East Renfrewshire Council

Annual Audit Report

Year Ended 31 March 2023

29 September 2023

EY

Building a better working world

This report has been prepared in accordance with Terms of Appointment Letter, through which Audit Scotland and the Accounts Commission have appointed us as external auditor 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 Audit Scotland and the Accounts Commission (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.

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Accessibility

Our report 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. Key messages

Financial statements

Financial statements Our assessment: Green	We have concluded our audit of the financial statements of East Renfrewshire Council for the year ended 31 March 2023. The draft financial statements were provided in line with legislative deadlines. Supporting working papers were generally of a good quality but we identified areas for improvement, in particular in relation to property, plant and equipment valuation supporting papers. During the course of the audit, we identified 8 audit differences and 3 prior year adjustments that management adjusted in the financial statements. Overall, we were satisfied that the Annual Governance Statement, reflects the requirements of CIPFA's updated *Delivering Good Governance Framework*. We made 2 recommendations in relation to the financial statements, both relating to the Council's arrangements for the annual valuation of property, plant and equipment. We have also highlighted our observations on areas for potential improvement in the financial statements going forward to management.
Going concern Our assessment: Green	In accordance with the CIPFA Code of Practice on Local Authority 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. Under auditing standard ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The Council has concluded that there are no material uncertainties around its going concern status, however it has disclosed the nature of its financial position in the financial statements to reflect the ongoing impact of recovery from the Covid-19 pandemic, increased demand for services and inflationary pressures. We have no matters to report in respect of our work around going concern or the conclusions reached by the Council.

Our auditor judgements are RAG rated based on our assessment of the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each area. This takes account of both external risks not within the Council's control and internal risks which can be managed by the Council, as well as control and process observations made through our audit work.

Wider Scope

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.

Our assessment: Red

As part of it's medium term financial scenario planning, the Council has identified significant budget gaps in the medium term, with an average savings gap of around £7.6 million forecast for each of the next 5 years but significant uncertainties remain.

Financial flexibilities have allowed the Council to establish a service concessions reserve to support the delivery of savings but there is a need to formally agree an updated medium term financial plan that demonstrates how Council priorities will be achieved.

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.

Our assessment: Amber

The Council recorded a surplus in 2022/23 of £11.1 million, reflecting an underspend of £5.6 million against service delivery and movements in earmarked reserves, including the use of financial flexibilities to create a new service concessions reserves of £14.8 million. In 2022/23 the Council also elected to draw upon £5.25 million from General Reserves to balance the financial position.

We noted that the Council's Chief Auditor has drawn attention to two areas of non-compliance with contract standing orders.

Vision, leadership & governance
The effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Our assessment: Amber

The Council has recently approved the first step in updating its Vision for the Future and reports clearly on its contribution to deliver the strategic priorities within the Community Plan.

Governance arrangements are established and worked well throughout 2022/23. However, we note that the Council's internal audit team is insufficiently staffed to deliver the 2023/24 plan.

Use of resources
The Council's approach to demonstrating economy, efficiency, and effectiveness through the use of resources and reporting outcomes.

Our assessment: Green

The Council has a well-developed approach to monitor and report on key areas of performance, and was able to demonstrate areas of improvement in 2022/23 within both service performance and in responding to the Strategic Outcomes within the Community Plan.

The Council continues to monitor a range of strategic risks, including the impact of the financial position and ongoing threat of cyber attacks on the public sector. The Council has set a target to achieve net zero emissions by 2045 but acknowledges that the significant investment required is not currently affordable based on existing priorities.

Best Value

Under the Code of Audit Practice June 2021, we perform an annual programme of work in relation to Best Value and wider scope responsibilities. For 2022/23, the Commission directed auditors to report on the effectiveness of the leadership of the development of strategic priorities. Our key conclusions against the work programme set by the Commission are reported within a separate Best Value Thematic Report

In our view, the Council's performance management and financial reporting arrangements allow the Council to demonstrate the achievement of Best Value. Our thematic review concluded that there is a clear vision in place and that longer term strategic planning is based on extensive community engagement and is aligned with community planning partners.

Within the thematic review and our wider scope work we do, however, note that there is a need to further develop the Council's Medium Term Financial Plan, Capital Investment Strategy and Workforce Strategy to demonstrate how key priorities will be delivered, including initial climate ambitions.

2. Introduction

Purpose of our report

The Accounts Commission for Scotland appointed EY as the external auditor of East Renfrewshire Council and it's Group ('the Council' or 'the Group') for the five year period to 2026/27.

We undertake our audit in accordance with the Code of Audit Practice (June 2021); Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other relevant guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise the key findings and conclusions from our audit work. It is addressed to both the Council and the Accounts Commission, and presented to those charged with governance. This report is provided to Audit Scotland and is published on their website.

A key objective of 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, our observations around where the Council employs best practice and where practices can be improved, and how risks facing the organisation can be mitigated. We use these insights to form audit recommendations to support the Council.

Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations made by prior year auditors (Appendix H).

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Council. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Our independence

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

Scope and responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan which was presented to the Council's Audit and Risk Committee on 29 March 2023. There have been no material changes to the plan.

Our review and assessment of materiality

In our Annual Audit Plan we communicated that our audit procedures would be performed using an overall materiality of £6.8 million. Exhibit 1 confirms that we have assessed that this level of materiality remains appropriate for the actual outturn for the 2022/23 financial year.

Performance materiality remains at 50% of overall materiality at £3.4 million.

Financial Statements audit

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

- Whether they give a true and fair view of the state of affairs of the Council and it's Group as at 31 March 2023 and of the income and expenditure of the Council and its Group for the year then ended
- Have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code.
- Whether they 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 outlined the significant risks and other focus areas for the 2022/23 audit in our Annual Audit Plan, which was presented to the Audit and Scrutiny Committee on 29 March 2023. There have been no changes to our planned audit approach.

Four significant risks were identified that impacted the audit of the financial statements:

- The risk of fraud in revenue and expenditure recognition;
- Misstatement due to fraud or error;
- The valuation of property, plant and equipment; and
- The valuation of PPP/PFI liabilities.

In addition, we continued to place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements. Our findings are summarised in Section 3 of this report.

Exhibit 1: Our materiality assessment in 2022/23

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £6.8 million. We have considered whether any change to our materiality was required in light of the income and expenditure in 2022/23 and concluded that no changes were required.

£6.8 million	£3.4 million	£0.25 million
Overall materiality	**Performance materiality**	**Reporting materiality**

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.

Wider scope and best value

Under the Code of Audit Practice, our responsibilities extend beyond the audit of the financial statements. Due to the nature of the Council, our wider scope work requires significant allocation of resources in the audit. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- 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.
- The use of resources to improve outcomes.

Our Annual Audit Plan identified three areas of audit focus in relation to wider scope audit:

- The Council's ability to develop sustainable and achievable medium term financial plans;
- The ongoing significant risk of cyber attacks to public bodies; and
- Climate change reporting.

Our annual assessment of the Council's arrangements to secure best value is integrated within our wider scope annual audit work. During 2022/23 we were asked to conduct a thematic review of leadership and strategic priorities. Our wider scope and Best Value findings are summarised in Section 4 of this report.

3. Financial statements

Introduction

The annual financial statements allow the Council to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

Compliance with regulations

As part of our oversight of the Council's financial reporting process we report on our consideration of the quality of working papers and supporting documentation prepared, predominantly by the finance team, to support the audit.

The financial statements were prepared materially in accordance with the CIPFA Code of Practice on Local Authority Accounting 2022/23.

The draft financial statements were submitted for audit by 30th June 2023, in line with requirements. The majority of working papers were provided in line with the agreed timetable. However, capacity to respond to audit queries from departments beyond Accountancy, along with the expected challenges in year one of an audit relating to understanding requirements expected from new auditors had an impact on our timetable. We are working with management to ensure that audit requirements for individual sections are fully understood as part of our 2022/23 audit debrief.

We were satisfied that the Council made the financial statements available for public inspection in accordance with Regulation 9 of The Local Authority Accounts (Scotland) Regulations 2014.

As part of the audit process, we worked with the finance team to make enhancements to the presentation of the financial statements, including going concern disclosures. We will continue to discuss good practice as part of our 2022/23 debrief and ongoing engagement with the finance team.

Audit outcomes

We identified 8 adjustments arising from the audit which have been reflected within the 2022/23 financial statements, and a further 3 which impact the prior year financial statements. There was one unadjusted disclosure difference, reflecting a late audit adjustment in the Strathclyde Pension Fund. Our overall audit opinion is summarised on pages 12-13.

We made three recommendations relating to the financial statements as a result of the annual audit. All recommendations relate to the Council's programme of valuation of its Property, Plant and Equipment. We note that a recommendation made by the previous auditors has not been fully completed, and we have now therefore graded the need for a robust valuation process, including scrutiny by management, as a Grade One recommendation. Other recommendations (Grade 2) were made in relation to the valuation methodology and common good register. These recommendations, together with management responses are included within the action plan in Appendix E.

Audit Approach

We adopted 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.

Audit approach continued

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 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.
- We rigorously maintain auditor independence (refer to Appendix B).

Group financial statements

The Council has identified and accounted for the following interests in other entities within its Group financial statements:

- 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

The only significant component by size is the Council, which accounts for 99% of consolidated gross expenditure. We have conducted an audit of the Common Good and Charitable Trust, and we are separately appointed to audit the Integration Joint Board. For all other bodies, we obtained the financial statements and performed analytical review procedures.

No matters were identified as a result of our review of the group consolidation arrangements within the financial statements.

Key audit matters

Under the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Section 106 Trusts

The Council acts as trustee for seven charitable trusts:

- Lieutenants Duff Memorial Institute;
- Newton Mearns Benevolent Association;
- Janet Hamilton Memorial Fund;
- John Pattison Memorial Fund,
- Hugh and Janet Martin Memorial Fund;
- Netherlee School 1937 Endowment; and
- Endowment for Talented Children and Young People.

The Council prepares amalgamated financial statements for the Trusts. Our audit work on the 2022/23 annual accounts is now complete and there are no unadjusted areas that we require to bring to the Committee's attention.

We consider the need to bring matters to the attention of the Committee regarding:

- The appropriateness of accounting policies or accounting estimates and judgements;
- the timing of transactions;
- the existence of material unusual transactions; or
- the potential effect on the financial statements of any uncertainties.

We note that there were two Trust Funds that had not incurred any expenditure in 2022/23, including one (the Endowment for Talented Children and Young People) that has not incurred any expenditure in recent years and the Council therefore closed the fund on 31 March 2023. We have discussed future plans with management for other small funds.

