



South Ayrshire Council

Report to the Audit and Governance Panel, Members of the Council and the Controller of Audit on the 2019/20 audit

Issued on 14 September for the meeting on 24 September 2020

Contents

01 Our report

Introduction 3

Financial statements audit

Quality indicators 8

Our audit explained 9

Significant risks 10

Other areas of focus 14

Other significant findings 18

Our audit report 20

Coronavirus (Covid-19) outbreak 21

Your annual report 22

02 Appendices

Purpose of our report and responsibility statement 24

Audit adjustments 25

Action plan 27

Our other responsibilities explained 29

Independence and fees 30

Quality of public audit in Scotland 31

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 Audit and Governance Panel (“the Panel”) of South Ayrshire Council (“the Council”) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Panel in February 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by Council staff in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to work to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

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 the Accountable Officers’ duty to secure best value.



Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on the completion of our audit work we have issued an unmodified audit opinion.

The impact of COVID-19 has led to a material uncertainty being identified by the Council's property valuers in relation to the valuation of the Council's estate. As a result, we expect to include an 'Emphasis of Matter' paragraph within our audit report.

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.

A summary of our work on the significant risks is provided in the dashboard on page 10.

One uncorrected misstatement arising as a result of a post balance sheet event and three corrected classification misstatements have been identified up to the date of this report, as reported on pages 25 and 26.

Status of the financial statements audit

Our audit is complete.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland.

Our separate detailed report is presented along with this paper and sets out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long-term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While our reports makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on the Council at this stage.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial Management - The Council has strong financial management arrangements. The General Fund and HRA ended the year with an in-year surplus and savings targets were largely achieved. The financial position and variances were transparently reported to the Leadership Panel throughout the year.

There is scope for improvement in the capital budget process given the significant movement between the budget approved at the start of the financial year and the final year-end position. The Council should review its process for setting the capital budget to ensure that the profiling of expenditure over future years is realistic and achievable.

Financial sustainability - The Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21. The current reserves held is at an acceptable level and the planned use of reserves are sustainable in the short term. It is also positive to note that the Council is actively assessing the financial impact of COVID-19 and scenario planning. There does, however, remain a risk, therefore it is important that the position is closely monitored.

We are pleased to note that the Council has published a 10-year Financial Strategy in line with our recommendation.

This is a positive first step to enable the Council to manage the financial challenges that it faces and to make well-informed decisions which are aligned to Council priorities. As part of the planned review of the Strategy during 2020/21 to reflect on the impact of COVID-19, it is important that the Council also build into the scenarios the impact of demand pressures on costs to the Council along with the estimated changes in funding to get a fuller picture of the likely challenges that it faces.

Similarly, the agreement of the transformational themes and support and infrastructure is a positive first step. However, significant work is still required to make the level of transformational change needed based on the current financial forecasts, with COVID-19 likely to further impact on future plans. This needs to be progressed at pace. Workforce planning needs to be closely aligned to this work.

Governance and transparency - The Council continues to have robust governance and scrutiny arrangements in place and appropriate arrangements have been put in place in response to the COVID-19 pandemic.

The Council continues to be open and transparent. It also continues to embrace the principles of Community Empowerment and has a clear focus on improving equality outcomes.

The IJB has made some good progress during 2019/20, achieving a year-end underspend position, starting to repay the debt due to the Council and developing a MTFS. However, some specific issues remain and further work is required to ensure that the partnerships is appropriately resourced and focusing on the areas of most critical concern. It is important that the Council (and NHS Board) have a clear visibility of progress and input into the developments in these areas.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Value for money

There is a clear framework in place to ensure that the Council's performance is monitored and reported with its framework recently updated to reflect current practices. The Council has appropriate arrangements in place to comply with the SPI Direction including its public performance reporting requirements.

The performance of the Council is showing evidence of improvement, although there has been a reduction in comparison with other Councils. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. Given the financial challenges that the Council is facing, it is important that any lessons learned from its response to the pandemic are taken into account as it moves into the recovery phase to consider alternative approaches to service delivery.

