

Ayrshire Valuation Joint Board

Report to the Board and the Controller of Audit on the 2021/22 audit

Issued on 15 November 2022 for the meeting on 22 November 2022

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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 Annual Accounts.
- 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 Board of Ayrshire Valuation Joint Board (“the VJB” “the Board”) for the year ended 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Board in March 2022.

This report summarises our findings and conclusions in relation to:

- The audit of the **annual accounts**; and
- Consideration of the **wider scope requirements** of public sector audit. As set out in our plan, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the “small body” clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:
 - The appropriateness of the disclosures in the governance statement; and
 - The financial sustainability of the Board and the services that it delivers over the medium to longer term.

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The Management Commentary and Annual Governance Statement comply with the statutory guidance and proper practice and are consistent with the annual accounts and our knowledge of the Board.

The auditable parts of the Remuneration Report have been prepared in accordance with the relevant regulations.

A summary of our work on the significant risks is provided in the dashboard on page 8.

We have not identified any misstatement above our reporting threshold.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions

Financial sustainability – As with previous years, the Board are projecting to achieve short term balance in 2022-23. This position will be achieved through the use of reserves and savings from payroll management, software maintenance reduced costs and other administrative cost savings. The Board continues to achieve healthy reserve levels ensuring minimum level uncommitted General Fund balances at 2% of net budgeted expenditure.

We are happy to report that the Board revisits the medium-term financial position as part of its annual budget setting process. In addition, the forecasted reserves are at an acceptable level, based on a realistic financial model. Furthermore, the Board have designed a well-structured Workforce Plan with accountable persons and clear objectives. However, the recommendations from the prior period to improve the workforce plan now have a delay in implementation date. Our detailed findings and conclusions are included on page 27 of this report.

Governance and transparency – The Board has robust governance structures in place and continues to be open and transparent.

Next steps

An agreed Action Plan is included on page 27 of this report, including a follow-up of progress against prior year actions.

Added value

Our aim is to add value to the Board 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 Board promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Board, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Board, management and staff for the good working relationship over the period of our appointment.

Pat Kenny
Associate Partner

Annual Accounts 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
	FY22	FY21	FY20	
Timing of key accounting judgements				There were no significant accounting judgments included within the VJB Annual Accounts, which is in line with our expectations and understanding of the VJB.
Adherence to deliverables timetable				Management provided evidence for the Annual Accounts audit in a timely manner, with 100% of deliverables provided in line with agreed deadlines. Any follow-up requests during the audit were actioned quickly.
Access to finance team and other key personnel				Deloitte and the VJB have worked together to facilitate remote communication during the audit which has been successful. There have been no issues with access to the finance team or other key personnel for the Annual Accounts audit.
Quality and accuracy of management accounting papers				Documentation provided has been of a high standard, which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Accounts. This is borne out by the resubmission rate on requests for the audit being low, with the only resubmission request being in relation to the figures disclosed within the related party note within the Annual Accounts.
Quality of draft financial statements				A full draft of the Annual Accounts was received for audit in good time.
Response to control deficiencies identified				We did not identify any control deficiencies relating to the financial statements during our audit.
Volume and magnitude of identified errors				We have not identified any financial misstatements as at the date of this report.

