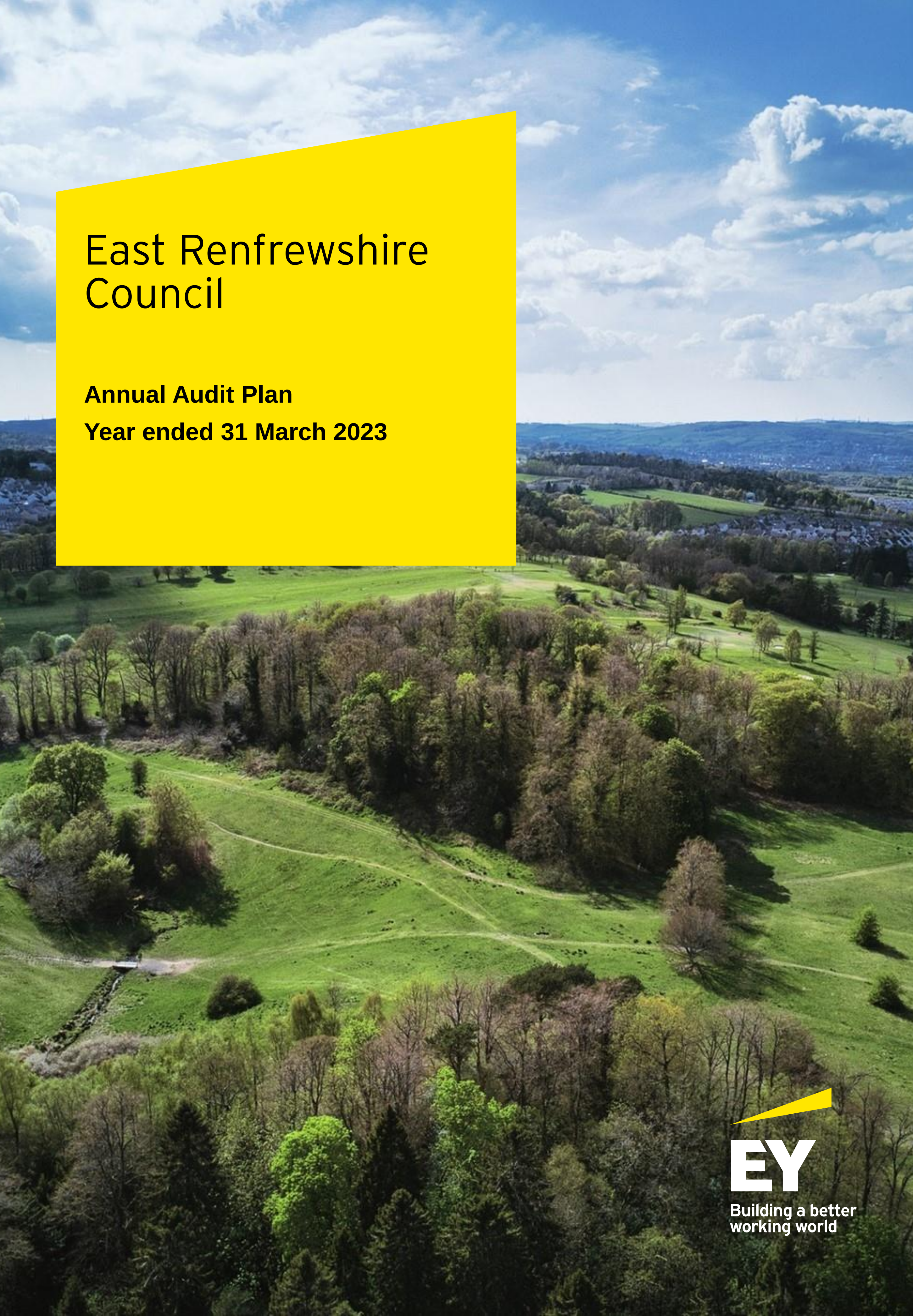
East Renfrewshire Council

Annual Audit Plan

Year ended 31 March 2023



Building a better working world

This report

This report has been prepared in accordance with Terms of Appointment Letter, through which the Auditor General has appointed us as external auditor of East Renfrewshire Council for financial years 2022/23 to 2026/27.

This report is for the benefit of the Council and is made available to the Auditor General and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Accessibility

Our Annual Audit Plan will be available on Audit Scotland’s website and we have therefore taken steps to comply with the Public Sector Bodies Accessibility Regulations 2018.

Contents

1. Executive summary

Purpose of our plan

The Auditor General for Scotland appointed EY as the external auditor of East Renfrewshire Council ("the Council") for the five year period to 2026/27.

This Annual Audit Plan, prepared for the benefit of management and the Audit and Scrutiny Committee, sets out our proposed audit approach for the audit of the financial statements for the year ending 31 March 2023. In preparing this plan, we have developed our understanding of the organisation through:

- introductory planning discussions with management, and the Chair of the Audit and Scrutiny Committee;
- handover discussions and review of key documentation from your predecessor auditor, Audit Scotland;
- review of key documentation and committee reports; and
- our understanding of the environment in which the Council is currently operating.

Our audit quality ambition is to consistently deliver high-quality audits that serve the public interest. A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, including observations around where the Council employs best practice and where processes can be improved. We use data insights to form our audit recommendations to support the Council in improving its practices around financial management and control, and in aspects of the wider scope dimensions of audit. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements.

After consideration by the Council's Audit and Scrutiny Committee, the finalised plan will be provided to Audit Scotland and published on their website.

Scope and Responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Council and the auditor, more details of which are provided in Appendix A.

Independence

We confirm that we have undertaken client and engagement acceptance procedures, including our assessment of our independence to act as your external auditor. Further information is available in Appendix B.