Best Value

Subject to the improvements that we have identified within this report, the Council has sufficient arrangements in place to secure best value and has a clear understanding of areas which require further development.

Our conclusions and detailed findings are included in our separate report submitted along with this report. Management have agreed to all the recommendations and are in the process of implementing them.

Next steps

An agreed Action Plan is included as an Appendix on pages 27 to 28 of this report in relation to the financial statements audit. A separate Action Plan on the findings of the audit dimensions work is included in our separate report. We will consider progress with the agreed actions as part of our 2020/21 audit.

Added value

Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout both of our reports. In addition, as information has emerged as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.








Financial statements audit



Quality indicators

Impact on the execution of our audit

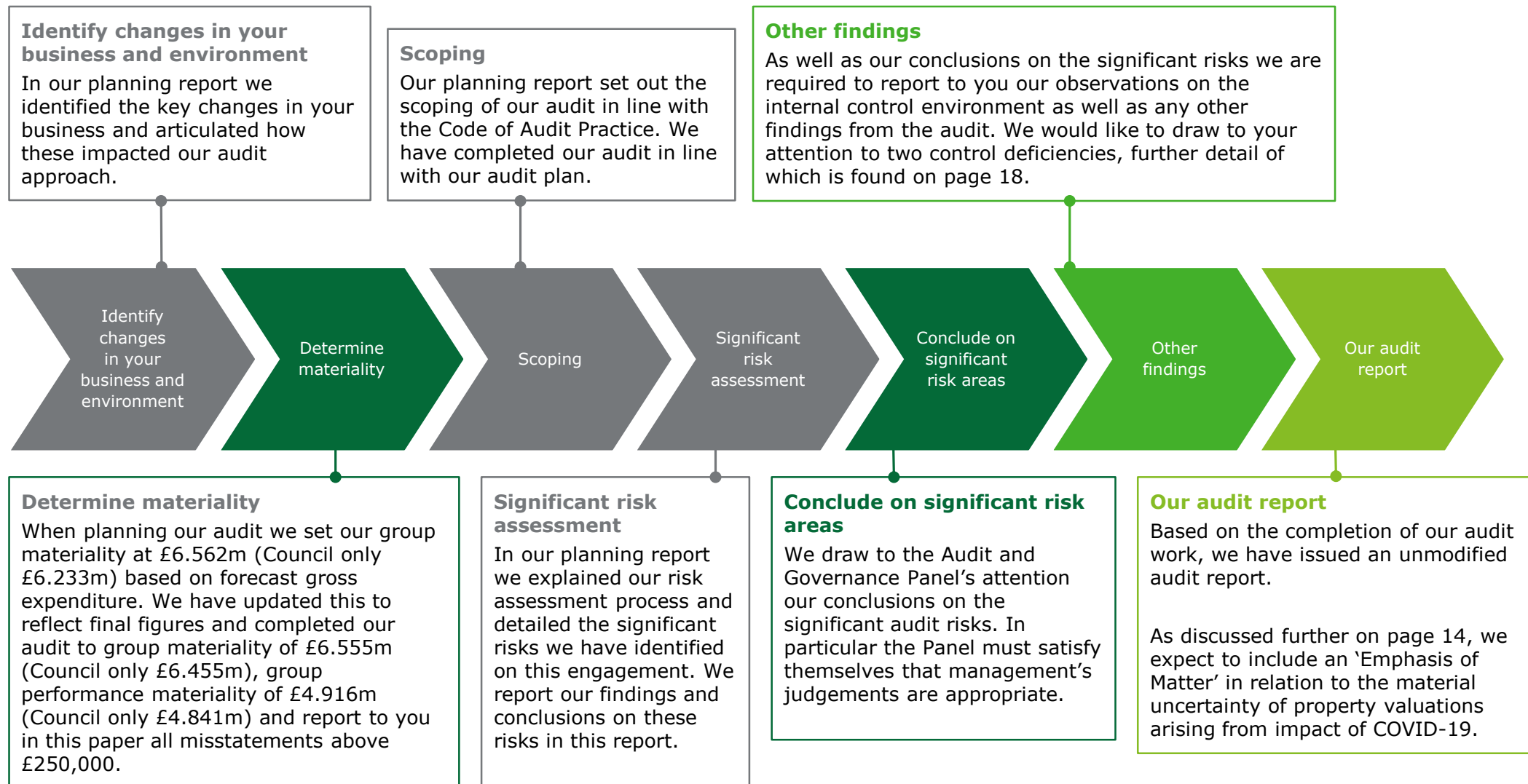
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		Key accounting judgements, such as property, plant and equipment (PPE) valuations and net defined benefit pension asset support was provided on time and were of good quality.
Adherence to deliverables timetable		Key deliverables were provided on time ahead of our final fieldwork on 6 July.
Access to finance team and other key personnel		Deloitte and the Council have worked together to facilitate remote communication during the audit. This has included effective use of such technologies as Skype and Deloitte Connect.
Quality and accuracy of management accounting papers		On the whole documentation provided has been a good standard. Improvements can be made to documentation ahead of commencing the audit, such as performing analytical reviews on balances to understand the reason for significant year-on-year changes (see page 18 for further details), and ensuring that general ledger transaction populations reconcile to the difference between the opening and closing Trial Balances.
Quality of draft financial statements		A full draft of the annual report and accounts was received for audit on 29 June 2020. The draft was of a high standard with limited changes required.
Response to control deficiencies identified		Minor deficiencies were identified, which are detailed on page 18.
Volume and magnitude of identified errors		We have not identified any material financial adjustments to date.







