plans. The council had implemented the following to help monitor their performance and related outcomes:

- Performance Indicators (PIs) are used to assess whether the council has achieved its targets. Some PIs are set nationally by the Scottish Government, others were decided locally because they were important to the council and the local communities.
- The council has developed an Electronic Performance Management System (EPMS). Service scorecards have been developed and these are used to monitor performance indicators on a weekly, monthly, quarterly or yearly basis in order to help the council to continuously improve the delivery of services.

Information from EPMS is used to report on the Community Plan and the Local Outcomes Improvement Plan. It also contributes significantly to the Annual Performance Report. The performance report is submitted both to the CPP Board and to the council to enable Member scrutiny to take place. The report is also published on the **council's** website. The report enables local residents to have access to a comprehensive range of useful performance indicators about the wide range of services that the council delivers.

### Statutory performance indicators

**The Accounts Commission places great emphasis on councils' responsibility for public performance reporting.** The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

For 2017/18, two SPIs were prescribed:

- SPI 1: covering a range of information relating to service performance and local outcomes
- SPI 2: relates to reporting of performance information as required by the Local Government Benchmarking Framework.

**See Page 39 for an evaluation of East Ayrshire Council's** performance against the Local Government Benchmarking Framework. The quarterly East Ayrshire Performs publication makes available to the public performance against benchmarks for specific performance criteria.

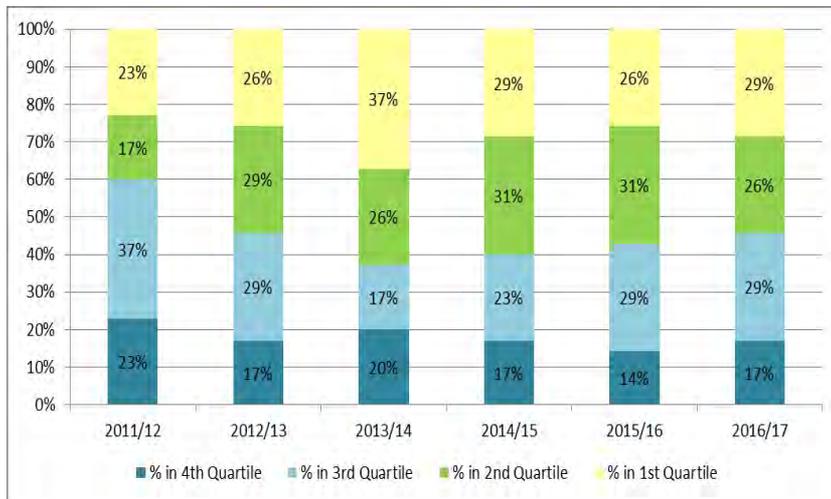
# Audit dimensions (continued)

## Value for money (continued)

### Performance Data

We have drawn on the Local Government Benchmarking Framework (LGBF) to make a high level assessment of the **council's** performance, relative to all Scottish councils, in 2016/17 (the latest data available). The LGBF includes a number of indicators organised under common service areas. Performance is summarised in the below table\*.

East Ayrshire council LGBF Indicators in each quarter, 2011/12 – 2016/17



\*This analysis is based upon 35, mainly outcomes based, indicators which were reported on as part of the Local Government Benchmarking Framework every year within the 6 year period. Where a council failed to supply data for one of the 35 indicators we have excluded this from our analysis and so reported totals may not equal 100%.

The number of indicators in the first and second quartile initially improved over the last five years to 63% in 2013/14, before reducing from 2014/15 onwards. The percentage within the 1<sup>st</sup> and 2<sup>nd</sup> quartile has remained approximately between 50% and 60% in the last few years.

The Best Value Assurance Report issued by the Accounts Commission in May 2018 has noted that East Ayrshire Council have maintained strong performance, further building on the strong assessment given in both 2010 and 2006. Compared to other councils that have been analysed, East **Ayrshire's** overall performance has improved in recent years, with the 2017 **residents'** survey reporting high levels of satisfaction with most council services.