Exhibit 2: Our audit opinion

Element of our opinion	Basis of our opinion	Conclusions
Financial statements ► Truth and fairness of the state of affairs of the Council at 31 March 2023 and its expenditure and income for the year then ended. ► Financial statements in accordance with the relevant financial reporting framework and relevant legislation.	► We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement. ► We are satisfied that accounting policies are appropriate and estimates are reasonable. ► We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.	We [have issued an unqualified] audit opinion on the 2022/23 financial statements for the Council.
Going concern ► We are required to conclude on the appropriateness of the use of the going concern basis of accounting.	► We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis. ► Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.	In accordance with the work reported on page 25, we have not identified any material uncertainties.
Other information ► We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit.	► The Chief Financial Officer is responsible for other information included in the financial statements. ► We conduct a range of substantive procedures on the financial statements and our conclusion draws upon review of committee and Council minutes and papers, regular discussions with management, our understanding of the Council and the wider sector.	We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.

Exhibit 2: Our audit opinion (continued)

Element of our opinion	Basis of our opinion	Conclusions
Matters prescribed by the Accounts Commission ► Audited part of remuneration report has been properly prepared. ► Management commentary / annual governance statement are consistent with the financial statements and have been properly prepared.	**Our procedures include:** ► Reviewing the content of narrative disclosures to information known to us. ► Our assessment of the Annual Governance Statement against the requirements of the CIPFA Delivering Good Governance Code.	We issued an unqualified opinion.
Matters on which we are required to report by exception	**We are required to report on whether:** ► Adequate accounting records have been kept. ► Financial statements and the audited part of the remuneration report are not in agreement with the accounting records. ► We have not received the information or explanations we require.	We have no matters to report.

Our response to significant and fraud audit risks

1. Risk of fraud in revenue and expenditure recognition (Key audit matter)

What is the risk?

As we outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

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 and Incorrect capitalisation of revenue expenditure. We therefore consider this risk to be most prevalent in the following income and expenditure balances:

- **Total expenditure:** £192.9 million and prior year (PY) comparator: £172.7 million;
- **Total income:** £153.2 million and PY comparator: £138.6 million;
- **Short and long term creditors:** £64.4 million and PY comparator: £60.7 million;
- **Short term debtors:** £24.7 million and PY comparator: £30.4 million; and
- **Capital Grant Receipts in Advance:** £8.2 million and PY comparator: £7.3 million.

Refer to accounting policies with Note 1 (pages 53-64) and notes 2-3, 5, 12-14, 19-21 and 23 of the Consolidated Financial Statements.

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.

What did we do?

We undertake specific, additional procedures for income and expenditure streams where we identify a fraud risk. For 2022/23 our work included:

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

Other audit procedures: non-significant risk areas

- **Council Tax Income**

We established detailed expectations of income based on properties and rates and compared to actual income in the year. We audited the reconciliation between the financial statements and the relevant feeder system.

A disclosure error was identified in relation to the reporting of the number of council tax dwellings reported within the notes to the Council Tax Income Account. We note in Appendix F that this has been updated to reflect the figures provided by the Assessors Office at 31 March 2023.

- **Non-Domestic Rates**

We established expectations of income to be collected by the billing authority and agreed the reconciliation between the general ledger and the feeder system. We also audit the Council's NDR grant return to the Scottish Government to ensure that reliefs have been applied appropriately.

- **Non ring-fenced grant income**

We substantively tested these balances to grant confirmation letters from third parties.

- **Depreciation, amortisation & impairment:**

We undertook testing of these balances in conjunction with our work on property, plant and equipment. We considered the appropriateness of useful lives of assets and recalculated depreciation charged in the year.

We noted that the Council has capitalised lifecycle costs as determined by the models for PPP/PFI assets. During testing, the Council was unable to provide adequate evidence to support the capital nature and value of the additions, and we therefore required an adjustment to be made to correct the incorrect capitalisation of expenditure. This resulted in a decrease of additions to PPP/PFI assets of £2.17 million (refer to Appendix F).

In addition, Appendix F refers to the removal of £3.1 million of lifecycle costs have been removed from the value of the Roads PPP, which forms part of infrastructure assets. These are additions which have been incurred since the introduction of IFRS in 2010 up until 2021/22.

- **Pension costs:**

We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on page 24.

In respect of all pension transactions impacting the Comprehensive Income and Expenditure Statement we agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.

We did, however, note from our review of the IAS19 actuarial valuation report that the Council has unfunded pension obligations at 31 March 2023 totalling £17.3 million. We agreed with management that these should be recognised separately on the balance sheet as an obligation on the basis that there are no plan assets to meet the pension liabilities. An adjustment has therefore been made within Appendix F to separately identify these assets.

Other audit procedures: non-significant risk areas continued

► **Employee expenses**

We established expectations of payroll costs in the year based on staff numbers and salary movements, and compared our expectations to actual results and investigated variances. Our bespoke data analysers provided analysis of all payroll transactions in the year, from which we investigated and corroborated material and unusual transactions.

We identified one error in relation to the calculation of the accumulated absences accrual, where we identified that the accrual was based on 2022/23 rates of pay. Appendix F reflects the requirement to uplift the salary calculation to reflect pay award expectations in 2023/24.

Our conclusions

- Our testing has resulted in a number of adjustments to misstatements relating to revenue and expenditure recognition.
- We note that the Council's Chief Internal Auditor has referred to weaknesses within the new payroll system, iTrent, which require further investigation.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

2. Risk of management override (Key audit matter)

Our Annual Audit Plan recognises that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

Risk of fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also developed our understanding of the oversight of those charged with governance over management's processes over fraud.

Testing on journal entries

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions. [In particular we considered:

- Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- Journals transferring funds between useable reserves and restricted or separated accounts such as HRA accounts; and
- Journals adjusting between income and expenditure accounts and capital accounts.

We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

Judgements and estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and was applicable to the Board's audit from 2020/21. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, including the valuation of local government pension assets and liabilities, considered on page 24 of this report; and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment, outlined on page 19 of this report).

Our procedures included:

- Testing management's process method, key assumptions, data;
- Testing management's process-estimation uncertainty;
- Considering evidence from events up to the report date; and
- Developing our own point estimate of the appropriate valuation.

We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements. We worked with management to enhance these, as outlined earlier in this report.

Accounting policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Council to be appropriate and there were no significant accounting practices which materially depart from what is acceptable under the Code.

Remuneration report

The Council must prepare a Remuneration Report as part of the financial statements under the Accounting Code of Practice. We apply a lower level of materiality to the Remuneration Report due to the nature of the disclosures.

Within the Remuneration Report, the Council is required to disclose elected member expenses.

As part of our testing, we noted that the unaudited accounts disclosed the costs of the use of a car which is leased by the Council under standard invoicing arrangements and used for the fulfilment of civic duties, such as attending formal events. The cost of the car is apportioned to each elected member based on each individual's use of the car, However, as the member does not receive any reimbursement for the cost incurred and therefore does not meet the criteria as an expense per the Local Government (Allowances and Expenses) (Scotland) Regulations 2007, we have raised an adjustment to remove these costs from the disclosure in 2022/23 in Appendix F. This also impacts the prior year comparator disclosure.

Our conclusions

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.]

3. Valuation of Property, Plant and Equipment (Key audit matter)

What is the risk?

The fair value of property, plant and equipment (PPE) represent significant balances in the Council's financial statements (£937 million; *2021/22: restated £842.6 million*).

Refer to accounting policies in Note 1 (pages 61-63) and note 15 of the Consolidated 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. In 2022/23, the Council's internal valuers completed a significant programme to revalue each class of asset.

The Council also has a significant capital programme with judgement being applied to the valuation of additions and split between revenue and capital expenditure. We note that the Council's previous auditors recommend that a valuation report is prepared to outline the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme.

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 was 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.

During 2022/23, an additional risk emerged in relation to the use of Reinforced Autoclaves Aerated Concrete (RAAC) after recent investigations identified the deterioration of RAAC planks could impact the functionality of the building and result in significant additional costs to rectify.

What did we do?

Our work over Property, Plant and Equipment focussed on the following areas:

- review and appraisal of the work performed by the Council's valuer, including the scope of the work performed, their professional capabilities and the results of their work;
- sample testing key asset information used by the valuers (e.g. floor plans to support valuations based on price per square metre);
- involving EY internal specialists to challenge the work performed by the Council's valuers;
- assessing any changes to useful economic lives;
- testing accounting entries have been correctly processed in the financial statements;
- sample testing transfers from assets under construction and confirm for a sample that remain within assets under construction that development is still in progress;
- reviewing management's impairment assessment and assess the completeness of impairment considerations;
- reviewing the Council's approach to determining if any buildings are impacted by the use of RAAC.
- gaining 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
- reviewing operating expenditure for evidence of capital addition omissions.

Our findings

Early in the audit process, management explained that given the ongoing focus on the valuation of fixed assets by auditors, and the materiality and estimation uncertainty associated with valuations, the Council had elected to value 100% of assets in 2022/23, significantly enhancing the accuracy of information available to management for the yearend financials statements, but also increasing the level of work required by the Council's valuers. The Council employs its own valuers within the Property and Technical Services (PATS) team. During the final audit visit, we requested a sample of valuations to conduct our own testing, and selected a number to be reviewed by our valuation specialists.

We experienced a number of delays in obtaining the valuation certificates for the assets subject to testing. Key working papers that we would expect to be presented and considered by management as part of a robust valuation process were not available at the start of the audit. The Council has not routinely provided supporting working for its valuations in prior years but these should be available both to finance and to auditors to challenge and interrogate valuations.

Recommendation 1: Management should review its valuation arrangements to ensure that clear instructions are issued to valuation experts, including the detailed audit information requirements.

During testing we identified that PPP/PFI schools had not been previously revalued since 2017/18. The Council's impairment review of assets that had not been revalued in 2021/22 had omitted these assets from consideration.

The 2022/23 revaluation increased the carrying value of the schools by £53.6 million. Due to the impact of inflation over the five years since the last valuation, we determined that only part of the increase (£15.1 million) related to 2022/23. We have therefore highlighted a £38.5 million prior period error within Appendix F. Similarly, a number of other schools that were not valued in 2021/22 were determined to have been materially misstated in the prior year financial statements (an error of £11.73 million – Appendix F).

One further prior year error was identified in relation to the statutory override that councils adopted in 2021/22 in relation to infrastructure assets. The council's Roads PPP had previously been excluded from this override and the gross cost and accumulated depreciation for PPP Roads was included in error. This resulted in a reclassification misstatement outlined in Appendix F.