 Lagging  Developing  Mature

Our audit explained

We tailor our audit to your business and your strategy



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Recognition of grant income			D+I		Satisfactory	11
Management override of controls			D+I		Satisfactory	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

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 are summarised in the table below. The General Revenue Grant and Non-Domestic Rates income 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% to third party evidence therefore there is little scope for manipulation. Similarly, the income from the IJB relates to services Commissioned from the Council and can be verified 100%. Council tax 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. Finally, we perform detailed assurance work on housing benefits and therefore are satisfied that these amounts are not a significant risk area.

The significant risk is pinpointed to the recognition of grant income, comprising capital grants and contributions and service specific grants.

Key judgements and our challenge of them



Grant income is a significant risk due to:

- management judgement in determining if there are any conditions attached to a grant and if so whether the conditions have been met; and
- 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 grants credited to services to confirm these have been recognised in accordance with any conditions applicable and applicable accounting standards.

Type of income	2019/20 (£m)	Significant risk
<u>Taxation and Non-Specific Grant Income</u>		
Council tax income	57.406	
Non domestic rates	42.818	
General revenue grant	160.689	
<i>Received capital income</i>	24.987	✓
<u>Service Income</u>		
<i>Grants credited to services</i>	19.477	✓
Housing Benefit Subsidy	27.849	
Housing Revenue Account	32.468	
IJB commission income (book entry)	100.978	
Other Service Income	19.373	
Total Service Income	200.145	

Deloitte view

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

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) 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.



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 underspends in the year. This was closely monitored with a good understanding of the reasons for the variances; and
- 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 and unusual 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 performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Accounting estimates and judgements (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud, as set out in the summary on the following page. We concluded that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements including the pension liability, valuation of property assets, and provisions focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed to date.

Significant risks (continued)

Risk 3 - Management override of controls (continued)

Key judgements The key judgment in the financial statements are those which we have selected to be the significant audit risks around the recognition of grant income (page 11). While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (page 15), the valuation methodology for property valuations, and the recognition of expenditure (page 16). In the table below, we set out our challenge of the assumptions used in the determination of provisions. As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Provisions	The total provisions held within the Council's balance is immaterial, at £1.853m. This comprises provisions in respect of a number of employee related potential claims outstanding at 31 March 2020, outstanding payments for enterprise grants and grants to voluntary organisations and the Council's share of the former Strathclyde Regional Council's insurance claims.	We examined the rationale for each provision, including a retrospective review of amounts provided in 2018/19. In relation to the provision for equal pay, we have tested the completeness of the provisions made through discussion with the Council's legal and HR advisors and benchmarked with our industry knowledge. We have concluded that the provisions made were reasonable.