Our key contacts:

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Financial Statements audit

We are responsible for conducting an audit of the Council and group financial statements. We provide an opinion as to whether they:

- give a true and fair view in accordance with applicable law and the 2022/23 Code of the state of affairs of the Council and its group as at 31 March 2023;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. Our key considerations and materiality values are set out in Exhibit 1, below.

Wider Scope Dimensions

As public sector auditors, our responsibilities extend beyond the audit of the financial statements. The Code of Audit Practice (2021) requires auditors to consider the arrangements the Council has in place to meet their Best Value obligations as part of our proportionate and risk-based wider scope audit work. Wider scope audit requires consideration of:

- the Council's arrangements to secure sound financial management;
- the regard shown to financial sustainability;
- clarity of plans to implement the vision, strategy and priorities of the Council, and the effectiveness of governance arrangements for delivery; and
- the use of resources to improve outcomes.

Exhibit 1: Materiality Assessment in 2022/23

Planning Materiality

- Overall materiality for the financial statements
- Initial assessment based on the Council's Revenue Resource Limit

£6.8 million

Performance Materiality

- We have assessed performance materiality at 50% of overall materiality for the financial statements.

£3.4 million

Reporting Threshold

- Level of error that we will report to the Audit and Scrutiny Committee.

£250,000

Based on our understanding of the expectations of financial statement users, we apply a lower materiality level to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

Exhibit 2: Summary of financial statement risks identified for the audit in 2022/23

Four significant risks, impacting the audit of the financial statements, in Section 3:

Risk	Description
1. Risk of fraud in revenue and expenditure (fraud risk)	Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
2. Misstatement due to fraud or error (fraud risk)	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
3. Valuation of property, plant and equipment	The fair value of property, plant and equipment (PPE) represent significant balances in the Council's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
4. Valuation of PPP/PFI liabilities	The value of PFI/PPP liabilities represent significant balances in the Council's financial statements with the Council holding 5 contracts, with a value of £79 million in 2021/22. Accounting for these contracts includes a number of complexities, including ensuring the financial models reflect any contract amendments and inflationary uplifts.

Exhibit 3: Summary of inherent risks identified for the audit in 2022/23

Two inherent risks impacting the audit of the financial statements are identified in Section 3:

Risk	Description
1. Opening balances	As 2022/23 is the first year of our audit appointment, we are required to complete additional procedures in line with Auditing standard ISA (UK) 510. There is a possibility that we identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.
2. Valuation of Pension Assets and Liabilities	The Council's net pension liability, measured as the sum of the long term payments due to members as they retire against the Council's share of the Strathclyde Pension Fund investments, is a material balance in the Council financial statements. Accounting for this scheme involves significant estimation and judgement, including financial and demographic assumptions. The Council engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Exhibit 4: Summary of areas of audit focus in relation to the wider scope dimensions

Under the Code of Audit Practice, in addition to financial statement significant risks, auditors are required to identify significant risks within the wider scope dimensions as part of our planning risk assessment. We consider significant risks in this context to be areas where we expect to direct most of our audit effort, based on:

- our risk assessment at the planning stage; and
- the identification of any national areas of risk within Audit Scotland's annual planning guidance.

Any changes in this assessment will be communicated to the Audit and Scrutiny Committee. We refer to these areas within Section 4 as "areas of audit focus":

Risk	Description
1. **Financial sustainability:** Development of sustainable and achievable medium term financial plans	The Council's medium term financial planning highlights a significant financial challenge over the next 5 years. The outlook notes a range of demand pressures and uncertainties, including the timing of the creation of a National Care Service, and difficulties caused by a time lag in the distribution of funding for councils with rising populations, particularly of children and young people. The gross budget shortfall in 2023/24 is £18.1 million, and estimated to be £16.2 million in 2024/25.
2. **Vision, Leadership and Governance:** Cybersecurity	There continues to be a significant risk of cyber attacks to public bodies. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23 Audit Scotland has asked us to consider risks related to cyber security at audited bodies.
3. **Use of resources:** Climate change reporting	Scotland has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The Council should therefore have a plan to reduce their direct and indirect emissions. Audit Scotland has asked for specific audit work to be conducted in 2022/23 on the arrangements to respond to climate change, as part of a developing programme of work.

In addition, we will consider the following thematic review, as part of our Best Value considerations:

Risk	Description
Best Value: Thematic review of leadership and strategic priorities	As part of the revised arrangements to Best Value arrangements, the Accounts Commission has asked us to consider: ▸ The clarity of the council's vision and priorities; ▸ How effectively community views have been reflected; ▸ The alignment of financial, workforce, asset and digital plans; and ▸ How the priorities reflect the need to reduce inequalities and climate change.

2. Sector developments

Introduction

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Council operates to inform our audit approach.

Local Government Finances 2021/22

In January 2023, the Accounts Commission published it's annual report on Local Government finances in Scotland. The report notes that even with additional Covid-19 funding during 2021-22, councils had to make significant savings last year to balance their budgets.

An increasing amount of council funding is either formally ringfenced or provided on the expectation it will be spent on specific services and national policy objectives.

Audit Scotland calculated ringfenced money to represent 23% of total revenue funding in 2021/22. A large amount of this was to support elements of education and social care service provision. While this supports the delivery of key Scottish Government policies, it removes local discretion and flexibility over how these funds can be used by councils.

Looking ahead, the Accounts Commission notes that Councils face the most difficult budget-setting context seen for many years with the ongoing impacts of Covid-19, inflation and the cost of living crisis. They will need to continue to make recurring savings and also make increasingly difficult choices with their spending priorities, including, in some cases, potential service reductions.

National Care Service Bill

In June 2022, the Scottish Government published the National Care Service Bill (the Bill). Proposals within the Bill would make the Scottish Ministers accountable for adult social care in Scotland. The National Care Service will define the strategic direction and quality standards for community health and social care across Scotland.