Our testing identified a number of errors within valuations, including:

- Land values for the PFI/PPP assets had been recorded at a discounted rather than full value, resulting in an understatement of £6.781 million;
- Land values for sites in Barrhead had been undervalued, resulting in an understatement of £3.506 million;
- Land values for sites in Eastwood has been overvalued, resulting in an overstatement of land of £714,000; and
- Amenity land throughout the asset base had been valued at a developed rate, which contravenes the CIPFA Accounting Code of Practice, resulting in an overstatement of £9.404 million.

Our findings continued

While these values netted off to a value below our materiality level in 2022/23, the Council should ensure that valuations are Code-compliant.

Recommendation 2: The Council should ensure that the basis of valuations is in line with the Code of Accounting Practice.

Reinforced Autoclaves Aerated Concrete (RAAC)

The Council has followed decision tree guidance issued by the Department of Education as part of its assessment, and determined that none of it's schools have been impacted by the RAAC matter.

Management has made representations that none of the schools within East Renfrewshire have been impacted within the letter of representation that we require as part of our finalisation of the audit. We will continue to keep this matter under review up to and including our subsequent events procedures.

Common Good Assets

In May 2023, the Local Authority Accounting Scotland Accounts Advisory Committee (LASAAC) issued updated guidance on accounting for Common Good Assets. LASAAC note that there is a requirement to maintain asset registers for all Common Good assets under the Community Empowerment Act 2015. However, previous assessments by LASAAC have noted that problems may have arisen over time as a likely consequence of:

- the historic nature of the Common Good which may encompass assets which are more than 100 years old;
- the compound effect of successive local government reorganisations; and
- no requirement for local authorities in Scotland to maintain formal asset registers until 1994.

Recommendation 3: The Council should consider its arrangements for recording common good assets against the updated LASAAC guidance.

Our conclusions

- We have identified a number of material misstatements in the current and prior year valuation of property, plant and equipment in Appendix F, and we have identified 2 recommendations for future years.
- While there was no disagreement during the course of the audit over any accounting treatment, we did experience significant delays in obtaining appropriate audit evidence for valuations.

4. Valuation of PFI/PPP Liabilities (Key audit matter)

What is the risk?

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 2022/23 financial statements, the Council holds £68.1 million in respect of PFI/PPP contract liabilities (2021/22: £73.5 million). Refer to accounting policy in Note 1 (pages 63-64) and note 35 of the Consolidated Financial Statements.

What did we do?

Our procedures included:

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

Financial flexibilities

In March 2023, the Council elected to make use of the service concessions flexibility made available by the Cabinet Secretary in October 2020. Local authority Directors of Finance and COSLA liaised directly with the Scottish Government to clarify the practicalities of the flexibilities. The options in respect of flexibilities have been reported to Council throughout the year, as guidance has developed. As a result of the latest statutory guidance in respect of service contract concessions, the Council elected to extend its PPP contract debt repayment periods to reflect asset, rather than contract, lives.

We worked with the Council to ensure appropriate financial statement disclosures were in place with respect of planned and actual use of financial flexibilities.

Our conclusions

- We engaged our specialists to support our procedures, recognising that the models had not been subject to detailed specialist review before.
- Based upon the audit procedures performed, we have concluded that PPP/PFI liabilities have been appropriately valued in accordance the CIPFA Code of Practice on Local Authority Accounting in the UK 2022-23 and IFRIC 12 Service Concession arrangements.

Opening balances

Audit requirements

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.

Our audit work focused on the following areas of judgement within these balances:

- agree the opening balance sheet position to the underlying financial records held by management;
- review the prior year working papers by the departing auditor 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; and
- review post 31 March 2022 actual transaction data for estimates made at the previous balance sheet date to assess the reasonableness of estimates made.

Our conclusions

We identified a number of key judgements and estimates within the prior year financial statements. This includes:

- the valuation of the Council’s Property, Plant and Equipment (refer to pages 19-21)
- The valuation of PFI/PPP liabilities (refer to page 22)
- Cut off balances (refer to page 14).

As part of our testing, we identified a number of adjustments in relation to the prior year valuation of Property, Plant and Equipment which are included within Appendix F.

Valuation of pension assets and liabilities

Audit requirements

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 2023 the unaudited financial statements disclosed a net asset of £160.46 million (*2022: liability of £50 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.

Our findings

Accounting standards place a limit on the amount of pension surplus that can be included as an asset on an organisation's balance sheet. A council cannot show an asset on its balance sheet relating to a defined benefit pension scheme which exceeds the economic value it is likely to derive from the pension scheme. The amount that can be included as an asset is therefore restricted to the surplus which can be returned to the Council by way of refunds or reductions in future contributions. This restriction is known as the "asset ceiling". As part of our audit procedures, we requested that the Council obtain an asset ceiling report from their actuaries. Our actuarial specialists reviewed the asset ceiling report and were satisfied that it was materially correct. As a result, the value of the Council's pension asset reduced from £160.46 million to £131.9 million. This is disclosed as an adjusted audit difference in Appendix F

Our conclusions

- We engaged specialists to support our work on the reasonableness of the underlying assumptions used by the Council's actuary.
- We undertook procedures to ensure that the information supplied to the actuary in relation to the Council was complete and accurate and that our own estimate of the valuation based on those inputs was materially consistent with the actuarial reports.
- We considered the findings of the appointed auditor of the Strathclyde Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2023 and we audited the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

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.

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 the ongoing impact of Covid-19, the 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.

Management's going concern assessment and associated disclosures cover the 12 month period following approval of the financial statements, to September 2024.

After completing its going concern assessment in line with the information and support provided through earlier discussions in the audit process, the Council has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the Council's financial position going forward in the financial sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- The completeness of factors considered in management's going concern assessment.
- The completeness of disclosures in the financial statements in relation to going concern and future financial pressures and how savings challenges in the short and medium term will be addressed.

Our conclusions

- We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key reports to the Council and financial plans. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council.

ISA (UK) 315: Identifying and assessing the risks of material misstatement

Audit requirements

As set out within our Annual Audit Plan, there has been a significant change to the auditing standard, ISA (UK) 315 and this impacted our 2022/23 audit approach and the procedures we needed to perform.

The standard drives our approach to consideration of the specific systems used to create the financial statements, including:

- Risk assessment.
- Understanding the Council's internal control arrangements.
- The identification of significant risks.
- How we address significant risks.

Key changes to our audit approach as a result of the implementation of ISA 315 were:

- A significant increase in audit work on the Council's use of IT in the systems of internal control across partner organisations.
- Increased importance of our understanding of the entity and environment, the applicable financial reporting framework, and system of internal control.
- A greater focus on professional scepticism including ensuring that audit approaches do not show bias to look for corroborative evidence or excluding contradictory evidence.
- We made enhanced inquiries of management and 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 held discussions with key members of the Council including in respect of the risks of fraud and considered the implications for the audit.

Our conclusions

- We identified 13 relevant IT systems and applications which contribute to the production of the Council's financial statements.
- Our work did not identify any significant weaknesses in the Council's systems of internal control. We did however identify some areas for improvement in relation to user access controls and legacy systems which we will discuss with management, allowing them to implement amendments or additional controls.

4. Best Value and Wider Scope Audit

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 public sector in Scotland:

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

We apply our professional judgement to risk assess and focus our work on each of the wider scope areas. In doing so, we draw upon conclusions expressed by other bodies including the Council's internal auditors and the Care Inspectorate, along with national reports and guidance from regulators and Audit Scotland.

For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

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.

The findings from our wider scope work have informed our assessment of Best Value in 2022/23. In addition, the Accounts Commission requested that we conduct a thematic review of leadership and strategic priorities, based on a work programme provided by Audit Scotland.

Exhibit 3: Our RAG ratings

Red **Amber** **Green**	Our auditor judgements are RAG rated based on our assessment of the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each area. This takes account of both external risks not within the Council's control and internal risks which can be managed by the Council as well as control and process observations made through our audit work.

Financial Sustainability

Our overall assessment: Red

As part of its scenario planning, the Council has identified significant budget gaps in the medium term, with an average savings gap of around £7.6 million forecast for each of the next 5 years but significant uncertainties remain. Financial flexibilities have allowed the Council to establish a service concessions reserve to support the delivery of savings but there is a need to formally agree an updated medium term financial plan that demonstrates how Council priorities will be achieved.

The context for financial sustainability within the Council sector

Scotland's public services are facing unprecedented challenges. In May 2023, the Scottish Fiscal commission published their report on Scotland's Economic and Fiscal Forecasts which showed that forecast spending could exceed funding by 2% (£1 billion) in 2024/25, rising to 4% (£1.9 billion).

The Accounts Commission publishes an annual report on the financial performance of Councils. Councils: Financial Analysis 2021/22 (April 2023). The report highlights the significant pressures impacting the sector including:

- The rising demand associated with an ageing population with increasingly complex health and social care needs.
- A workforce under extreme pressure facing continuing recruitment and retention challenges, including staff turnover rates of around 30%.
- Weakening financial position, with almost half of Councils holding contingency reserves of less than one per cent of the net cost of services.
- A funding gap of £124 million in 2022/23 alone, with Councils expected to draw upon reserves to fund around 14% of the gap.

In June 2023, the Convention of Scottish Local Authorities (CoSLA) and the Scottish Government agreed a new Partnership Agreement (known as the "Verity House Agreement") to develop a more collaborative approach to delivering three shared priorities:

- Tackling poverty;
- Just transition to net zero; and
- Sustainable public services.

The agreement is a high level statement of intent, recognising that significant activity is underway to support each priority, and there are potential programmes of joint work. It commits that by the end of September 2023:

- Improved engagement on budgetary matters will be well underway with councils, in preparation for the Scottish Budget in December 2023;
- A Fiscal Framework will be concluded between Scottish Government and Local Government, of which regular budget engagement will be a key part.
- A shared programme of activity underneath each of the three priorities, which will focus on the period between now and the next Scottish Council Elections in 2027.

Further work is planned by end October 2023 to create more freedom and flexibility for Councils to address the priorities in a way that meets local needs.

The Council has highlighted that East Renfrewshire residents will be disproportionately impacted by proposed changes to council tax rates

In July 2023, the Scottish Government and CoSLA launched a joint consultation on potential changes to the council tax system that would result in those in the highest value properties asked to contribute more. While this will impacts 25% of properties across Scotland, in East Renfrewshire the impact is higher. Around 57% (23,000 households), would be required to make higher contributions, in part due to the high proportion of new build properties in the area. These properties are largely banded from E to H, whereas similar older properties, which have not been revalued since 1991 and may have a higher market value, may be banded C or D.