The council have been recommended as per the BVAR report to examine how its approach to reducing demand for services (such as with the **"front door services"**) could be extended to other service areas to help alleviate resource pressure.

# Audit dimensions (continued)

## Value for money (continued)

### Best Value Assurance Report

The Best Value Assurance Report was published by the Accounts Commission in May 2018. This reported that the Council has maintained the strong performance that was reported in the previous Best Value reports in 2006 and 2010. Such performance has been achieved against substantial socio-economic challenges in East Ayrshire. It is based on a record of effective community planning and partnership working, underlined by a genuine commitment by partners to work and empower local communities.

The report highlighted that the Council faces a substantial budget gap which will test this record. Recommendations were made within the report for the Council to take forward around transformation, workforce planning and its relationship with the IJB. In response to the report and the five recommendations made within it, the Council developed an Improvement Plan which was approved by the Council at its meeting in June 2018, as discussed in the table below.

In addition, a separate detailed report on the Council's Transformation Strategy was presented to the Council setting out a number of proposals. We will monitor the progress of the Improvement Plan and measure performance against established milestones.

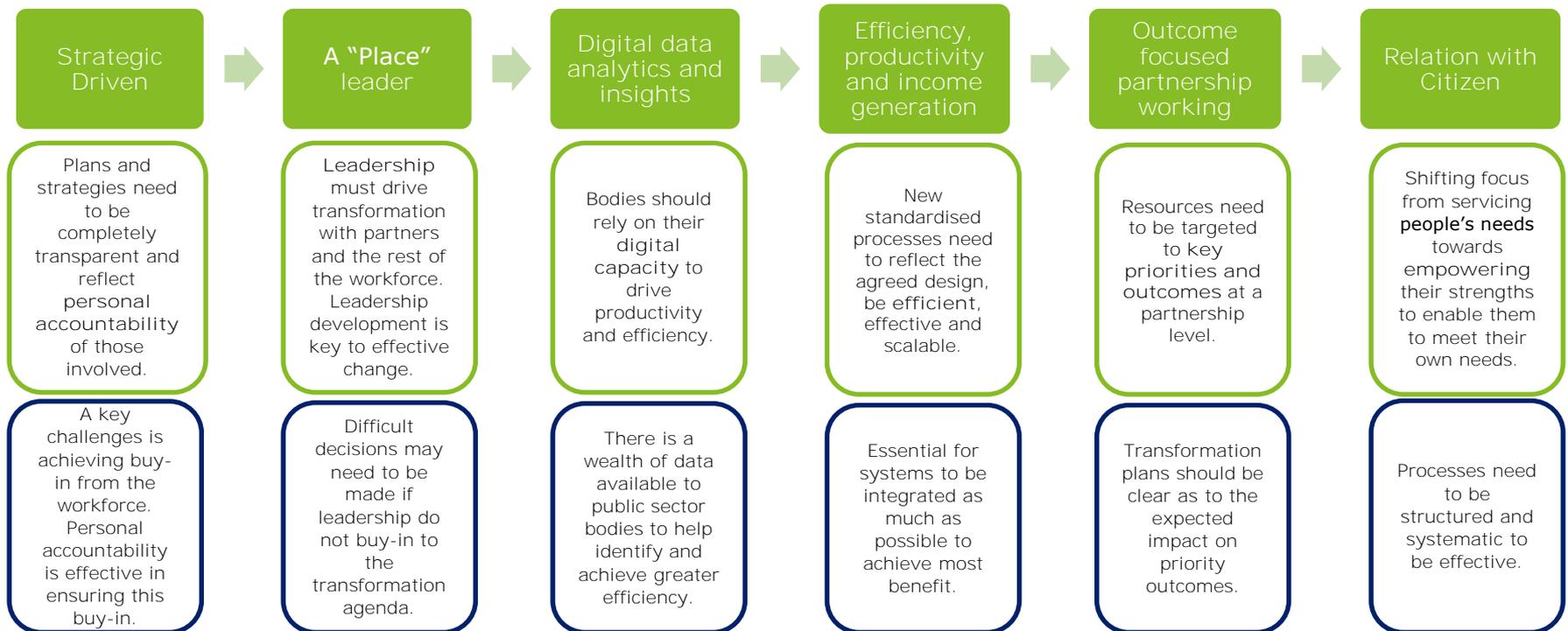
Recommendation	Progress
Transformation Strategy – the Council should put in place appropriate arrangements to support, monitor and deliver the expected outcomes.	A report was presented to the Council in June 2018 setting out specific proposals as discussed further on page 27.
The Council should develop an organisation-wider workforce plan.	This is being developed in the context of the Workforce Planning Workstream as discussed further on page 29.
Strong relationships between the Council, the IJB and the NHS should be used to help resolve issues around resourcing a shift of relevant hospital care services into a community setting, recognising that this is a national issue	A separate report was presented to the Council in June 2018 (and the NHS Board in June 2018) outlining proposals for development of future arrangements.
The Council should examine how its approach to reducing demand <b>for services, for example the development of its "front door"</b> services, could be extended to other area of its work.	<b>The "front door" model adopted by Health and Social Care, with an approach designed around early intervention and prevention to manage demand and support service redesign, will be further developed for application across other parts of the Council, in the context of the Transformation Strategy and related workstreams</b>
The Council should develop a council-wide plan for working with <b>the business sector. This should build on the CPP's delivery plan for economy and skills and the council's "invest in East Ayrshire"</b> initiative, and specifically how such work will take place in each relevant service area, and how the council will coordinate and monitor activity.	A Business Engagement Strategy will be developed in the context of the current work to support Ayrshire Growth Deal and proposals to establish a single vehicle for the delivery of economic services across Ayrshire.