Decisions on delivery models have yet to be taken but current Integration Joint Board arrangements are expected to be replaced by local delivery boards, "Care Boards" which will work with the NHS, local authorities, and the third and independent sectors to plan, commission and deliver support and services for communities. Social care services currently provided in-house by local authorities, may continue under a commissioning arrangement.

The Bill explains that the detail of how the new service will work will be co-designed with people who have direct experience of social care services.

Initially, the timeline for the creation of a National Care Service is by the end of the current Parliament but In March 2023, the Scottish Government signalled that the work on the National Care Service will be paused.

Audit Scotland published a briefing paper on Social Care on 27 January 2022 which noted that:

- there are huge challenges facing the sustainability of social care, with the pressures of increasing demand and demographic change growing.
- the workforce is under immense pressure.
- there are around 700,000 unpaid carers who provide most of the social care support in Scotland, with most not knowing their rights under the Carers (Scotland) Act 2016.
- commissioning tends to focus on cost rather than quality or outcomes.
- capacity and cultural differences are impacting leadership.

Scottish Government Budget

In December 2022, the Scottish Government published the 2023/24 Scottish Budget. The budget included announcements that the Scottish government will:

- provide over £570 million in additional revenue and capital funding available to councils for 2023/24;
- allocate £2 billion to establish and improve primary health care services in the community;
- provide £1.7 billion for social care and integration to improve services and introduce the National Care Service; and
- an additional £100 million will be made available for health and social care, including support for the delivery of the £10.90 real living wage for adult social care, building on the increase provided in 2022/23.

COSLA's response to the budget notes the pressures associated with inflation, rising energy costs, pay and increased demands. They estimate that the funding gap facing Scottish councils in 2023/24 is around £1 billion.

In this context, the Council approved its 2023/24 revenue budget on 1st March 2023. The budget notes that the 2023/24 settlement equates to a net cash increase of 0.7% against the updated 2022/23 budget, creating an annual pressure of £13.9 million as a result of increase demand and inflationary pressure. As a result, the budget notes:

- A 6% increase in Council Tax levels;
- the utilisation of £10.2 million of reserves (made possible under the financial flexibilities we describe on the following page; and
- savings proposals of £4.2 million.

Financial Flexibilities

In October 2020 the Cabinet Secretary wrote to COSLA to confirm three financial flexibilities for local government with further details to be brought forward in statutory guidance:

- Use of capital receipts to fund revenue Covid-19 expenditure in 2020/21 and 2021/22.
- Loans fund repayment holiday in either 2020/21 or 2021/22.
- Extension of PPP and other similar contract debt repayment periods to reflect asset lives.

While the capital receipts and loans repayment holiday were only to be used for the purposes of addressing Covid-19 related costs, the change to PPP accounting was expected to provide a wider flexibility.

In September 2022, statutory guidance was published to allow the service concession flexibility to be used. We understand that the Council intends to make use of the flexibility in the year to 31 March 2022. The Council estimates that the cumulative adjustment that would result following a change to repayment calculations is £12.3 million, resulting in an increase to the General Fund unallocated reserve. We have had initial discussions with management around its planned approach and will review all detailed calculations as part of our annual audit work.

Temporary Statutory Accounting Flexibility and Additional Capital Grant

As part of the Local Government pay deal, the Scottish Ministers agreed to permit a temporary flexibility to the current statutory accounting requirements for capital grants.

This flexibility is only applicable to the additional capital grant of £120.60 million which was confirmed as part of the Local Government pay deal in a letter to Directors of Finance in October 2022.

The flexibility allows councils to replace revenue resources held for capital investment purposes with capital grant. This allows revenue resources to be released to meet the pay increase to the local government workforce that was agreed in September 2022.

We understand that the Council has satisfied itself that sufficient revenue resources were set aside to repay Loans Fund principal in 2022/23. As a result, subject to our normal audit procedures, the Council anticipated that it's share of the funding (£2.3 million) will be released to meet the costs of the pay award.

3. Financial statements: Our approach and assessment of significant risks

Introduction

The publication of the annual financial statements allow the Council to demonstrate accountability for, and its performance in the use of its resources.

Our responsibilities

We are responsible for conducting an audit of the Group and Council's financial statements. We provide an opinion as to:

- give a true and fair view in accordance with applicable law and the 2022/23 Code of the state of affairs of the Council and its group as at 31 March 2023;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

ISA (UK) 315: Identifying and Assessing the Risks of Material Misstatement

Our objective is to form an opinion on the financial statements under International Standards on Auditing (ISA) (UK). There have been significant changes to ISA (UK) 315 (ISA 315) that will impact our 2022/23 audit approach and the procedures we need to perform.

ISA 315 is effective from 2022/23 onwards and will drive our approach to:

- risk assessment;
- understanding the Council's internal control arrangements;
- the identification of significant risks; and
- how we address significant risks.

Key changes as a result of the implementation of ISA 315

The required audit approach signifies a material change in the approach that management has been used to over the last appointment. Key changes will include:

- a significant increase in audit work on the Council's use of IT in the system of internal control;
- increased importance of our understanding of the entity and environment and system of internal control;
- a greater focus on professional scepticism including that audit approaches do not show bias to corroborative evidence or excluding contradictory evidence.
- we will make enhanced inquiries of management, or others within the Council who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties.
- We will also hold a discussion with those charged with governance regarding the risks of fraud in the Council and to consider the implications for the audit.

Audit Approach

For 2022/23 we plan to adopt a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

We adopt a "data first" approach across all stages of the audit. We integrate technology into our audits to improve the way we are able to analyse and interact with your data, driving both audit quality and the insight that we can offer your Finance Team and Audit and Scrutiny Committee.