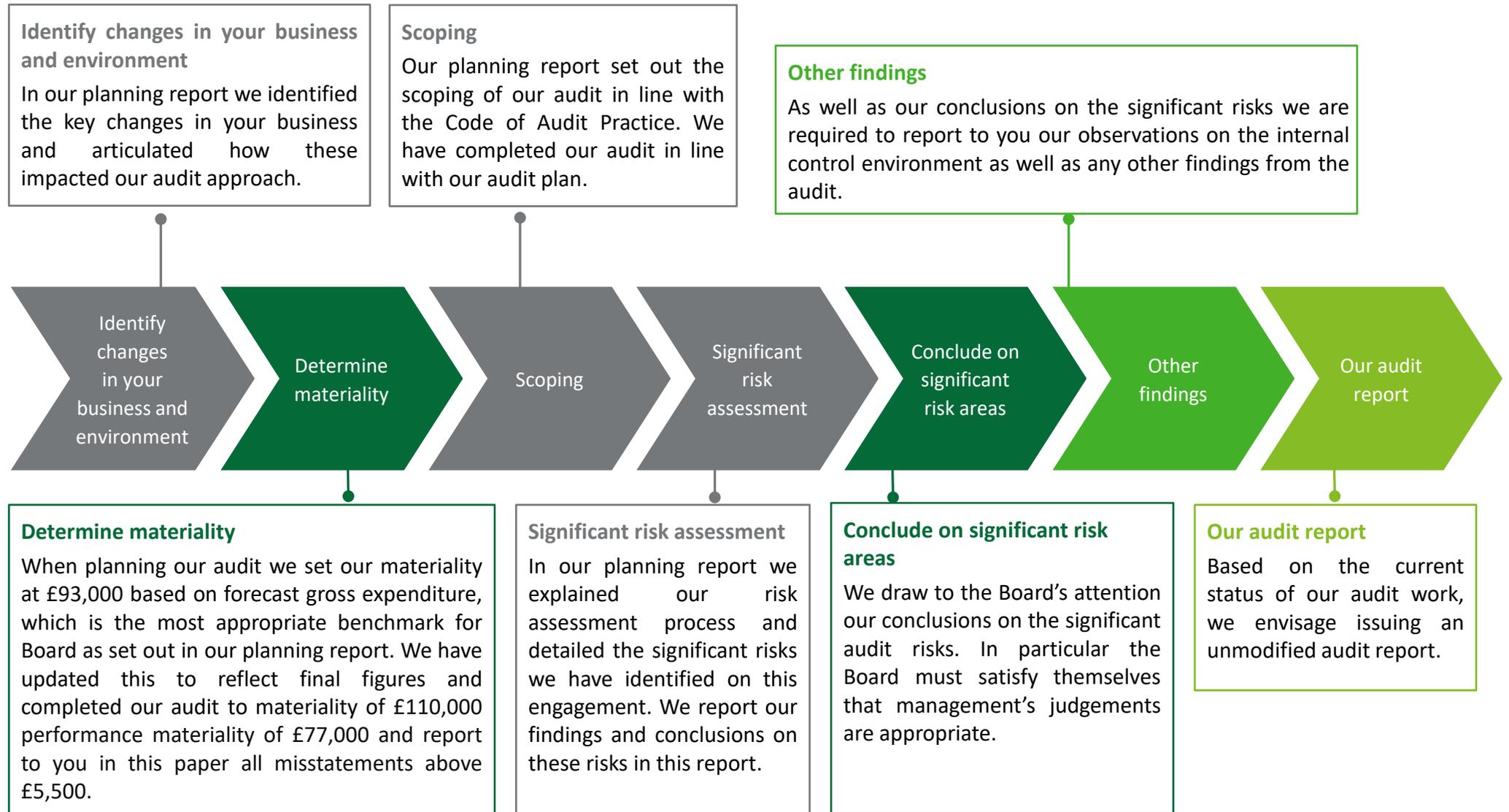
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Developing

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	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Occurrence of income			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory as at the date of this report		Satisfactory as at the date of this report	10

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)

Occurrence of income



Risk identified and key judgements

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 income recognition, evaluate which types of income, income transactions or assertions give rise to such risks.

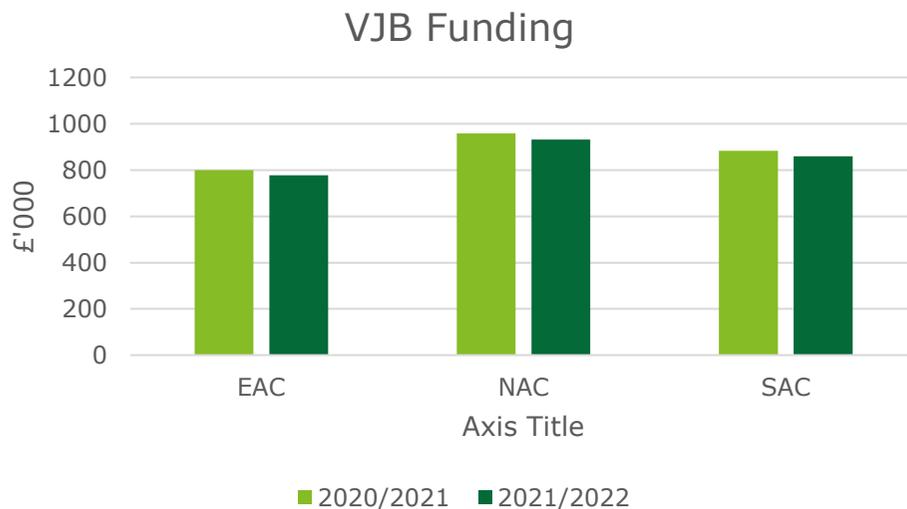
The main components of income for the VJB are requisitions namely East Ayrshire Council (EAC), North Ayrshire Council (NAC) and South Ayrshire Council (SAC). The significant risk is pinpointed to the recognition of this income, being occurrence of income received from the Councils given the reliance of the Board on this income and the potential that funding partners may not provide additional income to cover overspends.