Other areas of audit focus

Property valuations

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 based on specialist and management assumptions and which can be subject to material changes in value. We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Estate, reviewed the methodology applied by the Council's valuer in previous years and concluded it was robust.

The Council has had an independent valuation carried out at 31 March 2020 for the purposes of the 2019/20 financial statements as part of its five-year rolling programme. The impact of COVID-19 has led to a material uncertainty being identified by the Council's property valuer regarding the valuation of properties. Although our overall assessment of the risk level regarding the Council's property valuation, has not increased to 'significant', we expect to include an 'Emphasis of Matter' in our Independent Audit Report.



Key judgements

The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards, with a full revaluation being carried out in line with previous years. The Council's revaluation has resulted in a net downward revaluation to property values of £2.3m.

The valuer identified a material uncertainty due to the impact of COVID-19 on individual markets, this is in line with RICS guidance published on 18 March 2020, as follows:

"the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, I consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

The valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to these values than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under review."



Deloitte response

- We have engaged our property specialists in relation to the impact of Covid-19;
- We have assessed the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements; and
- We have reviewed the valuers report and assessed managements disclosure of the key source of estimation uncertainty.

Deloitte view

Based on the audit evidence obtained, we are satisfied that the valuation of the Council's estate is appropriate. However, we expect to include an 'Emphasis of Matter' in our Independent Audit Report due to the material uncertainty identified by the valuers concerning valuations at 31 March 2020 due to the impact of COVID-19 on the property market.

This has been appropriately disclosed in the notes to the financial statements.

Other areas of audit focus (continued)

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 Fund, administered by Glasgow City Council.

The net pension liability has decreased from £155.657m in 2018/19 to £94.090m in 2019/20. The decrease is as a result in changes in assumptions, specifically driven by reduced inflation assumptions, resulting in a reduction in the value of pension liabilities, partly offset by a reduction in the return on Scheme assets, resulting in the change in the value of the pension assets.

The Council's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Following recent consultation published by the SPPA subsequent to the year end, the actuary has amended its estimate of the impact of McCloud to only include members that were in service before 1 April 2012. This has resulted in a reduction of £5.343m to the liability disclosed in the draft accounts which has been updated in the final accounts. The actuary has made this adjustment to past service costs, but has not made any allowance within the current service costs for the impact of McCloud, therefore does not fully represent the cost of the benefits accruing for current service. The Council's actuary has estimated that the potential impact of this is a £394,000 understatement of the liability. This is an estimate and the actual cost could be different. As this amount is not material, management have not made this adjustment to the accounts and this has been reported as an uncorrected misstatement in the Appendix at page 25.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement, subsequent to the year-end, is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow). The actuary has amended its estimates to take into account this case, which has resulted in an increase in liability of £1.530m to the liability disclosed in the draft accounts which have been updated in the final accounts.



Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table below.
- We have requested assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary.
- we assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
- we have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities.
- we reviewed the disclosures within the accounts against the Code.

	Council	Comments
Discount rate (% p.a.)	2.3%	Prudent and reasonable
Retail Price Index (RPI) Inflation rate (% p.a.)	2.7%	Prudent end of reasonable range
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.9%	Prudent end of reasonable range
Pension increase in payment (% p.a.)	1.9%	Reasonable
Pension increase in deferment (% p.a.)	1.9%	Reasonable
Salary increases	3%	Real salary increases 1.1% above CPI inflation
Mortality assumptions	Various	Prudent

Deloitte view

Following receipt of the updated accounts to reflect the changes to the liability for both McCloud and Goodwin arising from events after the balance sheet date (net impact was a reduction in liability of £3.813m), we are satisfied that the net pension liability disclosed in the accounts is materially correct. The Council's actuary has estimated the potential impact of McCloud on the current service cost as £394,000 which has been recorded as an uncorrected misstatement in the Appendix on page 25.