During our planning procedures, we determine which accounts, disclosures and relevant assertions could contain risks of material misstatement.

Our audit involves:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- obtaining an understanding of internal control relevant to the audit 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 the Council's internal control.
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- concluding on the appropriateness of management's use of the going concern basis of accounting.
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the Group and Council financial statements.
- reading other information contained in the financial statements to form assessment, including that the annual report is fair, balanced and understandable.
- ensuring that reporting to the Audit and Scrutiny Committee appropriately addresses matters communicated by us and whether it is materially inconsistent with our understanding and the financial statements.

Confirmation of independence

Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We rigorously maintain auditor independence. Further information is available in Appendix B, where we confirm that our procedures are complete and that we are not aware of any such relationships relating to the audit of East Renfrewshire Council.

Materiality

For planning purposes, Group and Council materiality for 2022/23 has been set at £6.8 million. This represents 2% of the Council's the Council's prior year gross expenditure on provision of services, excluding IJB grant income and expenditure.

Materiality will be reassessed throughout the audit process and will be communicated to the Audit and Scrutiny Committee within our Annual Audit Report.

We consider misstatements greater than 2% of the gross expenditure to be material. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. We have provided supplemental information about audit materiality in Appendix F.

Specific Materiality

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- **Remuneration report** - given the sensitivity around the disclosure of senior staff remuneration we apply a lower materiality threshold to our audit consideration around the remuneration report and related disclosures.
- **Related party transactions** – which are considered material when they are material to either party in the transaction. We do not apply a specific materiality but consider each transaction individually.

Exhibit 5: Materiality

Element	Explanation	Value
Planning materiality	The amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. This represents 2% of the Council's gross revenue expenditure (excluding IJB).	**Group and Council: £6.8 million**
Performance materiality	Materiality at an individual account balance, which is set to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an acceptably low level. We have set it at 50% of planning materiality.	**Group and Council: £3.4 million**
Reporting Level	The amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements.	**£250,000**

Group audit

The Council prepares its annual report and financial statements on a group basis. The Group consists of the following organisations:

- Common Good and Charitable Trusts
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme
- Renfrewshire Valuation Joint Board
- East Renfrewshire Culture & Leisure Trust
- East Renfrewshire Integration Joint Board

We have considered the arrangements in respect of each of the Council's group undertakings at the planning stage and will review throughout the audit.

The East Renfrewshire Integration Joint Board (IJB) is identified as a joint venture and consolidated in accordance with the requirements of the Code. We have been appointed as auditor to East Renfrewshire Integration Joint Board and will report separately on our audit of that entity.

The only significant component by size is the Council, which accounts for 99% of consolidated gross expenditure. There have been no specific risks identified that may indicate a component is significant by risk, as the IJB does not affect the transactions as such, only the nominal funding agreement in and out of the IJB.

Our response to significant risks

Introduction

Auditing standards require us to make communications to those charged with governance throughout the audit. At the Council, we have agreed that these communications will be to the Audit and Scrutiny Committee. The financial statements and our Annual Audit Report will also be reported to the Council.

Key audit matters

ISA (UK) 701 is effective for periods commencing on or after 17 June 2016. Under appointment by the Auditor General we are required to communicate key audit matters in our Annual Audit Report. Key audit matters are selected from the matters we communicate to you that in our opinion are of most significance to the current period audit and required significant attention in performing the audit.

When determining key audit matters we consider:

- areas of higher or significant risk;
- areas involving significant judgment, including accounting estimates with high estimation uncertainty; and
- significant events or transactions that occurred during the period.

At this stage of the audit we do not know what key audit matters we will include in our Annual Audit Report. However, we have included within this section the most significant assessed risks of material misstatement (whether or not due to fraud), including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We will confirm the key audit matters to you in our Annual Audit Report.

We set out in the following sections the significant risks (including fraud risks denoted by *) that we have identified for the audit, along with the rationale and expected audit approach. The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit. We will provide an update to the Audit and Scrutiny Committee if our assessment changes significantly during the audit process.

1. Risk of fraud in revenue and expenditure recognition*

Financial Statement Impact

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

These accounts had the following balances in the 2021/22 audited financial statements:

- Net cost of services - Other grant income: £216 million
- Fees and charges: £47 million
- Other expenditure: £140 million
- Related Debtor balances: £30 million
- Related Creditor balances: £61 million

What is the risk?

We consider there to be a specific risk around income and expenditure recognition through:

- Incorrect income and expenditure cut-off recognition to alter the Council's financial position around the financial year end.
- Incorrect recognition applied to grant income with performance conditions.
- Incorrect capitalisation of revenue expenditure.

In line with auditing standards, we rebut the risk around income and expenditure where appropriate depending on the nature of the account.

Accordingly, we have rebutted the risk of improper recognition of income in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income. With regards to expenditure we have rebutted the risk of improper recognition of payroll, depreciation, and financing and investment expenditure.

Our response: Key areas of challenge and professional judgement

We will take a fully substantive approach to testing the related accounts. We will:

- Inquire with management and those charged with governance about risks of fraud and the controls put in place to address those risks.
- Review and challenge management on any accounting estimates for evidence of bias.
- Review and test additional revenue and expenditure cut-off at the period end date.
- Ensure that grant income satisfies recognition criteria tests.
- Conduct additional substantive testing of related income and expenditure transactions where we have identified a significant risk.
- Assess and challenge manual adjustments / journal entries by management around the year end for evidence of management bias and evaluation of business rationale and supporting evidence.
- Develop a testing strategy to test material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified.