Deloitte response and challenge

We have performed the following:

- Assessed the final year-end position to establish whether an underspend or overspend has been achieved;
- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any reductions have been appropriately applied;
- tested the reconciliations performed by the Board at 31 March 2022 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2021/22 have been reviewed on a regular basis; and
- assessed the design and implementation of the controls around recognition of income.



Deloitte view

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

Significant Risks (continued)

Management override of controls



Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Accounts and accounting records.



Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. We have not identified any significant accounting estimates and judgements from our testing; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Accounts of the prior year.

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.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Other Areas of Audit Focus (continued)

Defined benefits pension scheme

Background

The Board participates in the Strathclyde Pension Fund, a funded defined benefit scheme administered by Glasgow City Council.

The net pension asset has increased from £1.43m in 2020/21 to £3.856m in 2021/22. The increase is combination of an increase of £1.3m in the fair value of the assets and an increase of £141,000 in the liabilities as a result of demographic changes and financial assumptions.



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; and
- We reviewed the disclosures within the accounts against the Code

	Board	Comments
Discount rate (% p.a.)	2.7	Within reasonable Range
RPI Inflation (% p.a.)	3.65	
CPI Inflation (% p.a.)	3.2	
Pension increase in payment (% p.a.)	3.2	
Salary increase (% p.a.)	3.9	In line with funding valuation
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65)	19.6/ 22.4	Within reasonable range
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	21.0/ 24.5	

The Board's pension liability continues to be impacted by the ongoing legal cases – known as McCloud and Goodwin. Our pension specialists have considered the impact and concluded as follows:

- **McCloud** – this case is in respect of possible discrimination in the implementation of transitional protections following the introduction of the reformed public services pension schemes from 1 April 2014 and 2015. The actuary has advised that allowance for McCloud has been included within the current service cost, consistent with the prior year.
- **Goodwin** – this is a legal challenge made against the Government in respect of unequitable benefits for male dependants of female members (based on service after 1988) following the earlier Walker ruling. We have confirmed that this has been included in the actuary valuation.

Deloitte view

At time of issuing, the final reports from our internal pension specialists conclude no issues arising based on the work performed to date, which includes a review of the impact of McCloud, Goodwin and various assumptions.

Other Significant Findings

Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The Board has prepared its Annual Accounts in line with the Code of Practice on Local Authority Accounting. We are satisfied that the Board's accounting practices are appropriate.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation.

Regulatory change

IFRS 16, Leases, comes into effect mandatorily for local government bodies in Financial Year 2024/2025 but with strong encouragement for adoption in financial year 2022/23. We are satisfied that management have reviewed the potential impact of IFRS 16 and agree with management's conclusion that none of the AVJB's current lease agreements fall under the scope of the standard.

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.

We will obtain written representations from the Board on matters material to the Annual Accounts 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

Based on our audit work completed to date, we expect to issue 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.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the Annual Accounts 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 narrative parts of the Annual Accounts is reviewed in its entirety for material consistency with the annual accounts 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 as discussed further on page 14.

Your Annual Report

We are required to provide an opinion on the auditable parts of the Remuneration Report, the Annual Governance Statement and whether the Management Commentary is 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 Board also focuses 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>
Remuneration Report	The remuneration report must be prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Board 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 Delivering Good Governance in Local Government Framework.

Audit Dimensions



Audit dimensions

Overview

As set out in our Audit Plan, 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 areas. In line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the “small body” clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our Audit Plan has not changed. Our work in this area was restricted to concluding on:

