

Ayrshire Valuation Joint Board

Report to the Members of the Board and the Controller of
Audit on the 2019/20 audit

Issued on 11 September for the meeting on 15 September 2020

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Members of Ayrshire Valuation Joint Board ('the Board') for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Board in March 2020.

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

This report summarises our findings and conclusions in relation to:

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

Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

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

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

The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 9.

An adjustment in excess of our reporting threshold of £2k has been identified and is reported on page 28. No disclosure deficiencies have been identified up to the date of this report.

Status of the financial statements audit

Our audit is complete.

Conclusions on audit dimensions

Governance statement - The disclosures are appropriate and address the minimum requirements of the Scottish Public Finance Manual (SPFM).

Financial sustainability – the Board achieved financial balance in 2019/20 with a surplus of £51k. The Board is aware that it faces a difficult financial position over the short to medium term, noting in the 2020/21 budget that without additional requisitions from the three constituent authorities reserves will be depleted by 2021/22. The Board has secured agreement in principal from the Chief Executive Officers of all three authorities, which has allowed the Board to set a balanced budget for 2020/21.

Our detailed findings and conclusions are included on pages 18 to 21 of this report.

Introduction (continued)

The key messages in this report (continued)

Next steps

An agreed Action Plan is included as an Appendix on pages 29 to 30 of this report. We will consider progress with the agreed actions as part of our 2020/21 audit.

Added value

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

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








Financial statements audit



Quality indicators

Impact on the execution of our audit

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

Area	Grading	Reason
Timing of key accounting judgements		Documentation in relation to key areas of judgement was provided early in the audit process.
Adherence to deliverables timetable		The audit of the annual accounts progressed in line with the original timescale with the annual report and accounts received on 4 June 2020, well in advance of the start of our audit fieldwork on 22 June 2020.
Access to finance team		Deloitte and the Board have worked together to facilitate remote communication during the audit which has been successful. This has included the use of Skype and Deloitte Connect, a file sharing tool, for the purposes of communication and sharing information. We acknowledge that due to the challenges of performing a remote audit that this has at times caused delays in obtaining information on a timely basis, but that it has still been possible to complete the audit on time and in line with the original timescales.
Quality and accuracy of management accounting papers		Documentation provided has been of a good standard.
Quality of draft financial statements		The initial draft of the annual report and accounts were of a good standard for a first draft with only minor amendments required.
Response to control deficiencies identified		No control deficiencies were identified.
Volume and magnitude of identified errors		We have not identified any material financial adjustments to date.