2. Misstatement due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our response: Key areas of challenge and professional judgement

We will:

- inquire of management about risks of fraud and the controls put in place to address those risks;
- understand the oversight given by those charged with governance of management's processes over fraud;
- consider the effectiveness of management's controls designed to address the risk of fraud;
- Review the accounting treatment associated with the use of financial flexibilities and accounting for the pay award; and
- perform mandatory procedures regardless of specifically identified fraud risks, including:
  - testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
  - assessing accounting estimates for evidence of management bias; and
  - evaluating the business rationale for significant unusual transactions.

We will use our data analytics capabilities to assist with our work.

3. Valuation of Property, Plant and Equipment

Financial Statement Impact

Within the 2021/22 financial statements, the Council held £767 million of property, plant and equipment with £563 million relating to land and buildings, including council dwellings. Additions totalled £36 million.

What is the risk?

The fair value of property, plant and equipment (PPE) represent significant balances in the Council's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. We understand that in 2022/23, the Council's internal valuers have undertaken a significant programme to revalue each class of asset.

The Council additionally has a significant capital programme with judgement being applied to the valuation of additions and split between revenue and capital expenditure.

In 2021/22, local government auditors raised concerns that Code requirements were not being adhered to in respect of subsequent expenditure on infrastructure assets. Further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date.

The Scottish Government agreed to provide a temporary statutory override whilst a permanent solution is developed within the Code. This temporary solution has been issued with the expectation that local authorities will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a permanent solution is agreed.

Our response: Key areas of challenge and professional judgement

We will:

- review and appraise the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- involve EY internal specialists to challenge the work performed by the Council's valuers, where appropriate;
- assess any changes to useful economic lives;
- test accounting entries have been correctly processed in the financial statements;
- sample test transfers from assets under construction and confirm for a sample that remain within assets under construction that development is still in progress;
- gain an understanding of the level and nature of capital spend in year and perform testing on fixed asset additions ensuring an appropriate split between revenue and capital expenditure; and
- review operating expenditure for evidence of capital additions omissions.

Infrastructure assets: our response

The CIPFA/LASAAC Code of Practice for Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost. Due to these assets being difficult to componentise and there often not being a clear linkage between spend and an identifiable asset, councils often capitalise schemes of expenditure and depreciate over an estimated economic life. Assets are removed from the financial statements ("derecognised") when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore significantly vary from their estimated life.

The Code requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component shall be derecognised to avoid double counting and the new component shall be reflected in the carrying amount of the infrastructure asset. However, largely due to data limitations, it is believed that most local authorities have been unable to comply with the requirement. Due to the information deficits in respect of infrastructure assets, further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date.

To date, CIPFA/LASAAC has been unable to find a solution that will both satisfy audit concerns and the requirement for high quality financial reporting. The Scottish Government however agreed to provide a temporary statutory override whilst a permanent solution is developed within the Code. This temporary solution has been issued with the expectation that local authorities will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a permanent solution is agreed.

The override was issued on 29 August 2022 and has two areas:

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent amendment shall be made to the carrying amount with respect to that part.

Local authorities can choose to adopt either or both of the statutory overrides. The Council adopted both overrides in 2021/22, and intends to do so again in 2022/23. The exemption does not remove the requirement for the Council to consider the underlying existence and useful lives of assets and we will therefore consider the Council's approach as part of our audit work.

4. Valuation of PFI/PPP Liabilities

Financial Statement Impact

The value of PFI/PPP liabilities represent significant balances in the Council's financial statements with the Council holding 5 different contracts. Accounting for these contracts includes a number of complexities ensuring the financial models reflect any contract amendments and inflationary uplifts.

Within the 2021/22 financial statements, the Council held £79 million in respect of PFI/PPP contract liabilities.

What is the risk?

Due to the complexity of accounting for PFI/PPP contracts and the high value of the transactions, there is a risk that the Council's financial statements do not show the correct accounting entries, reflect the correct accounting model and that related commitments are not correctly disclosed.

Our response: Key areas of challenge and professional judgement

We will:

- review the contractual agreements for each PFI/PPP asset and confirm any contract amendments have been appropriately reflected within the liability valuation;
- ensure that that accounting models have been appropriately and accurately updated to reflect inflationary uplifts and actual unitary charge payments;
- test accounting entries have been correctly processed in the financial statements;
- involve EY internal specialists to review and challenge the accounting models for each PFI/PPP contract; and
- review financial statement disclosures to ensure commitments are appropriately disclosed.

Inherent risks

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters that we will

Opening balances As 2022/23 is the first year of our audit appointment, we are required to complete additional procedures in line with Auditing standard ISA (UK) 510. There is a possibility that we identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.	We will undertake the following procedures: ▸ Agree the opening balance sheet position to the underlying financial records. ▸ Review the prior year working papers by the departing auditors to understand the procedures completed and if they need to be supplemented or followed up in any way. ▸ Consider unusual material transactions posted by management in the first accounting periods of 2022/23, which may indicate correction of previous errors, and understand the basis for these transactions. ▸ Review actual transaction data for estimates made at the previous balance sheet date to assess their reasonableness.
Valuation of Pension Assets and Liabilities The Council's net pension liability, measured as the sum of the long term payments due to members as they retire against the Council's share of the Strathclyde Pension Fund investments, is a material balance in the Council financial statements. At 31 March 2022 the net liability totalled £50 million (*2021: £119 million*). Accounting for this scheme involves significant estimation and judgement, including financial and demographic assumptions. The Council engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	Work we will perform: ▸ Liaise with the auditor of Strathclyde Pension Fund to obtain assurances over the information supplied to the actuary and confirm joint assurances in respect of employer and employee contributions. ▸ Engage our actuarial specialists to assess the work of the actuary (Hyman Robertson). ▸ Assessing the work of PWC, appointed to consider actuarial assumptions used at the year end for all local government sector bodies. ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. ▸ Require an updated IAS19 report in July to ensure that there have been no material movement in the value of pension fund assets between the initial IAS19 report, and the signing of the financial statements.