The Council paused plans to reintroduce multi-year budgets as a result of the significant financial uncertainties facing Scottish Local Government

Prior to the impact of the pandemic, the Council had adopted a three year budget approach for the financial years 2018/19 and 2019/20. The Council anticipated that multi-year budgets would be resumed in March 2023, but the lack of detailed information on likely local government financial settlements, coupled with ongoing uncertainties such as inflationary pressures, meant that this was not pursued.

The Council continues to update its medium term financial plan and three year budget, driven by scenario planning, are prepared for members' consideration and a high level budget for the years 2024/25 and 2025/26 is included in the Outcome Delivery Plan. The Council's saving plans for the next three years were also informed by public consultation on savings options for 2023-2026.

It is hoped that the work emerging from the Verity House Agreement will provide sufficient forecasting information to allow multi-year budgets from 2024/25 and beyond.

The Council has considered outline 3 year departmental budgets within each Outcome Delivery Plan and in March 2023, the Council also considered an Outline Revenue Financial Plan for the period 2023-2029. This outlined the significant demographic demand pressures facing the Council as a result of significant inward migration and an ageing population. The population of East Renfrewshire Council is projected to rise by 13.5% in the period to 2043, against a projected rise for the whole of Scotland at just 2.5%.

The Council has highlighted that the "floors" mechanism used to allocate Scottish Government funding disproportionately impacts councils with increasing populations. The Council's grant settlement reduced by £3.5 million in 2023/24 to support councils with falling populations from a rapid decrease in budget.

The Outline Revenue Plan estimates that if the annual grant remains broadly flat in cash terms, an average savings gap of around £7.6 million is forecast for each of the next 5 years. A Budget Strategy Group is in place to develop plans for the 2024/25 budget and beyond. The Plan also notes that all of the Council's revenue and capital expenditure will need to be reviewed in light of the requirement to achieve net zero greenhouse gas emissions by 2045. This will require review and reprioritisation of significant investment decisions. The draft "get to zero" action plan is currently subject to consultation but expected to be adopted during 2023/24.

Recommendation 4: The Council needs to further develop a realistic and costed medium term financial plan that supports the delivery of strategic objectives.

The Council has set aside funds to support the delivery of the Digital Transformation Strategy

The Council has a Digital Transformation Strategy in place, supported by an annual budget drawn from the Council's modernisation earmarked reserve, alongside recharges to capital, revenue funding and other reserves. The underspend in 2022/23 allowed the Council to transfer £2.1 million to support the transformation programme to prioritise savings and improvements in services.

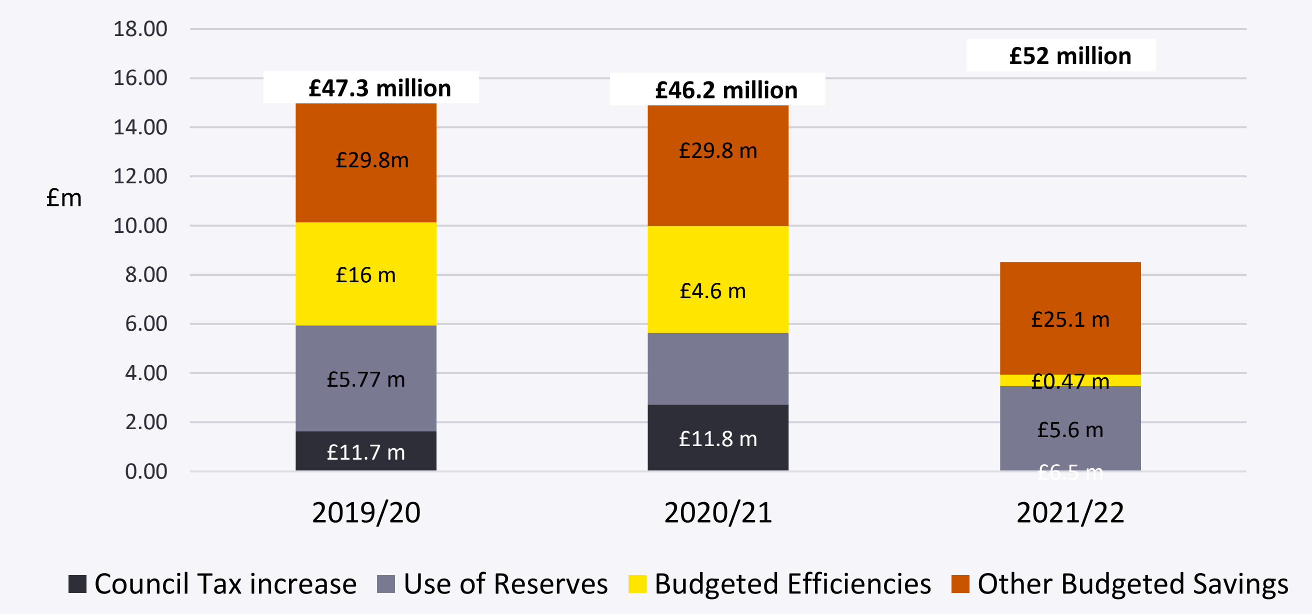
The financial forecast notes that the modernisation reserve is at risk of being depleted, and that in the future the programme may have to be funded using top-slicing from departmental revenue budgets.

The Council's usable reserve balances increased overall in 2022/23

As Exhibit 4 highlights, in 2022/23 the Council's usable reserves increased by £5.8 million as a result of the Council's decision to take advantage of the fiscal flexibilities available to local government since October 2020. In March 2023, the Council approved the restructuring of the liability held in the Council's Balance sheet for its five PFI/PPP service concession arrangements over the lives of the assets instead of the lives of the contracts, in line with the finance circular 10/2022.

This resulted in a one-off benefit of £14.8 million to the reserves position, and the creation of a specific service concessions reserve to manage future budget gap pressures. Without this application, General Fund reserves would have fallen by £9 million in 2022/23 as a result of the use of earmarked balances, including Covid-19 grants (£4.7 million) and the planned use of the General Reserve (£5.3 million).

Exhibit 4: Reserves balances increased by £5.8 million during 2022/23 as a result of the application of service concession financial flexibilities



The Council's General Reserve balances fell in 2022/23 but remain in the Council's accepted range.

The Council's General Reserve fell to £6.5 million at 31 March 2023, representing 2.3% of annual budgeted net revenue expenditure (*2021/22: 4.4%*). The Council's target, set within the Reserves Policy, is to ideally hold 4% of the revenue budget as a general reserve, with a minimum level of around 2%. The Local Authority Accounting Panel (LAAP) Bulletin 99 on Reserves and Balances notes that "it is not normally prudent for reserves to be deployed to finance recurrent expenditure."

The Council's 2023/24 budget was set in March 2023 and identified a budget gap of £18.1 million. Exhibit 5 highlights that the Council proposes to bridge £10.2 million of the gap by drawing upon the service concession reserve. The General Fund balance at 31 March 2024 is currently projected to remain at £6.5 million. Historically, underspends have been used to replenish the General Fund balance.

We note that the Reserves Policy has not been updated since February 2021, and may not, therefore, fully reflect the level of risk and uncertainty facing the Council in the short to medium term.

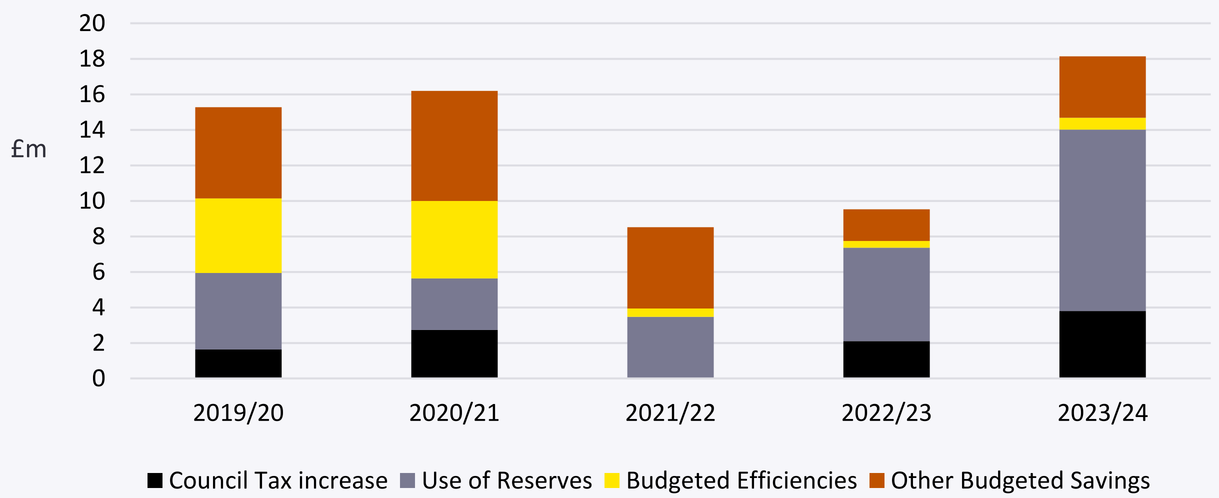
Recommendation 5: The Council should review the Reserves Policy to ensure it fully reflects its current risks and priorities.

The Council has identified savings of £4.74 million to be delivered in 2023/24

As Exhibit 5 outlines, the Council has been able to deliver significant savings over the last 5 years to balance the budget gap. Saving options were the subject of public consultation in Autumn 2022 and remain under consideration by the Budget Strategy Group. Savings of £4.74 million are planned to be delivered in 2023/24, with indicative savings approved for 2024/25 totalling £2.03 million.

Planned savings have been identified across all services and include staff reductions in Environment, Revenues and Benefits, ICT, HR/Payroll and Strategic Services. The Council has also required to make reductions in services, including within Education, such as behavioural support and support for quality. The Council has created an earmarked reserve of £1.5 million to meet the costs of workforce restructure.

Exhibit 5: The Council has used savings of over £30 million to meet the budget gap for the last 5 years



Financial Management

Our overall assessment: Amber

The Council recorded a surplus in 2022/23 of £11.1 million, reflecting an underspend of £5.6 million against service delivery and movements in earmarked reserves, including the use of financial flexibilities to create a new service concessions reserve of £14.8 million. In 2022/23 the Council also elected to draw upon £5.25 million from General Reserves to balance the financial position.

We noted that the Council's Chief Auditor has drawn attention to two areas of non-compliance with contract standing orders within the Annual Governance Statement.

Financial Outturn

The Council recorded a surplus of £11.1 million in 2022/23, after transferring £1 million to the Repairs and Renewals Fund.