# Audit dimensions (continued)

## Sharing best practice

In our 2016/17 annual report, we provided the Council with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Council reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

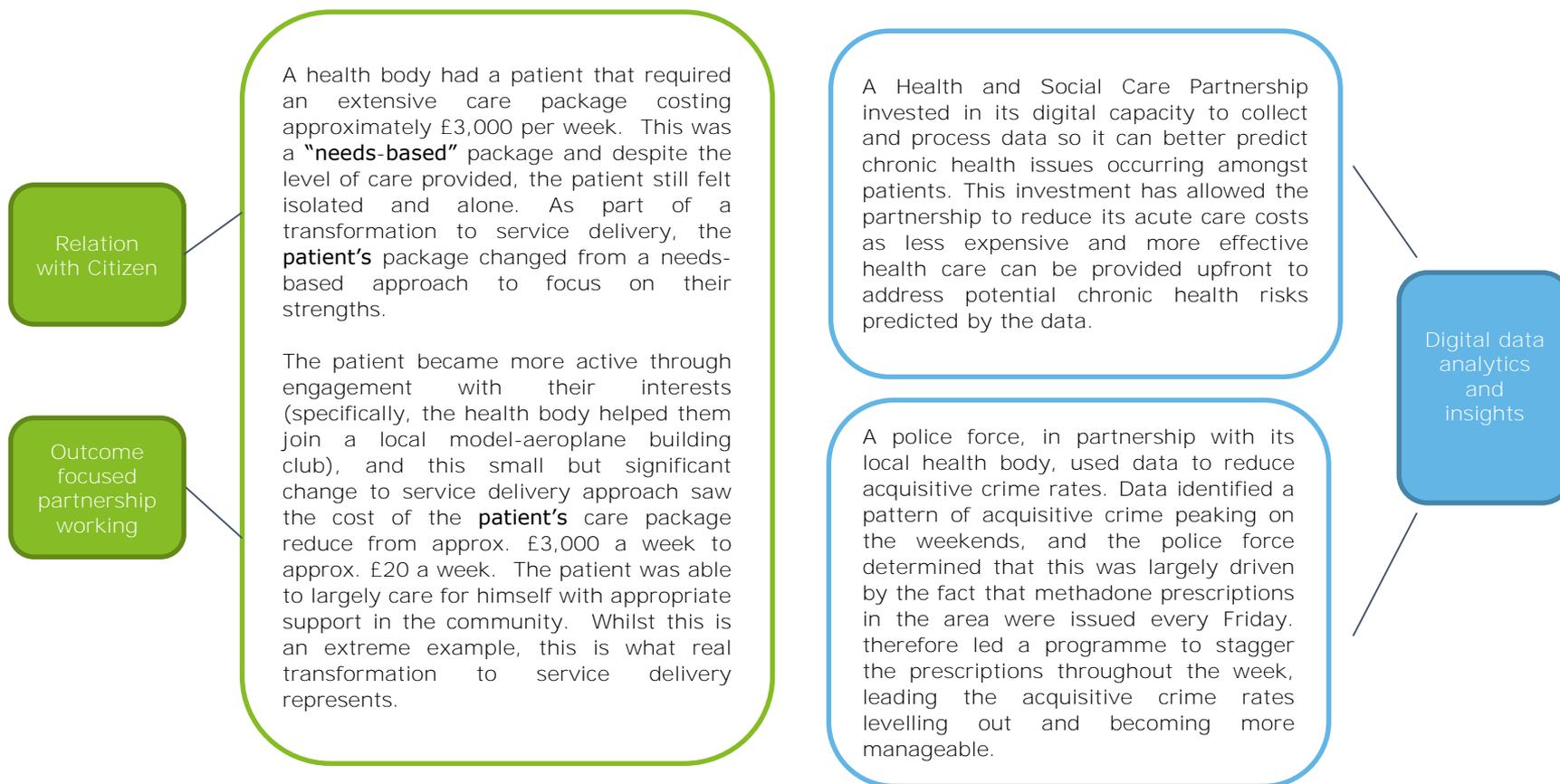
From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.