Implementation of IFRS 16

The implementation of IFRS 16 has been delayed on a number of occasions in local government financial statements for various reasons. Most recently, CIPFA/LASAAC conducted an emergency consultation on the Code in March 2022. This resulted in a further deferral to the implementation of IFRS 16 until 1 April 2024. Early adoption will be permitted from either 1 April 2022 or 1 April 2023.

IFRS 16 eliminates the operating / finance lease distinction for leases and imposes a single model geared towards the recognition of all but low-value or short term leases. These will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability reflecting the obligation to make lease payments.

Successful transition will depend on the Council having captured additional information about leases, both new and existing, especially regarding future minimum lease payments.

The Council will also needs to have developed systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g. RPI-based) lease terms where forecasts will need to be updated annually based on prevailing indices.

There are no significant changes to the accounting requirements where the entity is acting as a lessor but disclosure requirements around risk exposure are required.

The Council intends to adopt IFRS 16 from 1 April 2024, and have engaged with specialists to support the recognition. We have discussed audit requirements with management.

Use of specialists

When auditing key judgements, such as the valuation of property, plant and equipment, defined benefit pension scheme assets and liabilities, or certain assets and liabilities, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable.
- Assess the reasonableness of the assumptions and methods used.
- Consider the appropriateness of the timing of when the specialist carried out the work.
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Going concern

Audit requirements

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the CIPFA Code of Practice on Local Government Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

However, under ISA (UK) 570, we are required to undertake challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, the ongoing cost of living crisis and inflationary pressures, we place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and its financial sustainability.

Our work on going concern requires us to:

- challenge management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtain and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- conduct a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

Due to the anticipated continuation of service provision, the going concern basis of accounting is expected to continue to be appropriate for the Council. We will, however, discuss audit expectations in relation to management's going concern assessment and cash flow requirements with management.

4. Best Value and Wider Scope

Introduction

In June 2021, Audit Scotland and the Accounts Commission published a revised Code of Audit Practice. This establishes the expectations for public sector auditors in Scotland for the term of the current appointment.

Risk assessment and approach

The Code sets out the four dimensions that comprise the wider scope audit for the public sector in Scotland:

- Financial management;
- Financial sustainability;
- Vision, Leadership and Governance; and
- The use of resources to improve outcomes.

The Code of Audit Practice requires that, in addition to financial statement significant risks, auditors are required to identify significant risks within the wider scope dimensions as part of our planning risk assessment. We consider significant risks in this context to be areas where we expect to direct most of our audit effort, based on:

- our risk assessment at the planning stage; and
- the identification of any national areas of risk within Audit Scotland's annual planning guidance.

Any changes in this assessment will be communicated to the Audit and Scrutiny Committee.

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment of and assurance over the achievement of Best Value.

Best Value

The Code explains the revised arrangements for the audit of Best Value. The Accounts Commission require auditors to assess and report on the Council's performance in meeting its Best Value and community planning duties.

While our risk assessment will be used to determine the requirement for any additional audit work covering the seven Best Value characteristics, there is an expectation that equalities will be advanced through the audit process, and that we will therefore carry out work on the Fairness and Equality characteristic at least once during the audit appointment. At this stage, we anticipate conducting this work in 2024/25.

Best Value

The Accounts Commission requires the Controller of Audit (COA) to report to the Accounts Commission on each council at least once over the five-year audit appointment on the council's performance on its Best Value duty. This enables the Accounts Commission to make findings for improvement where appropriate.'

A programme of Controller of Audit reports will be in place to cover all 32 councils, starting in October 2023 and concluding by August 2027.

Under the revised Code of Audit Practice, there will be no Best Value Assurance Reports for individual councils. Instead, the Annual Audit Report for each council will be reviewed by the Accounts Commission at least once over the five year audit appointment, together with a summary of information and judgements on the pace and depth of continuous improvement.

Over the course of our five year appointment, we will consider each of the Best Value themes (including leadership, partnerships, working with communities, sustainability and fairness and equality) as part of our annual work. In addition, on an annual basis, the Accounts Commission will identify areas of risk where it requires thematic audit work to be carried out in councils. As we outline in Exhibit 6, below, in 2022/23, the thematic work will consider leadership and strategic priorities.

Our response

As part of our work on Best Value in 2022/23, we will consider the Council's arrangements to monitor the effectiveness of its own arrangements since the publication of the last Best Value Assurance Report in November 2017. In addition, we will:

- Use our wider scope audit findings to continue to inform our Best Value risk assessment; and
- Report our findings against the Accounts Commission's thematic audit requirements by June 2023.

Exhibit 6: Best Value Area of Audit Focus

Leadership of the development of new local strategic priorities by councils following the local government elections in May 2022	The Accounts Commission has asked us to consider: ▶ The clarity of the council's vision and priorities; ▶ How effectively community views have been reflected; ▶ The alignment of financial, workforce, asset and digital plans; and ▶ How the priorities reflect the need to reduce inequalities and climate change.

Financial Management

Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.

Audit Scotland's 2021/22 Annual Audit Report did not identify any significant internal control weaknesses which could affect the Council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

When the Council approved its 2022/23 budget in March 2022, the budget shortfall was calculated at £9.5 million. The council planned to meet part of this challenge via savings and a 3.5% increase in council tax. The remaining balance was expected to be bridged using reserves. The Council's most recent financial monitoring report outlines a projected surplus of £1.4 million, representing an improving trend throughout the financial year.

The Council usually plans its detailed revenue budgets over a 3 year time horizon but due to the recent production of single year budgets by the Scottish Government and uncertainty in the overall budget allocated to local government, the Council has been unable to prepare and publish detailed 3 year budget, but hope to resume the multi-year detailed budget setting approach from 2024/25. Work is underway to develop saving proposals for future financial years, following early consultation on savings options.