The outturn reflected £5.6 million service underspends relating to:

- improved income, including interest earned on temporary investment balances and higher Council Tax collection as a result of new-build completions of £2.2 million;
- a lower than planned spend in relation to redundancies and other contingencies of £1.2 million;
- lower teaching costs following industrial action of £1 million; and
- underspends as a result of staff vacancies and contract savings of £1.2 million.

The remaining surplus (£6.5 million) related to movements in earmarked balances, including a £14.8 million reserve as a result of the use of financial flexibilities, offset by the Council's budget decision to draw upon £5.25 million from General Reserves to balance the 2022/23 financial position. Most of the surplus has been allocated to earmarked reserves to address future known cost pressures.

As in prior years, the outturn was significantly better than forecast throughout the financial year

The 2022/23 financial outturn continues a trend of significant underspends noted in previous years. In 2021/22, the external auditors recommended improvements to budgeting and forecast reporting arrangements.

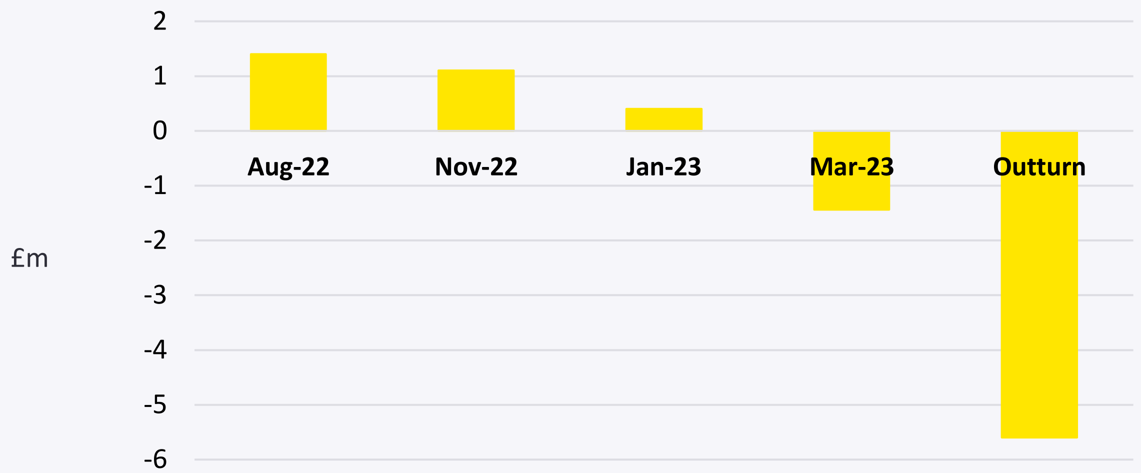
The Cabinet receives budget monitoring reports throughout the financial year. Exhibit 6 highlights that forecasting for most of the year projected an overspend against service budgets.

While there were unexpected one-off movements, the estimates included within budget forecasting continued to be prudent rather than realistic. The underspend also reflects decisions made to constrain expenditure and specific actions undertaken by services to identify savings to offset cost pressures, such as the higher than expected teachers pay award.

Budget monitoring reports are critical for members, including the Budget Strategy Group, to make decisions about the prioritisation of resources.

Recommendation 6: The Council should review budget monitoring processes to increase the accuracy of forecasts throughout the year.

Exhibit 6: Until the year end, budget monitoring reports anticipated that service budgets would deliver an overspend



The Council reported that it delivered 99% of the planned value of General Fund and Housing capital programmes

In recent years, councils across Scotland have noted the impact of the pandemic and the war in Ukraine on the delivery of capital programmes. The financial statements report that capital investment in the General Fund and the Housing Revenue Account totalled £46 million, representing 99.3% of the budget for the year. We do, however, note that there have been variations within the planned programme. In a number of cases the tenders returned for have exceeded the approved budget and are therefore subject to review. These include:

- St Mark's Primary School Car Park;
- Isobel Mair External Classroom; and
- Crookfur Primary School Extension.

The cost of other projects, such as the Mearns Castle High School Sports Facility and Eastwood High School sports centre changing rooms and disabled toilets have increased.

The Council concluded that its internal control arrangements remain effective but noted areas of non-compliance with the contract standing orders

Within the Annual Governance Statement, the Council has concluded that they have obtained assurance that the system of internal control was operating effectively during the year.

The Governance Statement does, however, highlight that the Chief Internal Auditor has reported two areas of non-compliance with the contract standing orders within the Housing Service.

The Council uses the Governance Statement to explain the actions that will be taken in response to weaknesses, and reports on the progress against actions agreed in prior years.

Through our audit of the financial statements, we consider the design and implementation of key controls related to areas of significant risk to the financial statements. This work has included documenting the key internal financial controls and performing walkthroughs to ensure controls are implemented as designed.

We undertook an assessment of the financial control environment as part of our planning work, and updated our understanding as part of the year end audit. Following the revisions to the ISA (UK) 315, our audit methodology included a greater focus on the use of IT in the system of internal control. Our work did not identify any significant weaknesses in the systems of internal control relevant to the preparation of the Council's financial statements, although we note in Section 3 that areas for improvement will be discussed with management.

We did, however, note that the Chief Internal Auditor's annual report drew attention to ongoing work in relation to the Council's payroll system.

Capacity and capability of the finance team

As this is the first year of our annual audit work, we considered the strength and depth of the finance team, including the arrangements in place for workforce and succession planning.

The Council's strategic planning processes have identified a weakness in relation to the impact of retirals and the corresponding loss of experience and organisational knowledge. We are satisfied that the Council adheres to the principles laid out within CIPFA's Statement on the role of the Chief Financial Officer in Local Government. However, while the Council has an experienced finance team, there is a risk of key person dependency.

Within Section 3, we refer to the need to update and review the Accountancy Team's arrangements in relation to the review and update of the financial statements against good practice guidance, and to review and challenge valuation assumptions.

A strong finance function is essential to navigate the period of the next Medium Term Financial Plan, and to meet the requirements of the CIPFA Financial Management Code.

Recommendation 7: The Council should ensure that the Accountancy Team is sufficiently resourced to reduce key person dependency and meet ongoing training requirements.

Vision, Leadership and Governance

Our overall assessment: Amber

The Council has recently approved the first step in updating its Vision for the Future and reports clearly on its contribution to deliver the strategic priorities within the Community Plan.

Governance arrangements are established and worked well throughout 2022/23. However, we note that the Council's internal audit team is insufficiently staffed to deliver the 2023/24 plan.

The Council has approved an updated Vision for the Future and continues to demonstrate its contribution to the Community Plan

In June 2023, the Council approved a revised Vision for the Future, representing the first key step in refreshing the long term strategic planning framework.

It has drawn upon stakeholder engagement and work with partners to refine and refresh the vision for the next 10 to 15 years and has identified three clear priority themes:

- Children and Young People
- Communities and Place; and
- Promoting wellbeing and supporting the vulnerable.

Further work is underway to develop the outcomes that underpin the refreshed framework, with a three year plan expected to be in place by Autumn 2024.

The Council uses the annual refresh of the rolling three year Outcome Delivery Plan to demonstrate its contribution to the Strategic Priorities within the Community Plan. Our work on the Best Value Thematic Review for 2022/23 noted that there is a need to align long term financial and capital planning to key priorities, including climate change ambitions.

The Annual Governance Statement demonstrates that it has the key requirements for good governance in place

The key aspects of the Council's governance arrangements are required to be disclosed in the Annual Governance Statement within the financial statements. We reviewed the governance statement against the requirements outlined in the CIPFA framework for *Delivering Good Governance in Local Government*, and against our understanding of the Council's arrangements in the period to 31 March 2023.

The Local Authority Accounting (Scotland) Regulations 2014 require that a review is undertaken, at least once in each financial year, of the effectiveness of the system of internal control. The Council's Chief Financial Officer has concluded that reasonable and objective assurance can be taken that any risks impacting on the achievement of our strategic outcomes were identified, and appropriate actions were taken for the year to 31 March 2023.

Her assessment is based on Statements of Assurance from Directors and Chief Executives within the Council and Culture and Leisure Trust. The only exception raised related to the Certificate of Assurance from the Director of Environment which noted a breach in Contract Standing Orders in relation to the award of an External Wall Insultation and Roof Insulation. The certificate also noted an internal audit is underway in relation to the contract award for the building of social housing.

We note that this internal audit has not yet concluded as a result of a delay in management responses to the draft report. We will therefore continue to consider the implications of this work in 2023/24.

The Council's Internal Audit team is insufficiently staffed to deliver the annual audit plan

Throughout the year, we noted an acute resource constraint within the Council's internal audit team. The Chief Auditor has referred to vacancies within the team and the impact on the delivery of the internal audit plan in both 2021/22 and 2022/23. The Plan for 2023/24 notes that delivery assumes that the two current vacancies would be filled in the first quarter of the year. This has not been possible and we therefore consider that delivery of the plan in full is at risk.

The Council does not have a counterfraud team in place, although some elements are addressed by the Revenue and Benefits team. Any whistleblowing or fraud allegations are therefore investigated by the internal audit team. The current level of vacancies therefore places the Council's ability to respond to any allegations at risk.

Recommendation 8: There is an urgent need to respond to the current level of vacancies within the Council's internal audit team.

The Audit and Scrutiny Committee should self-assess it's arrangements against updated good practice guidance

In October 2022, CIPFA updated its guidance on good practice for local authority audit committees. At East Renfrewshire Council, the role of the audit committee is fulfilled by the Audit and Scrutiny Committee.

While the Committee generally meets the requirements within the guidance, there has been no formal self-assessment arrangements against the CIPFA guidance which may identify improvements. For example, we note that the good practice guidance suggests separating the roles of the audit committee and scrutiny function.

In our view, a self-assessment would help to support the governance framework outlined within the Annual Governance Statement.

Recommendation 9: The Audit and Scrutiny Committee should review its arrangements against updated good practice guidance.

The Council has established good arrangements to respond to the National Fraud Initiative, but whistleblowing arrangements should be improved

The National Fraud Initiative (NFI) programme is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The annual exercise produces data matches by comparing information held on public bodies' systems to identify potential fraud or error. Audit Scotland's co-ordinator notes that East Renfrewshire Council are one of the better performing Council's in Scotland in terms of the follow up and response to matches.

The Audit and Scrutiny Committee consider an annual report on the Council's Fraud Response. We note that the Council's Anti-Fraud, Bribery and Theft Strategy (2019) was being reviewed to ensure that it continues to meet the need of the Council and the level of current and emerging fraud risks.

Use of resources

Our overall assessment: Green

The Council has a well-developed approach in place to monitor and report on key areas of performance, and was able to demonstrate key areas of improvement in 2022/23 within both service performance and in responding to the Strategic Outcomes within the Community Plan.