# Audit dimensions (continued)

## Sharing best practice (continued)

Below are some real life examples of work done in other health bodies to demonstrate how some of these six key requirements can be applied in practice.



# Audit dimensions (continued)

## Sharing best practice (continued)

### Relationship with Citizen

A Council in England committed to a series of pledges and in return need residents and businesses to play their part too (The Deal). So far through working together, the Council has saved £115m, with evidence based outcome improvements.

The Deals are wide ranging, offering partnership work and support in a number of areas. As an example, the [Deal for Health and Wellness](#), includes the following:

#### Our Part

- Ensure there are a wide range of facilities within local communities including parks, open spaces, leisure, safe cycling routes, good quality housing
- Ensure easy, timely access to good quality GP services, seven days a week, to screen, diagnose and treat and prevent disease as early as possible
- Support families to ensure their children have the best start in life

#### Your Part

- Keep active at whatever stage of life
- Register with a GP and go for regular check-ups – taking charge of your own health and wellbeing
- Quit smoking. Drink and eat sensibly and encourage your children to do the same

# Wider scope audit work

## Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
EU Withdrawal	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p>Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>The council have committed to keep up-to-date with development in this issue. Given that most staff are from the UK, this is not a major issue for the Council. Potential funding may be an issue but there is still uncertainty across the country of the likely impact of EU Withdrawal.</p>
New financial powers	<p><b>The Scottish Parliament's new financial</b> and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. Local authorities, including East Ayrshire Council, should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>
Ending public sector pay cap	<p>As discussed on page 25, the 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. It is noted that local government pay is outwith the remit of the Scottish Government and negotiations for 2018/19 remain live. A pay award in excess of the level provided for would require further savings to be made.</p>

# Wider scope audit work (continued)

## Specific risks (continued)

Risk identified	Response
Cyber security risk	<p>The Council <b>have passed their Scottish Government Cyber Essentials Scheme Test Specification.</b></p> <p>EAC has taken the lead in and implemented Cyber Essential Plus, which includes the performance of an external vulnerability scan.</p> <p>There have been no ransomware attacks during the year.</p> <p>The Transformation strategy is largely focused on improving technology within the Council in terms of improving resilience and modernising <b>the Council's systems.</b></p> <p>As part of GDPR implementation, mandatory training was provided for all staff, which would have refreshed cyber risks.</p>
Openness and transparency	<p>From our audit work, we are satisfied that EAC is appropriately open and transparent in its operations and decision making.</p> <p>The Council and its partners have a strong unified vision which is set out in the Community Plan. This vision is supported by a single high level set of priorities/outcomes, with Delivery Plans, KPIs and funding decisions linked to these priorities.</p>