Our response

As part of our year one assessment of the Council's financial management arrangements, we will consider:

- financial monitoring arrangements, including clarity about any changes to budgets and projections during the year;
- the achievement of savings against plans;
- whether there are sufficient financial skills and capacity within the finance function;
- the Council's participation and progress in the National Fraud Initiative and other counter fraud arrangements; and
- arrangements to ensure systems of internal control are operating effectively, drawing upon our ISA (UK) 315 procedures.

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.

We recognise that the pandemic, along with other economic and political uncertainties, continues to have a significant impact on the Council's financial planning. In March 2023, the Council considered an updated Financial Planning document to update the previous medium term financial plan, alongside the 2023/24 annual budget.

The updated financial outlook considers the period to 2028/29 and notes a range of demand pressures and uncertainties, including the timing of the creation of a National Care Service, and difficulties caused by a time lag in the distribution of funding for councils with rising populations, particularly of children and young people.

The Council forecasts holding unallocated General Reserves of £7.96 million (2.76%) as at 31 March 2023, against the minimum level set within the Reserves Policy to hold around 2% of the revenue budget as a general reserve. The service concession fiscal flexibility will provide a one-off contribution to reserves of £14.8 million. This is expected to be transferred to an earmarked reserve to manage future savings requirements.

Our response

We have identified a wider scope significant risk in Exhibit 7 in respect of financial sustainability. Our assessment of the Council's financial sustainability arrangements, will focus on:

- the Council's updated medium term financial plans, including the risk assessment and delivery of longer term savings options, along with the impact on the general reserves position;
- consideration of the fiscal flexibilities to ensure the Council's plans are in accordance with Scottish Government guidance; and
- assessing the link between the financial and other strategic and operational plans including the workforce strategy.

Exhibit 7: Financial Sustainability Area of Audit Focus

Development of sustainable and achievable medium term financial plans	The Council's medium term financial planning highlights a significant financial challenge over the next 5 years. The gross budget shortfall in 2023/24 is £18.1 million, and estimated to be £16.2 million in 2024/25. As a result, the financial plan outlines an expectation that service reductions will be required.

Vision, leadership and governance

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

The Council has a long-standing *Vision for the Future*, its strategic planning document. Plans are in place to update the strategic planning arrangements in June 2023. In March 2023, the Council considered a paper on the strategic impact of the local government financial settlement, which outlined the impact of very challenging financial circumstances in the short term.

As a result, the Council expects to narrow and prioritise the ambitions with within the updated Strategic Plan.

The Council used the Corporate Governance Statement in 2021/22 to report on progress against improvement activities, along with planned actions for 2022/23. This includes review and update of key documents, including the Financial Regulations, the Risk Management Strategy and medium term financial planning documents.

The Council's Audit and Scrutiny Committee meet regularly and have oversight of the risk register and risk management strategy, along with the resourcing and findings of internal audit.

Our response

As we outline in Exhibit 8, we will review the Council's arrangements for cybersecurity in response to a national risk highlighted by Audit Scotland. This will draw upon our work in response to ISA (UK) 315.

Other work in 2022/23 will consider:

- consideration of the disclosures within the Governance Statement;
- review of the coverage of internal audit arrangements during 2022/23, including any significant findings identified and the work done to address issues identified; and
- consideration of the quality of reporting and information provided to key decision makers, and evidence of effective challenge and scrutiny.

Exhibit 8: Vision, Leadership and Governance Areas of Audit Focus

Cybersecurity	There continues to be a significant risk of cyber attacks to public bodies. A number of recent incidents have demonstrated the significant impact that a cyber attack can have on both the finances and operation of an organisation. In 2022/23 Audit Scotland has asked us to consider risks related to cyber security at audited bodies.

Use of resources

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

The Council has a performance management framework in place to support the delivery of *Vision for the Future*. The Council's Outcome Delivery Plan is updated annually and is used to report on progress against a range of indicators to the Council.

The Accounts Commission issue a Statutory Direction to local government bodies which sets out performance information that they are required to publish, including participation in the Local Government Benchmarking Framework.

Audit Scotland has also identified a national risk in relation to tackling climate change. There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. As a result, we will consider the Council's strategy for climate change, alongside any narrative reporting in the financial statements.

Our response

We have identified an area of audit focus in relation to climate change in Exhibit 9 below. Our work in this area will include consideration of:

- the Council's climate change strategy and progress reporting arrangements; and
- any narrative reporting in the financial statements.

Other work in 2022/23 will consider the Council's arrangements to report performance, including conclusions on the Council's arrangements for preparing and publishing statutory performance information.

Exhibit 9: Use of Resources Area of Audit Focus

Climate change reporting	Scotland has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The Council should therefore have a plan to reduce their direct and indirect emissions. Audit Scotland has asked for specific audit work to be conducted in 2022/23 on the arrangements in place to respond to climate change, as part of a developing programme of work.

Appendices

Audited Body Responsibilities

Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

Corporate governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial statements and related reports

Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements
- ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Maintaining a sound financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and their future use;
- how they plan to deal with uncertainty in the medium and longer term; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value, community planning and performance

Local government bodies have a duty to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:

- the quality of its performance of its functions
- the cost to the body of that performance
- the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, the local government body shall have regard to:

- efficiency
- effectiveness
- economy; and
- the need to meet the equal opportunity requirements.

The local government body shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.

In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.

The Scottish Government's Statutory Guidance on Best Value (2020) requires bodies to demonstrate that they are delivering Best Value in respect of seven themes:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality.

The Community Empowerment (Scotland) Act 2015 is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services.

Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.

Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards and, other than local government, requirements set out in the Scottish Public Finance Manual.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.