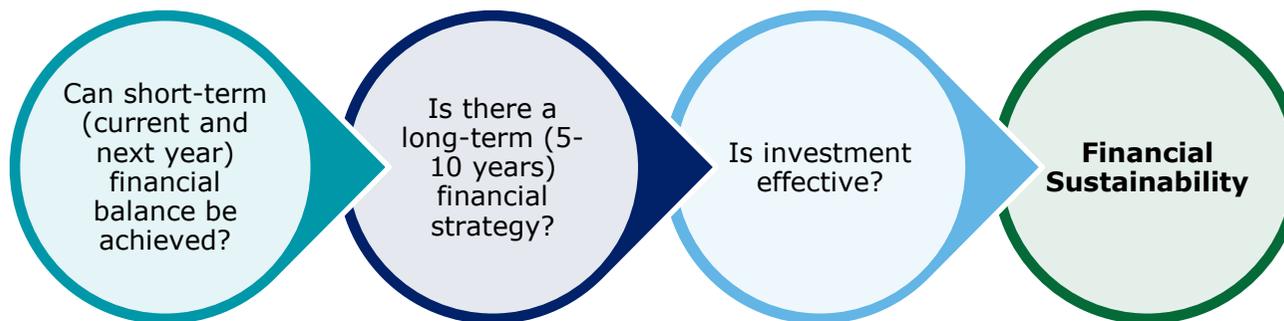
- The appropriateness of the disclosures in the **governance statement** (which is discussed on page 14); and
- The **financial sustainability** of the Board and the services that it delivers over the medium to longer term.

In addition to the above, we have reviewed the Board’s arrangements for the **prevention and detection of fraud and irregularities**. Overall we found the Board’s arrangements to be effectively designed and appropriately implemented.

The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Financial sustainability

Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following area(s) of focus:

- Reviewal of the Board's medium to longer term financial plan to ensure that it includes a capital plan, scenario planning and sensitivity analysis;
- To ensure that the financial plan has built in funding for the additional responsibilities from the Barclays Review; and
- Consideration of any additional implications of EU withdrawal and the COVID-19 pandemic on the Board's financial sustainability.

Short-term financial planning

2020-21 conclusion: The Board achieved short term financial balance in 2020-21 and have approved an expenditure budget of £2.759m for 2021-22. This has incorporated an initial budget gap of £0.163m which will be offset by the Board's reserves. There has been no increase to the core revenue requisitions for 2021-22. In addition, there have been no associated risks with the budgetary approach.

2021-22 update: The Board achieved short term financial balance in 2021-22 and have approved an expenditure budget of £2.823m for 2022-23. This has incorporated an initial budget gap of £0.254m which will be offset by the Board's reserves. There has been no increase to the core revenue requisitions for 2022-23 as this will remain at £2.57m. In addition, there has been no associated risks with the budgetary approach.

As part of the 2022-23 budget, the Board have projected efficiency savings for the future financial year determining a saving of £0.078m by increasing the Board's payroll management target and savings on software management and other administrative costs. This savings target is realistic and achievable for the Board in the short-term.

The Board also continues to achieve healthy reserve levels ensuring a minimum level of uncommitted General Fund balances at 2% of net budgeted expenditure.

Finally, the Board continue to keep members of the public engaged through their duty to report. On their website, they frequently upload Board minutes as well as formal written documentation in support of these minutes.

Financial sustainability (continued)

Short-term financial planning (continued)

2021-22 conclusion: The Board has a robust planning, monitoring and budgetary process in place for achieving savings. Historically, the Board has achieved the majority of savings targets in place. In addition, the current reserves held are at an acceptable level. However, the Board should consider that the staff vacancy savings are not sustainable in the medium-term given that the vacant posts are essential. The Board should focus on recruitment for these vacancies and consider sustainable savings elsewhere.

Medium-to long-term financial planning

2019-20 conclusion: We are pleased to note that there is now a medium term financial strategy in place which addressed funding for the next three years to 2022/23.

2021-22 update: The Board have a medium-term financial plan which looks at 2021-22 – 2022-23. This has been incorporated within the budget setting process and was established during the prior year audit in response to our prior year recommendation to implement a medium term financial strategy.

In addition to this medium-term plan, the Board also have a “Corporate Plan”. This plan sets out strategic content for the need to modernise the AVJB and implement transformational change. At current, the Board are delivering this successfully through the use of software updates and digitalising their paper records.

The funding gap for 2022-23 is 2022-22 is £253,595 which is £90,595 more than 2021-22. This represents an increase of 56% for 2022-23. This is attributed to non-recurring costs for extending the assessor’s contract and projected increased payroll costs. The Board intend to draw on their reserves to address these budget gaps.

2022-23 conclusion: It is positive that the Board revisits the medium-term financial position as part of its annual budget setting process. However, we recommend that the board guard against increments in the funding gap.

In addition, the forecasted reserves are at an acceptable level, based on a realistic financial model. The Board should continue to monitor its reserve levels to ensure it is able to maintain it at the minimum of 2% of net expenditure in line with the reserves strategy.