Other areas of audit focus (continued)

Expenditure recognition

Risk identified

In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, as discussed further on page 11, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on the basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We have considered this risk for the Council and concluded that we are satisfied that the control environment is strong and there is no history of errors or audit adjustments. This has therefore not been assessed as a significant risk area, but continued to be an area of audit focus.



Deloitte response

We performed the following procedures using data analytics to address the above risk:

- A review of the number and median value of invoices processed in the year. As illustrated in table opposite, based on the median amount, the Council would need to omit over 50,000 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 2,561 invoices were processed. We therefore concluded that a risk of material misstatement was remote.
- An analytical review to test the completeness and accuracy of year-end creditor balances. From this testing, we identified a classification error (discussed on page 25 along with a related recommendation on page 27). However, we are satisfied that this does not impact the overall expenditure recognised in the year.

	Invoice Analysis
Median invoice amount	£113.12
Average number of invoices processed per month	8,235
Number of invoices that would need to be unrecorded to cause a material misstatement	54,208
Total invoices processed in April 2020 (one month after year-end)	2,561 (total value £9.657m)

Deloitte view

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

Other areas of audit focus (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. South Ayrshire Council administers three such registered charities – South Ayrshire Charitable Trust (SACT), South Ayrshire Council Charitable Trusts (SACCT) and the McKechnie Library Trust. In 2019/20 the Council has opted to combine South Ayrshire Charitable Trust and South Ayrshire Council Charitable Trusts into a single set of accounts, although legally these are still two separate entities. This is in accordance with the connected charities rules and in line with our previous year's recommendation.

As the gross income of each of the Trusts 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.

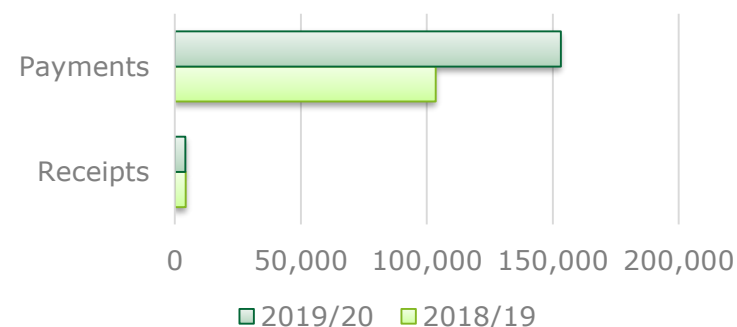


Deloitte response

We have assessed that the Statement of Receipts and Payments and the Statement of Balances to ensure these have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006. Initial feedback has been provided to management on the draft accounts and we await updated accounts to reflect the presentational changes suggested.

A summary of the key movements is provided in the table adjacent. We note that there has been a significant increase in activity in the Trusts over the last 12 months, with the increase in activity largely relating to an increase in payments relating to the disbursement of grant funding, particularly in relation to the Ayr, and Prestwick and Monkton committees.

Charitable Trusts Payments and Receipts (£)





Deloitte view

Subject to receipt of the updated accounts to reflect the agreed changes, we anticipate issuing an unmodified opinion for the charitable trusts.

Other significant findings

Internal control

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

Area	Observation	Priority
Financial statements	<p>We identified errors above our reporting threshold of £250,000 in relation to the classification of debtors and creditors within Note 12 (Debtors) and Note 15 (Creditors), further details of which are included on page 26. We recommend the following improvements be made to the year-end process:</p> <ul style="list-style-type: none">• that a control be implemented, around the year-end financial reporting process, to perform an analytical review on all balances to understand the reason for the year-on-year changes. This analytical review should be performed at the level of the disclosure note classifications, and further disaggregated to account code if required (e.g. where the year-on-year movements are not immediately understood without further disaggregation of the balance); and• more specific to debtors and creditors, that more guidance be provided to individuals in the Service Areas who are involved in classifying the debtors and creditors, to set out when a balance should be classified as a 'trade' debtor/creditor and when it should be classified as 'other' to ensure consistent classification year-on-year.	
IT controls	<p>As part of IT our review of the Council's systems, we identified a number of control deficiencies identified by our IT specialists which have been communicated to management. These covered areas including starters and leavers processes, user access reviews and strengthening of password parameters. Management had already recognised these risks and work has been ongoing in a number of these areas to strengthen controls across Council systems.</p>	