The Council continues to monitor a range of strategic risks, including the impact of the financial position and ongoing threat of cyber attacks on the public sector. The Council has set a target to achieve net zero emissions by 2045 but acknowledges that the significant investment required is unlikely to be affordable.

The Council regularly reports on its performance, including progress against the Community Plan and Fairer East Ren

A comprehensive Performance Framework is in place to report on performance against the Council's Strategic Outcomes. The annually-refreshed Outcome Delivery Plan provides a direct link to the priorities within the Community Plan.

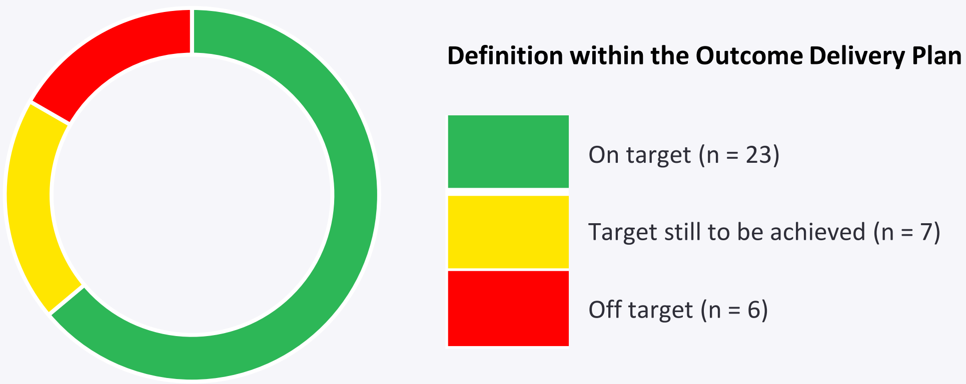
The Council considers a strategic performance report against each of the Strategic Outcomes agrees within the Outcome Delivery Plan. This includes an assessment of performance against targets, along with trend information and a description from the service including, where necessary, reasons for slippage against targets.

This includes an assessment of performance against targets, along with trend information and a description from the service including, where necessary, reasons for slippage against targets.

Exhibit 7 highlights that in 2022/23, the Council assessed progress as "Green" for 64% of the indicators where targets were set within the Outcome Delivery Plan. Key achievements include:

- The completion of 132 affordable housing units;
- Improvements in the rate of recycling at 58.1% (against the national average of 42.7%); and
- The percentage of people over age 65 who continue to live in housing (96.6%).

Exhibit 7: The Council reported that it delivered 64% of targets against the Strategic Outcomes within the Outcome Delivery Plan in 2022/23



The Council reports on performance against the 5 Community Planning Strategic Outcomes

Exhibit 8 highlights that East Renfrewshire's performance is in line with or exceeds national averages for over 75% of the indicators that it set for 2022/23.

Areas that significantly exceed the national average performance include:

- Life expectancy for male and females (79.5 years and 83.8 year respectively);
- The rate of child poverty. This increased to 14.4% from 12.8%, but remains the lowest in Scotland; and
- School leavers in a positive destination (96.6% against the Scottish average of 95.7%); and
- The number of crimes per 10,000 population (227, compared to the national average of 524).

Areas where performance is below the national average include:

- The older age dependency ratio (the ratio of people age 75+ to the working age population is 16.3%; and
- The children and young person dependency ratio is 34.3%, much higher than the national average.

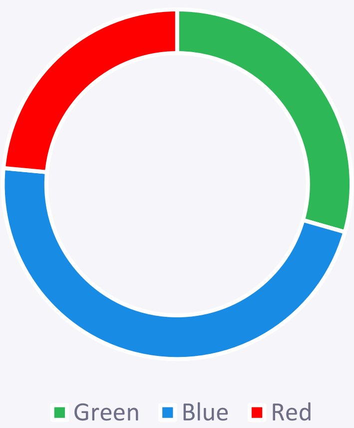
These outcomes reflect the demographic pressures that impact East Renfrewshire Council.

The Council has highlighted significant and ongoing financial risks within its risk registers

The Audit and Scrutiny Committee receives a biannual update on the key strategic risks facing the Council, which are linked to the Council's strategic objectives. Eleven risks are scored as at the highest rating available, including four which were uprated in the most recent assessment:

- Significant pressures and lack of service capacity impact on service delivery and quality standards;
- Reduced central government funding and new grant conditions leading to failure to support the current level of service provision;
- Loss of data or interruption to service due to cyber attack;
- The delivery of major works capital programmes.

Exhibit 8: East Renfrewshire's performance was in line with or exceeded Scottish averages for 75% of outcomes in 2022/23



Definition within the Annual Performance Report

Green	Performance significantly exceeds Scottish level performance (n = 5)
Blue	Performance similar to the Scottish level performance (n = 8)
Red	Performance compares unfavourable to Scottish level performance (n = 4)

The Council has highlighted that the public sector faces increased risk of a cyber attack

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.

East Renfrewshire Council continues to assess and monitor the risk presented from cyber attacks. The Council's Information Security and Digital Risk Officer provides updated guidance, policies and risk assessments across a range of cyber and information security topics including the management of information on personal devices, and the need to use strong passwords. The Council has also run campaigns to check individual users' response to potential phishing emails. This has supported the targeting of further individualised training and support.

The Council participates in a wider UK programme to identify and prevent phishing attacks on the public sector by asking staff to forward suspicious emails to scam@netcraft.com as well as internal information security contacts. This results in suspicious content being addressed and blocked across the public sector.

The Council also participates in:

- the national cyber security centre (NCSC) Active Cyber defence programme which provides tools and services which seek to reduce the harm from cyber-attacks and protect against a range of security threats; and
- the Scottish Local Authority Security Group (SLAISG) Scotland's WARP (warning, advice and reporting point) which facilitates the sharing of advice, best practice and potential cyber threat and attacks across the public sector.

The Council's server and desktop estate is monitored for vulnerabilities and out of date software by an externally-managed cyber security operations centre (CSOC).

The Council has set an ambitious target to become net zero by 2045 but does not yet have a realistic plan in place to deliver

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. 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.

East Renfrewshire Council declared a climate emergency in 2021 and has set a target within its "Get to Zero" strategy to achieve net zero carbon emissions by 2045, with interim targets for 75% by 2030 and 90% by 2040.

The draft Get to Zero Action Plan was presented to Cabinet in May 2023, and will now be subject to public consultation. Progress to date is on the Council's website, and on the Sustainable Scotland Network. The public reporting includes details of the Council's governance arrangements. On an annual basis, progress is reported to the Cabinet as the main decision-making body, and therefore accountable for the strategic direction of the Council. The Council has a Climate Change Senior Officer Working Group in place to support the implementation of the Action Plan.

In June 2022, the Council published its guidance on the implementation of Climate Change Impact Assessments (CCIAs) to ensure that each decision taken at committee now evidence the carbon impact of a proposal or understanding its potential impact on the council's net-zero objectives.

In 2022/23, the Council reported on greenhouse gas emissions within its financial statements for the first time.

The reporting notes that in order to meet the 2045 target, the Council needs to reduce its operational emissions to zero. This suggests a reduction of 870 tCO_2e is needed in each of the 25 years until the target. Excluding waste management emissions, which are likely to remain quite stable as a result of the long-term contract, emissions have only reduced by around 150 tCO_2e since 2019/20.

Based on the current trajectory, the Council is therefore expected to miss its targets without taking additional action. While we note that the Get to Zero action plan will provide a path to reduce emissions, the financial environment facing councils means that the significant investment required is unlikely to be affordable (refer to **Recommendation 4**).

Best Value

In our view, the Council's performance management and financial reporting arrangements allow the Council to demonstrate the achievement of Best Value. Our thematic review concluded that there is a vision in place and that longer term strategic planning is based on community engagement and is aligned with community planning partners.

Within the thematic review and our wider scope work we do, however, note that there is a need to further develop the Medium Term Financial Plan, Capital Investment Strategy, Capital Plan and Workforce Strategy to clearly demonstrate how key priorities will be delivered, including the Council's longer-term climate ambitions.

Thematic review

Under the Code of Audit Practice June 2021, we perform an annual programme of work in relation to Best Value and wider scope responsibilities. This work includes reviews based on annual thematic Best Value topics prescribed by the Accounts Commission (the Commission).

For 2022/23, the Commission directed auditors to report on the effectiveness of the leadership of the development of strategic priorities. Our key conclusions against the work programme set by the Commission are outlined in Exhibit 9.

Basis for our assessment

As auditor to the Council, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities.

In forming this judgement, we draw upon the thematic Best Value work and our wider planning work, alongside the work conducted to support our wider scope responsibilities, and specifically:

- Documentation review and fieldwork interviews with senior officers;
- Our consideration of the Council's financial planning processes including the most recent Medium Term Financial Plan and budget monitoring reports;
- Governance arrangements, including monitoring reports on the use of resources and scrutiny arrangements;
- Our assessment of performance reporting to the Council; and
- The Council's revised Vision for the Future and Outcome Delivery Plan.

The Council can demonstrate that it has the key elements needed to deliver Best Value in place

The Council has reviewed and updated its longer term strategic planning based on engagement with communities and partnership working with key stakeholders. Further work is underway to refresh the frameworks that will support delivery, including a review of current community planning structures and plans. There is a need to further develop the Medium Term Financial Plan, Capital Investment Strategy, Capital Plan and Workforce Strategy to clearly demonstrate how key priorities will be delivered. There is a particular need to quantify the cost gap in relation to delivering net zero targets for 2045 to inform funding and prioritisation discussions.

It has a well-developed Performance Framework in place and we noted evidence of effective scrutiny arrangements throughout the year. We do, however, note that the Council's financial position is increasingly challenging.

Exhibit 9: The key findings from our Best Value Thematic Review

- The Council has a long term planning framework in place with the Community Planning Partnership that ensures that the vision and strategic priorities are aligned across partners. The Council recently approved a revised Vision for the Future, representing the first key step in refreshing the long term strategic planning framework.
- It has drawn upon stakeholder engagement and work with partners to refine and refresh the vision for the next 10 to 15 years and has identified three clear priority themes: Children and Young People; Communities and Place and Promoting wellbeing and supporting the vulnerable.
- The Council can demonstrate "golden thread" alignment between the current strategic priorities within the Community Plan and it's planning framework. Further work is underway to develop the outcomes that underpin the refreshed framework. the Council began a programme of stakeholder engagement to inform it's Vision for the Future.
- The Council demonstrates its understanding of it's communities and engagement with a range of equalities groups. It has invested in data analysis tools to ensure that it builds a deeper understanding of communities and potential vulnerabilities over time, allowing services and support to be targeted at a much more localised level.
- The Council has undergone a period of significant change in both the officer leadership team and elected members. It has taken steps to ensure that respective roles and strategic priorities, and their rationale, are well-understood.