Financial sustainability (continued)

Workforce Planning

2020-21 conclusion: The Board implemented a second Workforce Plan covering 2022-2024. There are clear accountable persons for each objective to ensure that each action is being carried out, however for some objectives, the time-frames are unclear. Furthermore, there is no mention of mental health within the plan. This should be considered by the Board given the ongoing pandemic and the heightened importance of well-being.

2021-22 update and conclusion: The recommendations made to the Workforce Plan have not yet been finalized and the amended Workforce Plan incorporating those two changes is under review, with a revised target completion date of 31 March 2023.

Deloitte view – Financial sustainability

The Board achieved short term financial balance in 2021-22 and have approved an expenditure budget of £2.823m for 2022-23. This has incorporated an initial budget gap of £0.254m which will be offset by the Board's reserves. The balanced budget has been a consequence of savings for the Board due to payroll management, software maintenance and other administrative cost savings. The Board continue to adopt healthy reserve levels ensuring minimum level uncommitted General Fund balances at 2% of net budgeted expenditure.

The funding gap for 2022-23 is more than 2021-22. This represents an unfavourable increase of 56% for 2022-23. The Board should be mindful of this, even as they maintain that the causes for the increase are due to non-recurring costs including the assessor's contract extension.

It is positive that the Board revisits the medium-term financial position as part of its annual budget setting process. In addition, the forecasted reserves are at an acceptable level, based on a realistic financial model. The Board should continue to monitor its reserve levels to ensure it is able to maintain it at the minimum of 2% of net expenditure in line with the reserves strategy.

The Board have designed a well-structured Workforce Plan with accountable persons and clear objectives. However, consideration to employees' mental health should be included. This is yet to be implemented, and we note the target completion date of 31 March 2023 above.

Best Value

It is the duty of the VJB to secure **Best Value** as prescribed in Part 1 of the Local Government in Scotland Act 2003. We have a statutory duty to be satisfied that the VJB have made proper arrangements for securing Best Value.

Duty to secure Best Value

1. It is the duty of the VJB to make arrangements which secure Best Value
2. Best Value is continuous improvement in the performance of the VJB's functions
3. In securing Best Value, the VJB shall maintain an appropriate balance among:
 - a) The quality of its performance of its functions
 - b) The cost to the VJB of that performance
 - c) The cost to persons of any service provided by the VJB for them on a wholly or partly rechargeable basis
4. In maintaining that balance, the VJB shall have regard to:
 - a) Efficiency
 - b) Effectiveness
 - c) Economy
 - d) The need to make the equal opportunity requirements
5. The VJB shall discharge its duties in a way that contributes to the achievement of sustainable development
6. In measuring the improvement of the performance of the VJB's functions, regard shall be had to the extent to which the outcomes of that performance have improved

The VJB has taken steps in the year to improve medium-term planning with regards to its workforce and financial planning, although further work is needed to develop detailed plans to demonstrate how services will be delivered within the financial resources available.

The VJB's performance against KPIs remains strong, both against internal targets and by comparison to comparable bodies across Scotland.

The Board has responded positively to the recommendation made in our 2020/21 audit report and has a clear plan in place to further enhance its governance and transparency arrangements as discussed throughout this report.

Deloitte view – Best Value

The Board has made good progress in starting to implement the recommendations and associated actions arising from the 2020/21 audit report and has a clear understanding of areas which require further development.

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 Board 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 Accounts;
- 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 annual accounts.

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

Use of this report

This report has been prepared for the Board, 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.

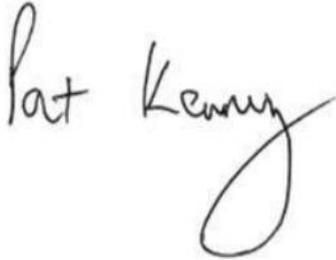
What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

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 | 15 November 2022

Sector Developments



Local government in Scotland

Financial overview 2020/21

Background and overview

The Accounts Commission published its Local government in Scotland financial overview 2020/21 in March 2022. This covers the first full year that makes clear the impact of COVID-19. It also looks ahead to the medium-to-longer term financial outlooks for Councils. While specifically referring to Councils, a number of the key messages are equally relevant for the VJB as a local government body.