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)

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The Council's accounts have been prepared in accordance with the Local Authority Code of Practice (the Code). The accounting policies adopted are in line with the Code.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation, including the impact of the material valuation uncertainty on PPE valuations.

We will obtain written representations from the Council on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

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.



Our opinion on the financial statements

We have issued an unmodified audit opinion.



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.

While the Council is faced with financial sustainability issues (as summarised on page 5), it achieved a balanced budget in 2019/20 and has agreed a balance budget for 2020/21. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



Emphasis of matter and other matter paragraphs

As discussed on page 14, we expect to include an 'Emphasis of Matter' paragraph within our audit report in relation to the material uncertainty associated with the property valuations.

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 21.

Coronavirus (Covid-19) outbreak

Impact on the annual report and audit

The current crisis is unprecedented in recent times. The NHS and care sector is most directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and the Panel need to consider. CIPFA has issued guidance relating to the impacts on the annual report to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

Impact on Council annual report and financial statements

The Council need to consider the impact of the outbreak on the annual report and financial statements including:

- Principal risk disclosures.
- Change in the funding regime for 20/21.
- Property valuation material uncertainty.
- Impairment of non-current assets.
- Allowance for expected credit losses.
- Fair value measurements based on unobservable inputs.
- Onerous contracts and any potential provisions.
- Going concern.
- Events after the end of the reporting period.

Impact on our audit

COVID-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some Council staff.
- The teams have had regular status updates to discuss progress and facilitate the flow of information.
- Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
- In conjunction with the Council staff, we will continue to consider any developments for potential impact up to the finalisation of our work in September 2020.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. 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.</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>Following minor amendments made during the course of the audits, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</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 benefits, pay bands, and exit packages and apart from minor disclosure misstatements, which have been corrected, we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement (AGS) is consistent with the financial statements and has been prepared in accordance with the accounts regulations. We have required management to make slight changes to include information on how actions raised in last year's AGS have been addressed. Further to this change, we are satisfied that the AGS is consistent with the financial statements, our knowledge and the accounts regulations.

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 Audit and Governance Panel and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 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; and
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the Audit and Governance Panel and the 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.

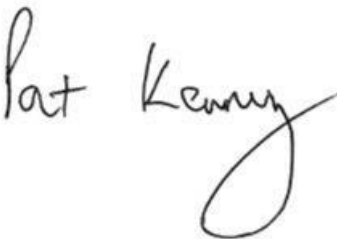
What we don't report

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 procedures performed in fulfilling our audit plan.

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



Pat Kenny, CPFA
For and on behalf of Deloitte LLP
Glasgow | 14 September 2020

Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report. The uncorrected misstatements have no impact on the overall General Fund position.

		Debit/ (credit) CIES £m	Debit/ (credit) MIRS £m	Debit/ (credit) net assets £m	Debit/ (credit) reserves £m	If applicable, control deficiency identified
Pension Liability – McCloud current service costs	[1]	0.394	(0.394)	(0.394)	0.394	N/A
Total		0.394	(0.394)	(0.394)	0.394	

[1] As discussed on page 15, the actuary has not made any allowance within the current service costs for the impact of McCloud, therefore does not fully represent the cost of the benefits accruing for current service. The Council's actuary has estimated that the potential impact of this is an £0.394m understatement of the liability. As the pension liability is fully mitigated by statutory adjustments, this misstatement has no impact on the overall General Fund position.