Our recommendations

- The Council should ensure that it has fully costed the investment plans necessary to deliver net zero by 2045.
- The Council needs to further develop a realistic and costed medium term financial plan that supports the delivery of strategic objectives.
- The Council needs to re-establish organisation-wide arrangements for the self-evaluation of services.

Appendices

A Code of audit practice: Responsibilities

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.

A Code of audit practice: Responsibilities (cont.)

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 Report to deal with uncertainty in the medium and longer term.
- The impact of reporting future policies and foreseeable developments on their financial position.

Responsibilities for best value, community reporting 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.
- 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.

A Code of audit practice: Responsibilities (cont.)

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.

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 reporting duties.
- Hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also be familiar with the statutory reporting responsibilities in section 102 of the Local Government (Scotland) Act 1973, including those relating to the audit of the accounts of a local government body.

B Independence report

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 reporting 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.

C

Required communications

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

Required communications	What is reported?	Our reporting to you When and where
Terms of engagement	Confirmation by the Audit and Scrutiny Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter (December 2022) – 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.	Annual Audit Plan – March 2023
Reporting and audit approach	Communication of the reporting 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.	Annual Audit Plan – March 2023
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.	This Annual Audit Report.

C

Required communications (cont.)

Required communications	What is reported?	Our reporting to you 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 • The adequacy of related disclosures in the financial statements	This Annual Audit Report.
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. • Material misstatements corrected by management.	This Annual Audit Report.
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. • A discussion of any other matters related to fraud.	This Annual Audit Report.
Internal controls	Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report.

C Required communications (cont.)

Required communications	What is reported?	Our reporting to you 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 • Difficulty in identifying the party that ultimately controls the entity	This Annual Audit Report.
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 • Information about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan and this Annual Audit Report.
External confirmations	• Management's refusal for us to request confirmations. • Inability to obtain relevant and reliable audit evidence from other procedures.	This Annual Audit Report.
Representations	Written representations we are requesting from management and/or those charged with governance.	This Annual Audit Report.
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.	This Annual Audit Report.

C Required communications (cont.)

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 and Scrutiny 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 and Scrutiny Committee may be aware of.	This Annual Audit Report.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	This Annual Audit Report.
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	This Annual Audit Report.
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.	This Annual Audit Report
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.	This Annual Audit Report.

D Timeline of communication and deliverables

2023

Month	Audit activity	Deliverable	Timing
January	Risk assessment for Financial Statements and wider scope audit dimensions		
February		Annual Audit Report	29 March 2023
March	Walkthrough of key systems and processes	Submission of quarterly fraud return	
April			
May			
June	Update meeting with Finance Team	Submission of quarterly fraud return	
July	Year end audit fieldwork		
August			
September	Audit completion procedures	Annual Audit Report	29 September 2023

E Action Plan

We include an action plan to summarise specific recommendations included elsewhere within this Annual Audit Report. We grade these findings according to our consideration of their priority for the Council or management to action.

Classification of recommendations		
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1.	**Valuation Programme** Key working papers that we would expect to be presented and considered by management as part of a robust valuation process were not available at the start of the audit. We subsequently experienced delays in obtaining the valuation certificates and supporting evidence for the assets subject to testing.	Management should review its valuation arrangements to ensure that clear instructions are issued to valuation experts, including the detailed audit information requirements. Grade 1	**Response:** Accountancy management will issue revised instructions to valuation staff, more clearly setting out audit requirements, so that appropriate information is available at the start of future audit. **Responsible officer:** Head of Accountancy **Implementation date:** 31 October 2023
2.	**Valuation of Property, Plant and Equipment** Our testing identified a number of errors within valuations, including the valuation of amenity land throughout the asset base at a developed rate, which in our judgement, contravenes the CIPFA Accounting Code of Practice.	The Council should ensure that the basis of valuations is in line with the Code of Accounting Practice. Grade 2	**Response:** Valuers will operate in line with the Code of Accounting Practice. **Responsible officer:** Head of Environment (Strategic Services) **Implementation date:** 31 March 2024

E

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
3.	**Common Good Assets** In May 2023, LASAAC issued guidance in relation to the recording and monitoring of common good assets.	The Council should consider its arrangements for recording common good assets against the updated LASAAC guidance. Grade 2	**Response:** Arrangements will be reviewed to ensure compliance with updated LASAAC guidance. **Responsible officer:** Head of Accountancy/Chief Officer – Legal & Procurement **Implementation date:** 31 March 2024
4.	**Medium Term Financial Planning** Plans to prepare multi-year budgeting plans following the May/June 2022 Scottish Spending Review were not progressed due to the unprecedented financial pressures and uncertainties facing Scottish Local Government.	The Council needs to develop a realistic and costed medium term financial plan that supports the delivery of strategic objectives. *Grade 1*	**Response:** The Council's current medium term financial plan will be updated to ensure that it reflects appropriate costs and delivery timescales for strategic objectives for 2024/25 and beyond. **Responsible officer:** Head of Accountancy **Implementation date:** February 2024
5.	**Reserves Strategy** We note that the Reserves Policy has not been updated since February 2021, and may not, therefore, fully reflect the level of risk and uncertainty facing the Council in the short to medium term.	The Council should review the Reserves Policy to ensure it fully reflects its current risks and priorities Grade 2	**Response:** Work has already commenced on the scheduled review of the Council's Reserves Policy **Responsible officer:** Head of Accountancy **Implementation date:** February 2024

E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
6.	**Budget Monitoring** In our view there is scope to improve the accuracy of forecasting during the year to support decision-making and scrutiny.	The Council should review budget monitoring processes to increase the accuracy of forecasts throughout the year. *Grade 2*	**Response:** Recent outturn variance trends will be reviewed with a view to improving forecasting accuracy. **Responsible officer:** Head of Accountancy **Implementation date:** March 2024
7.	**Finance Team Workforce Planning** The Council should ensure that the Accountancy Team is sufficiently resourced to reduce key person dependency and meet ongoing training requirements.	The Council should have a workforce plan for the Finance Team which includes any training requirements and succession planning arrangements. *Grade 2*	**Response:** The Accountancy Workforce Plan is contained within its Service Plan and is updated annually. The most recent restructure of the service, in December 2022, sought to broaden key staff's experience and knowledge and thereby reduce risk of single points of failure. Staff development comprises both on-the-job experience, shadowing and training. **Responsible officer:** Head of Accountancy **Implementation date:** May 2024

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
8.	**Internal audit resourcing** Throughout the year, we noted an acute resource constraint within the Council's internal audit team. The Chief Auditor has referred to vacancies within the team and the impact on the delivery of the internal audit plan in both 2021/22 and 2022/23. The Plan for 2023/24 notes that delivery assumes that the two current vacancies would be filled in the first quarter of the year. This has not been possible and we therefore consider that delivery of the plan in full is at risk.	There is an urgent need to respond to the current level of vacancies within the Council's internal audit team. *Grade 2*	**Response:** The internal audit vacancies have recently been readvertised. Should this be unsuccessful, other options will be considered **Responsible officer:** Chief Executive **Implementation date:** December 2023
9.	**Audit Committee Good Practice Guidance** In October 2022, CIPFA updated its guidance on good practice for local authority audit committees. There has not yet been a formal self-assessment arrangements against the CIPFA guidance which may identify improvements|	The Audit and Scrutiny Committee should review its arrangements against updated good practice guidance. *Grade 2*	**Response:** The Audit & Scrutiny Committee is scheduled to carry out its next self assessment during 2024/25 and will ensure that this takes cognisance of the latest good practice guidance **Responsible officer:** Head of HR and Corporate Services **Implementation date:** March 2025

F

Adjusted and unadjusted differences

This appendix sets out the adjustments that were processed as part of finalisation of the financial statements.

Disclosure misstatements that have been corrected		
No.	**Note**	**Description**
1	Council Tax Dwellings	It was noted during our review that the disclosure for number of dwellings was based on a return made to the Scottish government in September 2021. This has been updated to reflect the figures provided by the Assessors at 31/03/2023.
2	Remuneration Report	East Renfrewshire Council disclosed travel expenses in the section of the remuneration report covering Councillor expenses. Upon investigation, we noted that this related to the lease car costs which is leased by the Council under standard invoicing arrangements and used for the fulfilment of civic duties, such as attending formal events. The cost of the car is apportioned to each elected member based on each individual's use of the car, but the member does not receive any reimbursement for the cost incurred and therefore does not meet the criteria as an expense per the Local Government (Allowances and Expenses) (Scotland) Regulations 2007. We have therefore raised an adjustment to remove these costs. The current year impact is £4,984. Due the lower materiality applied to the remuneration reporting at the Council management has also corrected the prior year equivalent.

Prior year disclosure misstatements that have been corrected		
No.	**Section**	**Description**
1	Remuneration Report	East Renfrewshire Council disclosed travel expenses in the section of the remuneration report covering Councillor expenses. Upon investigation, we noted that this related to the lease car costs which is leased by the Council under standard invoicing arrangements and used for the fulfilment of civic duties, such as attending formal events. The cost of the car is apportioned to each elected member based on each individual's use of the car, but the member does not receive any reimbursement for the cost incurred and therefore does not meet the criteria as an expense per the Local Government (Allowances and Expenses) (Scotland) Regulations 2007. We have therefore raised an adjustment to remove these costs. The prior year impact Is £3,035.

F Adjusted and unadjusted differences

This appendix sets out the adjustments that were processed as part of finalisation of the financial statements.