Key messages

Local government finances 2020/21

- The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.
- When Covid-19 funding is excluded, there has been a real terms underlying reduction of 4.2 per cent in local government funding since 2013/14.
- The underlying increase in Scottish Government funding of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants. Ring-fenced funding helps support delivery of key Scottish Government policies but constrains a proportion of the total funding and resources and removes any local discretion over how councils can use these funds.
- Councils' income from customers and clients was affected by Covid-19 restrictions and fell by £0.5 billion.
- In 2020/21, all councils reported surpluses and increased their usable reserves. The total increase in reserves was £1.2 billion (46 per cent). This increase was mainly due to late Covid-19 funding, which was unspent at 31 March 2021.
- Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government in 2020/21, putting additional pressure on finance staff across councils.

Medium and longer-term outlook for local government finances

- Scottish Government capital funding to councils is expected to fall again in 2021/22.
 - Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.
 - Covid-19 resulted in revised medium term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.
-

Local government in Scotland (continued)

Financial overview 2020/21 (continued)

Key observations

Reserves – Most of the increase in the general fund is committed to Covid-19 recovery.

Financial management and transparency - Management commentaries in councils accounts have improved, but many are still not complying with previous recommendations on transparency

Budgets for 2021/22 - The uncertainty over the funding position for Covid-19 at the end of 2020/21 led to issues in budget setting and many councils established Covid-19 budgets in autumn 2021

Medium and long-term financial planning - Covid-19 resulted in revised medium term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.

Audit Scotland Recommendations

Elements of Covid-19 funding that are being carried forward in general earmarked and unearmarked reserves in the accounts should be clearly identified.

We recommend again that councils review and improve how they comply with these key expectations of transparency, in particular:

- Is the outturn against budget position for the year clearly shown, and are the reasons for significant variances obvious?
- Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements, and are major differences explained?
- Is progress against agreed savings reported?

We expect councils to agree spending plans and timescales for Covid-19 recovery reserves with the relevant decision making committee.

All councils will now need to revise medium term financial plans to reflect additional financial pressures and updated funding arrangements and to account for updated savings requirements and financial assumptions. Councils should also review longer-term planning as Covid-19 uncertainty diminishes.

Next steps

The Board should consider each of the above recommendations (where they equally apply to VJB and Councils) and incorporate into plans where not already considered. The full report is available through the following link: [Local government in Scotland: Financial overview 2020/21 | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/local-government-in-scotland-financial-overview-2020-21)

Appendices



Audit Adjustments

Corrected, Uncorrected, Disclosure

There have been no misstatements identified up to the date of this report whether corrected, uncorrected or disclosure misstatements in nature

Action Plan – Follow Up 2020/2021

We have followed up the recommendations made in our previous years audits. The two matters raised in the prior period have been fully implemented.

Recommendation	Management Response	Priority	Management update 2021/22
<p>1.1 Workforce Plan</p> <p>The Board should consider implementing appropriate deadlines for each of these objectives so that they can be continually monitored.</p>	<p>The Board’s Workforce Plan will be updated to incorporate this recommendation and presented for Members’ approval at the next Board meeting.</p> <p>Responsible Person: The Assessor Target Date: 31/01/2022</p>	<p>Low</p>	<p>The Workforce Plan is currently under review the new Assessor & ERO, ahead of being presented to the Board for consideration in early 2023. The Plan will incorporate the audit recommendation of implementing deadlines for each objective and in addition will link to targets and key dates contained in the Corporate Plan, Service Plan and Strategic Risk Register.</p> <p>(Revised Target Date: 31 March 2023)</p>
<p>1.2 Workforce Plan</p> <p>The Board should implement an objective and action concerning the well-being of staff members.</p>	<p>The Board’s Workforce Plan will be updated to incorporate this recommendation and presented for Members’ approval at the next Board meeting.</p> <p>Responsible Person: The Assessor Target Date: 31/01/2022</p>	<p>Medium</p>	<p>Not yet implemented</p> <p>The Workforce Plan will incorporate the audit recommendation of addressing the well-being of staff members, through links to the Employee Wellbeing section of the Board’s Remote Working Policy, Mental Health Improvement Training and other on-going initiatives.</p> <p>(Revised Target Date: 31 March 2023)</p>
			<p>Not yet implemented</p>

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 auditor, 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 Board 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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity.

We have also asked the Board 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 relation to occurrence of 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.

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 AVJB and our objectivity is not compromised.

Fees

The audit fee for 2021/22, in line with the expected fee range provided by Audit Scotland, is £7,820, as analysed below:

	£
Auditor remuneration	6,760
Audit Scotland fixed charges:	
Pooled costs	700
Contribution to AS Costs	360
Total fee	7,820

No non-audit services fees have been charged for the period.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the organisation'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.



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