Audit adjustments (continued)

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) CIES £m	Debit/ (credit) net assets £m	Debit/ (credit) prior year in net assets £m	Debit/ (credit) reserves £m	If applicable, control deficiency identified
Debtors – trade receivables	[1]		0.213			Page 18
Debtors – prepayments			0.203			
Debtors – other receivable amounts			-0.416			
Creditors – trade creditors	[2]		4.944			Page 18
Creditors – other payable amounts			-4.944			
CIES - Social Care: Contribution to IJB	[3]	3.435				
CIES – Social Care: Provision of Services		-3.435				
Total		0.000	0.000			

[1] Council tax bad debtor amounts of £0.416m were incorrectly classified as 'other receivable amounts' when they should be classified as 'trade receivables', and prepayment amounts totalling £0.203m were incorrectly classified as 'trade receivable' amounts in 2019/20.

[2] holiday pay accrual amounts have been inconsistently classified as 'other payable amounts' in 2019/20 when they were classified as 'trade creditors' in 2018/19. Given that these amounts relate to the employee costs incurred in the year in relation to costs incurred in the normal course of business, it makes more sense to classify these as 'trade creditors'.

[3] adjustment to contribution to IJB and provision of services to reflect the final IJB outturn.

In relation to the above two corrected disclosure misstatements, a control deficiency has been identified, which has been detailed on page 18, as well as in the Action Plan on page 27, and which management have agreed to implement.

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Financial statements</i>	<p>As discussed on page 18 we identified errors above our reporting threshold of £250,000 in relation to the classification of debtors and creditors within Note 12 (Debtors) and Note 15 (Creditors). We recommend the following:</p> <ul style="list-style-type: none">• that a control be implemented, around the year-end financial reporting process, to perform an analytical review on all balances to understand the reason for the year-on-year changes. This analytical review should be performed at the level of the disclosure note classifications, and further disaggregated to account code if required (e.g. where the year-on-year movements are not immediately understood without further disaggregation of the balance); and• more specific to debtors and creditors, that more guidance be provided to individuals in the Service Areas who are involved in classifying the debtors and creditors, to set out when a balance should be classified as a 'trade' debtor/creditor and when it should be classified as 'other' to ensure consistent classification year-on-year.	Existing year-end processes will be strengthened and additional measures introduced as appropriate in order to identify potential inconsistencies between year-on-year classifications and disclosures at an early stage in the Annual Accounts process.	Service Lead - Corporate Accounting	31 March 2021	Low

Action plan (continued)

Follow-up prior year action plans

We have followed up the recommendation made in our 2018/19 annual report in relation to the financial statement areas and are pleased to note that this has been fully implemented. Note that the below summary does not cover the separate wider scope areas which are considered in our separate paper on the wider scope.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Charitable Trusts – accounts	In our 2017/18 report, we noted the connected charity provisions in place under The Charities Accounts (Scotland) Regulations 2006 allow charities with common trustees to combine their annual accounts and as a result reduce the number of separate annual accounts to be published. We recommend the Council reviews this guidance and considers the option of combining the three trusts into one set of annual accounts going forward.	Following the implementation of the Corporate Accounting Service review, progress has now begun combining sole-control Trusts into one set of accounts in line with the recommendation.	Head of Finance & ICT and Head of Regulatory Services	Original target: March 2019 Revised target: March 2020	Low	Fully implemented – charity accounts prepared using connected charities provision in 2019/20.

Our other responsibilities explained

Fraud responsibilities and representations



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 the 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 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 audit 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), we are required to report to you on the matters listed below:

Independence confirmation We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Governance Panel for the year ending 31 March 2020 in our final report to the Audit and Governance Panel.

Fees The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £277,040 as analysed below:

	£
Auditor remuneration	171,210
Audit Scotland fixed charges:	
Pooled costs	16,750
Performance Audit and Best Value	78,730
Audit support costs	10,350
Total proposed fee	277,040

In addition, the audit fee for the charitable trusts audit is £1,200.

There are no non-audit services fees proposed for the period.

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's 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.

Relationships We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

Quality of public audit in Scotland

Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.