Current year misstatements that have been corrected

No.	Note	Description	Impact on financial statements
1	Note 23: Creditors	Under accrual of accumulated absences - The calculation of accumulated absences accrual were based on the 2022/23 rates of pay as opposed to being uplifted to reflect the salaries in 2023/24.	Dr Employee Expenditure £539k Cr Accruals (£539k)
2	Note 15: Property, Plant and Equipment	Valuation of land (Other Land & Buildings) - Review of the valuation of land by our internal specialists identified several areas whereby land was not valued in line with the requirements of the CIPFA Code and IFRS, resulting in material audit variances, many of which net off against each other. • Land values for the land PFI/PPP assets sit on had been recorded at a discounted value as opposed to their full value, resulting in an understatement of £6,781k. • Land values for sites in Barrhead had been undervalued, resulting in an understatement of £3,506k. • Land values for sites in Eastwood has been overvalued, resulting in an overstatement of land of £714k. • Amenity land throughout the asset base had been valued at a developed rate, resulting in an overstatement of £9,404k The above variances net off against each other and the identified variance was projected across the untested population to reach a total understatement of £339k	Dr Land £339k Cr Revaluation Reserve (£339k)

F Adjusted and unadjusted differences

Current year misstatements that have been corrected			
No.	**Note**	**Description**	**Impact on financial statements**
3	Note 15: Property, Plant and Equipment	Valuation of PPP/PFI Schools - PPP/PFO Schools were revalued in 2022/23 but had not previously been revalued since 2017/18. This resulted in a significant revaluation movement increase in year of £53,646k. It was determined through the audit discussions that a material amount of this should have been processed in the prior year as a result of inflation increasing. As a result, a portion of the revaluation movement has instead been processed in the prior year, with only the amount relating to the movement between 21/22 and 22/23 being recorded in the current year, a reduction of £38,527k.	Dr Revaluation Movement £38,527k Cr PPP/PFI Schools – PPE (£38,527k)
4	Note 15: Property, Plant and Equipment	Valuation of Other Land & Buildings (Schools) – In line with the adjustment above, the valuation movements for material schools which had not been revalued in 21/22 were considered and it was determined that a material element of the revaluation movement should have been recognised in the prior year, resulting in a reduction of £11,730k.	Dr Revaluation Movement £11,730k Cr Other Land & Buildings – PPE (£11,730k)
5	Note 15: Property, Plant and Equipment	East Renfrewshire Council has adopted a statutory override for the period 1 April 2021 to 31 March 2024 which permits the council not to report gross cost and accumulated depreciation for Infrastructure assets. The council's Roads PPP had previously been excluded from this.	Dr Infrastructure Assets £27,007k Cr PPP/PFI Assets (£27,007k) This is a reclassification within Note 15.

F

Adjusted and unadjusted differences

Current year misstatements that have been corrected			
No.	**Note**	**Description**	**Impact on financial statements**
6	Note 15: Property, Plant & Equipment	The Council had been capitalising lifecycle costs as determined by the models for PPP/PFI assets. The Council were unable to provide adequate support the capital nature and value of the additions. This results in a decrease of additions to PPP/PFI assets of £2,167k in the current year. We are comfortable prior year additions do not distort the ultimate valuation of the assets due to the yearend valuation work completed at 31 March 2023. In addition to this £3,057k of lifecycle costs have been removed from the value of the Roads PPP, which forms part of infrastructure assets. These are additions which have been incurred since the introduction of IFRS in 2010 up until 2021/22.	Dr Expenditure £5,224k Cr Additions (£5,224k)
7	Balance Sheet	Recognition of unfunded liability – it was noted from our review of the IAS19 actuarial valuation report that the Council has unfunded pension obligations at 31/03/2023 of £17,398k. These should be recognised separately on the balance sheet as an obligation on the basis that there are no plan assets to meet the pension liabilities and therefore it is not appropriate to plan assets for the funded scheme off against them.	Dr Expenditure £17,398k Cr Unfunded Pension Liability (£17,398k)
8	Balance Sheet	Reduction of pension asset in line with asset ceiling report – the Council initially recognised the full pension asset per the IAS19 actuarial valuation report. An asset ceiling report was obtained, which resulted in a total pension asset of £131,980k. There we have raised an adjustment for the difference.	Dr Expenditure £28,567k Cr Pension Asset (£28,567k)

F Adjusted and unadjusted differences

Disclosure misstatements that have not been corrected (current year and prior year)			
No.	**Note**	**Description**	**Impact on financial statements**
1	Note 39: Defined Benefit Pension Schemes	We have been notified of a late adjustment in the audit of the Strathclyde Pension Fund which would increase the fund assets for East Renfrewshire Council by £1,910k (PY: £2,118k) in the disclosure tables. This would not impact the asset ceiling recorded and therefore no impact on the financial statements.	N/A

Prior year misstatements that have been corrected			
No.	**Note**	**Description**	**Impact on financial statements**
1	Note 15: Property, Plant & Equipment	Prior year impact of adjustment 3 in the current year corrected adjustments. An increase in the prior year carrying value of £38,527k.	Dr PPP/PFI Schools £38,527k Cr Revaluation Movement (£38,527k)
2	Note 15: Property, Plant & Equipment	Prior year impact of adjustment 4 in the current year corrected adjustments. An increase in the prior year carrying value of £11,730k.	Dr Other Land & Buildings £11,730k Cr Revaluation Movement (£11,730k)
3	Note 15: Property, Plant & Equipment	East Renfrewshire Council has adopted a statutory override for the period 1 April 2021 to 31 March 2024 which permits the council not to report gross cost and accumulated depreciation for Infrastructure assets. The council's Roads PPP had previously been excluded from this.	Dr Infrastructure Assets £27,264k Cr PFI/PPP Assets (£27,264k) This is a reclassification within Note 15.

G Audit Fees

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)	£48,367	
► Audit of Section 106 Trusts	£8,704	
Audit Scotland fixed charges:		
► Performance audit and best value	£55,800	
► Audit support costs	£8,300	
Sectoral price cap	(£11,230)	
Total fee	**£328,771**	**£241,420**

The expected fee for auditor remuneration 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. 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 with the requirements of the Code of Practice.

Note 1 – During the yearend audit, areas of additional work, required to complete the audit but above the initially predictable scope of audit work, have included:

- ► Additional work on pension asset ceiling calculations. This is the first time for a significant period that LGPS are now in asset positions, in particular since the inception of IFRS and IFRIC 14.
- ► Use of financial flexibilities, as a significant and unusual transaction we reviewed and considered management's approach against the directions, and recalculated the proposed adjustments from the use of flexibilities, including additional checking of the underlying PFI models and legacy contracts.
- ► Infrastructure assets - additional time was required to test the existence of historic assets and that the application of the statutory overrides has been applied correctly.
- ► Asset valuation work, reflecting the valuation of the full asset base and the subsequent time required to unpick the prior year adjustments identified through that process, and the additional time required by both the audit team and our valuers to gain the assurances required over some of the more unusual judgements applied by the valuation team at the Council.

H Prior Year Recommendation Follow Up

This appendix sets out the recommendations that were made by the Council's previous auditors, Audit Scotland in 2021/22, along with our assessment of progress.

Prior year recommendations			
No.	**Recommendation**	**Management response**	**Our assessment of progress**
1	We recommend that a valuation report is prepared by the council's valuer on an annual basis outlining the details of the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme. There should be clear evidence of how officers have challenged and scrutinised the valuation to ensure the accounts are free from material misstatement.	An annual report will be prepared for the Chief Financial Officer outlining the details of the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme. Responsible Officer: Head of Strategic Services (Environment) Agreed date: February 2023	**Incomplete:** Refer to Recommendations 1 and 2 in Appendix E
2	We recommend that a review of controls and processes around related parties is undertaken. This will include the documentation of member and officer interests as well as the processes in place to identify the relevant disclosures for inclusion in the financial statements.	A joint review of paperwork and processes relating to staff and Member interests will be undertaken, culminating in new guidance and any necessary revisions to the registration process. Responsible Officer: Director of Business Operations & Partnerships and Chief Solicitor. Agreed date: June 2023	**Complete:** We reviewed the member and officer registers of interest as part of our work on related party transactions with no findings arising.

H Prior Year Recommendation Follow Up continued

Prior year recommendations			
No.	**Recommendation**	**Management response**	**Our assessment of progress**
3	As part of the budget process the council should continue to assess the reasonableness of service budgets and ensure that these reflect planned expenditure as these inform the level of planned spend and required council tax rates to support this expenditure. The adequacy of reserve levels should also be assessed and members should be given adequate information to make choices around the utilisation of monies including previously unused balances.	Agreed. The 2021/22 underspend was a result of planned prudent action in the latter months of the year, when the worsening outlook for the coming year became clear. This action took account of the forecast reserve levels. The Council will continue to report on current and forecast reserve levels as a key element of its financial planning and will also continue to be flexible during the year to take necessary action in response to the changing financial outlook. Responsible officer: Chief Financial Officer Agreed date: March 2023	**Partially complete:** In recommendation 6 in Appendix we note that the Council's outturn was a significant improvement on forecasting throughout the financial year.
4	The council should develop a revised financial strategy incorporating new or temporary financial flexibilities and assess how the total balances available are best utilised to support the financial sustainability of the council over the medium term. The council will need to actively engage with local and national partners to deliver the required level of efficiencies and savings.	The Council is currently reviewing the new service concession flexibility and will also assess any temporary financial flexibilities expected to be offered soon by the Scottish Government. We continue to update our long-term financial plans annually and to monitor and report on all available reserves as part of our financial planning and budgeting processes. Responsible officer: Chief Financial Officer Agreed date: March 2023	**Partially complete:** The Council has updated it's medium term financial outlook and has adopted the service concession financial flexibility in the year. We do, however, note in Recommendation 4 in Appendix E that there is a need to update the medium term financial plan.

H Prior Year Recommendation Follow Up continued

Prior year recommendations			
No.	**Recommendation**	**Management response**	**Our assessment of progress**
5	Establish an annual self-assessment of the audit and scrutiny committee to assess and challenge the effectiveness of the committee and to identify areas for development.	In June 2022, the new Audit and Scrutiny Committee endorsed a significant range of observations and recommendations made by the outgoing Committee in April. The new Committee agreed that periodic self-evaluation is useful, but did not support an annual review, due to workload and resource implications. Instead, the Committee made a commitment to 2 reviews during the lifespan of the Administration, one mid-way through (c.2024/25) and one at the end of the term (2026/27). Responsible officer: Director of Business Change & Partnerships Agreed date: NA	**Not yet due:** In recommendation 9 we note that CIPFA has issued further good practice recommendations for Audit Committees in Local Government that should be taken into account in the Committee's self-assessment.
6	The council should develop a revised financial strategy incorporating new or temporary financial flexibilities and assess how the total balances available are best utilised to support the financial sustainability of the council over the medium term. The council will need to actively engage with local and national partners to deliver the required level of efficiencies and savings.	The Council is currently reviewing the new service concession flexibility and will also assess any temporary financial flexibilities expected to be offered soon by the Scottish Government. We continue to update our long-term financial plans annually and to monitor and report on all available reserves as part of our financial planning and budgeting processes. Responsible officer: Chief Financial Officer Agreed date: March 2023	**Partially complete:** The Council has updated it's medium term financial outlook and has adopted the service concession financial flexibility in the year. We do, however, note in Recommendation 4 in Appendix E that there is a need to update the medium term financial plan.

I Additional audit information

Introduction

In addition to the key areas of audit focus outlined within the Report, 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.
- 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.

I Additional audit information (cont.)

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**

This report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland through which the Accounts Commission 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 Accounts Commission 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.

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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