Appointed Auditors' Responsibilities

Appointed auditors' statutory duties for local government bodies are contained within Part VII of the Local Government (Scotland) Act 1973, as amended.

These are to:

- audit the accounts and place a certificate (i.e. an independent auditor's report) on the accounts stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves, by examination of the accounts and otherwise, that:
  - the accounts have been prepared in accordance with all applicable statutory requirements
  - proper accounting practices have been observed in the preparation of the accounts
  - the body has made proper arrangements for securing Best Value and is complying with its community planning duties
  - where relevant, the body has made adequate arrangements for collecting, recording and publishing prescribed performance information
  - hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also comply with the statutory reporting responsibilities in section 102 of the Local Government (Scotland) Act 1973.

Introduction

The FRC Ethical Standard and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

During the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY charged to you for the provision of services during the period, analysed in appropriate categories, are disclosed.

Required Communications

Planning Stage

- The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your directors and us.
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review.
- The overall assessment of threats and safeguards.
- Information about the general policies and process within EY to maintain objectivity and independence.

Final Stage

- To allow you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed.
- Details of non-audit/additional services provided and the fees charged in relation thereto.
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us.
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence.
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy.
- An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our independence to act as your external auditor. We have identified no relationships that impact the audit of East Renfrewshire Council.

We have detailed below the communications that we must provide to the Council.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	This Annual Audit Plan
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	This Annual Audit Plan
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process ▸ Findings and issues regarding the opening balance on initial audits	Annual Audit Report – September 2023

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty; ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and, ▸ The adequacy of related disclosures in the financial statements.	Annual Audit Report - September 2023
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▸ The effect of uncorrected misstatements related to prior periods; ▸ A request that any uncorrected misstatement be corrected; ▸ Corrected misstatements that are significant; and, ▸ Material misstatements corrected by management.	Annual Audit Report - September 2023
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and, ▸ A discussion of any other matters related to fraud.	Annual Audit Report - September 2023
Internal controls	Significant deficiencies in internal controls identified during the audit.	Annual Audit Report - September 2023
Material inconsistencies/ misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Annual Audit Report - September 2023

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management; ▸ Inappropriate authorisation and approval of transactions; ▸ Disagreement over disclosures; ▸ Non-compliance with laws and regulations; and, ▸ Difficulty in identifying the party that ultimately controls the entity.	Annual Audit Report - September 2023
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards; and, ▸ Information about the general policies and process within the firm to maintain objectivity and independence.	This Annual Audit Plan and Annual Audit Report (September 2023)
External confirmations	▸ Management's refusal for us to request confirmations. ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Annual Audit Report - September 2023
Representations	Written representations we are requesting from management and/or those charged with governance.	Annual Audit Report - September 2023
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Annual Audit Report - September 2023

Required communications	What is reported?	Our Reporting to you When and where
Consideration of laws and regulations	▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of.	Annual Audit Report - September 2023
Best Value and Wider Scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider scope audit.	Annual Audit Report - September 2023
Key audit matters	The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.	Annual Audit Report - September 2023
Group matters	▶ An overview of the type of work to be performed on the financial information of the components. ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components. ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work. ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.	Annual Audit Report - September 2023

Appendix D: Timeline of communication and deliverables

	Audit Activity	Deliverable	Timing
January	Risk assessment for Financial Statements and wider scope audit dimensions		
February		Submission of quarterly fraud return	
March	Walkthrough of key systems and processes.	Annual Audit Plan	29 March 2023
April			
May		Submission of quarterly fraud return	
June	Update meeting with Finance Team	Best Value Thematic Report: Leadership and Strategic Priorities	30 June 2023
July	Year end audit fieldwork		
August			
September	Audit completion procedures	Annual Audit Report	30 September 2023

2022/23 Fees

The Council's audit fee is determined in line with Audit Scotland's fee setting arrangements. Audit Scotland will notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

	2022/23	2021/22
Component of fee:		
Auditor remuneration – expected fee	£218,830	
Additional audit procedures (note 1)	TBC	
Audit of Section 106 Trusts	TBC	
Audit Scotland fixed charges:		
Pooled costs	£55,800	
Audit support costs	£8,300	
Sectoral cap adjustment	(£11,230)	
Total fee	£271,700	£241,420

The expected fee for auditor remuneration, set by Audit Scotland, is based on a risk assessment of publicly available information from the 2021 tender exercise. It assumes that the Council has well-functioning controls, an effective internal audit service, and an average risk profile for its sector across a range of areas for consideration, including financial, operational and governance risks. This is the basis for the estimated level of time and skill mix involvement by auditors.

Note 1

Throughout the course of their work, auditors may identify new, developing or otherwise enhanced areas of risk that are required to be addressed to deliver an audit to the quality standards expected, and in line the requirements of the Audit Scotland Code of Practice. In these cases where subsequent additional work is required because of local risks and circumstances in a body, auditor remuneration may be increased by up to 10% of auditor remuneration in agreement with the Council, or above 10% in agreement with Audit Scotland. In particular, at this stage we would raise the possibility around potential additional financial statement audit work being required following our work related to ISA 315, and any unknown or additional risks identified through the course of our initial audit procedures.

Should additional audit requirements arise we will raise these with management as early as practically possible through the course of the audit, and discuss variations to the expected fee as appropriate, based on the rates provided by Audit Scotland in its supplementary audit planning guidance, and report the final position to the Audit and Scrutiny Committee within our Annual Audit Report.

Introduction

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities under auditing standards

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit 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 the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Read other information contained in the financial statements, the Audit and Scrutiny Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Purpose and evaluation of materiality

- For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.
- Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.
- The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Audit Quality Framework / Annual Audit Quality Report

- Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.
- We support reporting on audit quality by proving additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122
- EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: https://www.ey.com/en_uk/about-us/transparency-report

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

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