Technical update



# Technical Update

## New standards for 2018/19 accounting code

IFRS 9, Financial instruments and IFRS 15, Revenue from contracts with customers, have been adopted for the 2018/19 accounting code. Transitional reporting requirements have been adopted such that the preceding year is not restated. In order to support local authorities, CIPFA, under the guidance of LAAP, has issued separate guidance for local authority practitioners. We would encourage the council to consider these to ensure that it is fully prepared for implementation in 2018/19. We have summarised the key implications of the new standards below.

### IFRS 9, Financial Instruments

- It is likely that many collective investment vehicles would be classified to fair value through profit or loss (FVPL) from 1 April 2018, so that the fair value gains and losses will be chargeable to the Surplus or Deficit on the Provision of Services as they arise.
- There has been some debate around whether collective investment vehicles qualify for the presentation election under IFRS 9 to be reclassified to fair value through other comprehensive income (FVOCI). In order to qualify for this presentation the investment would need to meet the definition of an equity instrument. This **would not be the case if instrument is 'puttable' (i.e. the holder has the right to demand repurchase or repayment of the principal).**
- One of the other main features of IFRS 9 is the change in the impairment loss model for financial assets from one based on incurred losses to one based on expected (credit) losses. The new forward looking approach is likely to result in an increase in the allowances required as at 1 April 2018. As allowances are based on the risk of default and the approach to investments in local authorities is to opt for security and high quality financial instruments, CIPFA has indicated that for many financial assets the impact should be modest. Particular attention will need to be paid to material balances or loans to third parties against which there has been no default but there are significant possibilities that there may be in the future.

### IFRS 15, Revenue from Contracts with Customers

- IFRS 15 will require local authorities to recognise revenue in such a way that it represents the transfer of promised goods or services to the service recipient (customer) in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services. CIPFA is of the view that generally this should not have a substantial effect for local authorities with relatively predictable income streams but it may have an impact on authorities where the consideration is variable and/or when income is recognised over time.
- CIPFA would also note that the disclosure framework under IFRS 15 is substantially increased. It is intended to allow an understanding of the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and includes the disaggregation of revenue, information on performance objectives, the significant judgements made and contract balances. CIPFA would encourage local authority accounts preparers to focus on the materiality of the income that is recognised to ensure that the key messages in local authority financial statements are not obscured.

### Potential impact on the Council

IFRS 9 is expected to have relatively limited impact on most councils, but will at least affect the process of assessing impairment of debtors and other financial assets. As part of the process of adoption, East Ayrshire Council will need to consider the impact on policies, processes, systems and people.

IFRS 15 is not expected to impact the accounts of local authorities, as per guidance issued by the Local Authority (Scotland) Accounts Advisory Commission (LASAAC).

# Technical Update

## IFRS 16 Leases

The effective date of IFRS 16 Leases is 1 January 2019. Therefore (subject to CIPFA/ LASAAC decision) the standard is anticipated to be adopted in the 2019/20 Code.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability **representing the lessee's obligation to make lease payments for the asset.**

The consultation papers and the Exposure Draft have been drafted by CIPFA/LASAAC with the assistance of its sub group. However, both CIPFA and CIPFA/LASAAC are considering new ways of assessing how the standard will impact on local authorities.

CIPFA/LASAAC will issue the consultation as soon as possible and notification of the issue of the consultation will be via Treasurers Societies, the Networks and CIPFA social media or via the CIPFA/LASAAC pages of the CIPFA website. This consideration will also include the assessment of the practical effects of implementation. The consultation papers, for example, include a readiness assessment questionnaire to assist CIPFA/LASAAC with an understanding of the impact (and could also be usefully used by local authorities to assess the issues that need to be considered).

Potential impact on the Council

**The Council continues to engage with CIPFA's consultation. Management is also making preparations by working with all service departments to ensure its lease register is complete, before determining the impact of any new guidance/standard issued.**

£1.1m in operating lease payments over the next five years have been shown in the 2017/18 annual accounts. On this basis, any adjustment required as a result of this new standard is likely to be immaterial.

# Appendices



# 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 Governance and Scrutiny Committee and 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.
- Our internal control observations.
- 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.

This report has been prepared for the Governance and Scrutiny Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

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

for and on behalf of Deloitte LLP  
Glasgow  
27 September 2018

# Audit adjustments

## Misstatements and disclosures

### Uncorrected misstatements

No uncorrected misstatements have been identified up to the date of this report.

### Uncorrected Disclosure misstatements

No uncorrected disclosure misstatements have been identified up to the date of this report.

# Action plan

## Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
East Ayrshire Performs Recommendation	<p>East Ayrshire Performs is the reporting tool the management use to report to Members.</p> <p>Its gives Members an update on financial position and other performance indicators on a quarterly basis.</p> <p>From a financial point of view, the position of each service is given. We recommend that in addition to this an overall (total) position is given, rather than net. This could include:</p> <ul style="list-style-type: none"> <li>- expenditure and income YTD</li> <li>- forecast expenditure and income at year-end</li> <li>- forecast year-end over/underspend position</li> </ul> <p>This would also assist with alignment with the budget set at the start of the year and allow for a useful comparison</p>	The recommendation will be considered as part of a wider review of EAC Performs report format and content.	Corporate Accounting Manager	2019/20	

# Action plan

## Follow up of 2016/17 recommendations

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Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
PPE Valuations	From our property specialists review of the valuations performed in the year, a number of recommendations have been made in relation to the valuation process. These should be taken forward as part of the 2017/18 revaluation exercise.	Future terms of engagement will be expanded to ensure the production of a valuation report detailing the valuation process, the rolling programme, valuation basis and methodology, inspections programme and confirmation that the valuations have been prepared in accordance with relevant professional standards.	Estates Manager	December 2017	High	
Journals	The council should consider the review procedures in place around journals, with the aim of reducing the time consuming process of posting corrections or recoding of transactions that are currently required to be undertaken.	A review of the top 10% of correcting journals will be undertaken to identify the reason the source transaction requires amendment. Thereafter relevant action will be undertaken to update source systems.	Head of Finance and ICT	March 2018	Low	

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# 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 or group.

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 complying with recognition of grant income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management, internal audit and those charged with governance.

**In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements**

We have reviewed the paper prepared by management for the Governance and Scrutiny Committee on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No concerns have been identified regarding fraud.

# Independence and fees

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

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<b>Independence confirmation</b>	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.												
<b>Fees</b>	<p>The audit fee for 2017/18 is £274,230 as detailed in our Audit Plan, with the Charitable Trusts fee at £1,800.</p> <table><tr><td>Auditor remuneration</td><td>166,940</td></tr><tr><td colspan="2">Audit Scotland fixed charges:</td></tr><tr><td>Pooled costs</td><td>14,830</td></tr><tr><td>Performance Audit and Best Value</td><td>81,860</td></tr><tr><td>Audit support costs</td><td>10,600</td></tr><tr><td>Total fee</td><td>274,230</td></tr></table> <p>No non-audit fees have been charged by Deloitte in the period.</p>	Auditor remuneration	166,940	Audit Scotland fixed charges:		Pooled costs	14,830	Performance Audit and Best Value	81,860	Audit support costs	10,600	Total fee	274,230
Auditor remuneration	166,940												
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Pooled costs	14,830												
Performance Audit and Best Value	81,860												
Audit support costs	10,600												
Total fee	274,230												
<b>Non-audit services</b>	<b>In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's</b> policy for the supply of non-audit services or 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.												
<b>Relationships</b>	<p>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.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>												

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# Events and publications

## Our publications and insights to support the Council

### Publications

The State of the State 2017-18  
*Citizens, government and business*

**This year's report finds the UK government amid the complex challenge of leaving the EU.** Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



### Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?

*Accelerating health and care integration*

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

Article: Public sector transformation  
*Five lessons from the private sector*

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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