Lagging



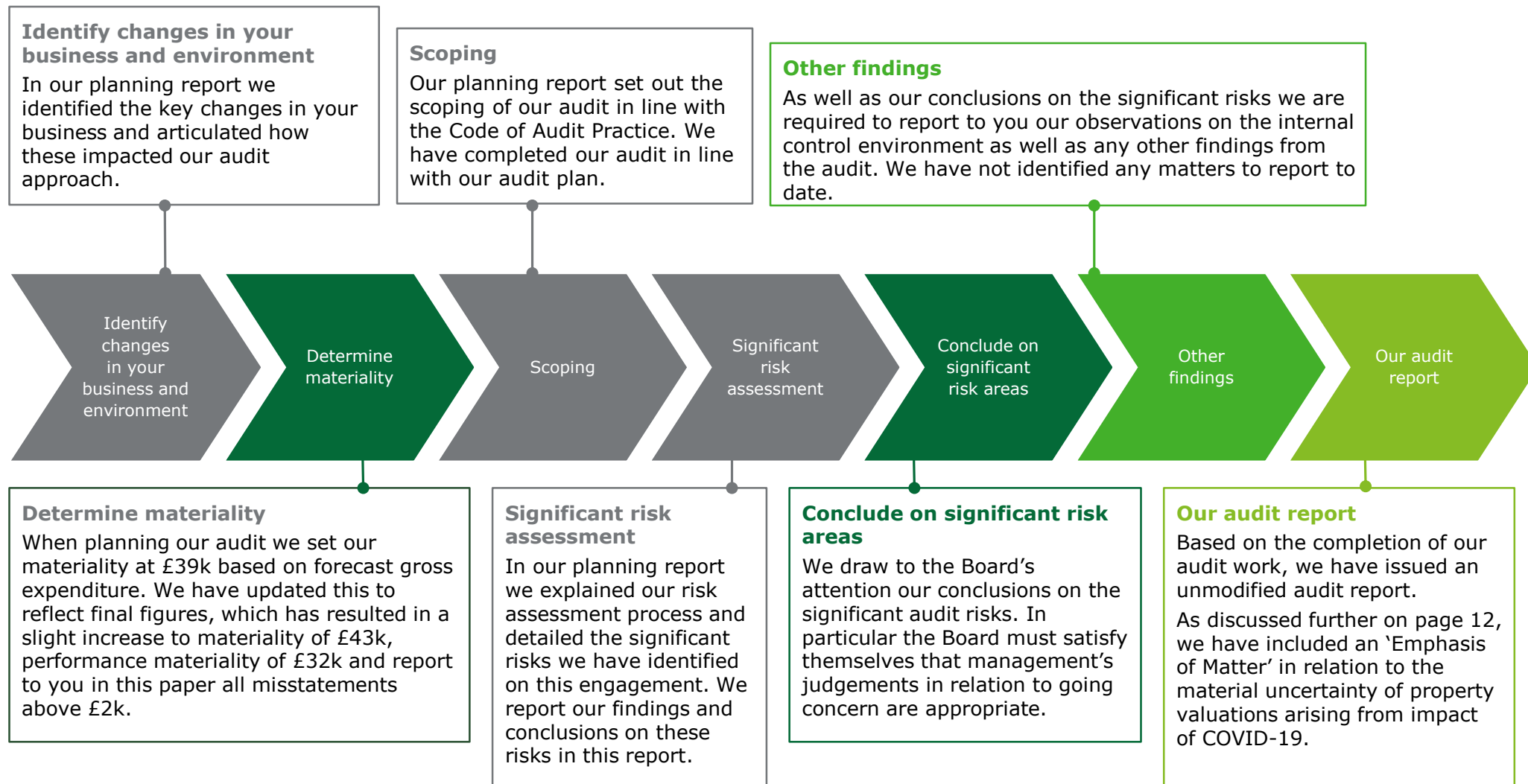
Developing









Mature

Our audit explained

We tailor our audit to your business and your strategy



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Occurrence of income			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	11

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 – Occurrence of income

Risk identified

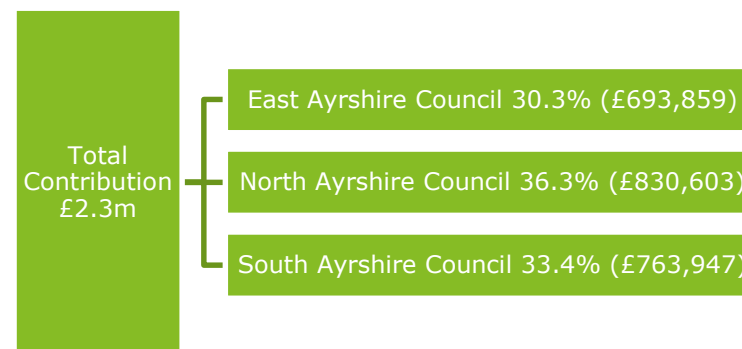
ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in income recognition, evaluate which types of income, income transactions or assertions give rise to such risks. The main components of income for the Board are requisitions from all three of the Ayrshire Councils: South Ayrshire Council ('SAC'), North Ayrshire Council ('NAC'), and East Ayrshire Council ('EAC'). The significant risk is pinpointed to the recognition of this income, being occurrence of income received from the Councils given the reliance of the Board on this income and the potential that funding partners may not provide additional income to cover overspends.



Deloitte response

We have performed the following:

- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any reductions have been appropriately applied;
- tested the reconciliations performed by the Board at 31 March 2020 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2019/20 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.



Deloitte view

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

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

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



Deloitte response

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

- the Board's results throughout the year were projecting favourable variances, largely due to vacancies from new posts arising from the Barclay Review, and therefore were projected to stay within budget. This was closely monitored with confidence that the Board would be able to meet its overall financial targets; and
- senior management's remuneration is not tied to particular financial results.

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

Significant and unusual transactions

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

Journals

We have performed design and implementation testing of the controls in place for journal approval.

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

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Deloitte view

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

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

Accounting estimates and judgements

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

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. This included a retrospective review of 31 March 2019 estimates and a review of the corresponding estimates as at 31 March 2020.

Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Other areas of audit focus

Property valuations

Risk identified

The Board is required to hold property assets within Property, Plant and Equipment at a current value valuation. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Estate, have reviewed the methodology applied by the Board's valuer in previous years and concluded it was robust.

The Board only has one building, which are the offices occupied at 9 Wellington Square, and has had an independent valuation carried out as at 31 March 2019 for the purposes of the 2018/19 financial statements. No further valuation has been performed since then. The impact of Covid-19 has led to a material uncertainty being identified by the Board's property valuer regarding the valuation of properties. We expect to include an 'Emphasis of Matter' in our Independent Audit Report.



Key judgements

The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards, with a full revaluation having been carried out in the previous year. The last valuation resulted in an upwards revaluation of £91k from £459k to £550k. There has been no further revaluation of the property.

While no valuation has been carried out in 2019/20 a discussion took place with the Board's valuer on the impact of Covid-19 on the valuation of the Board's property asset, which concluded that valuations are reported on the basis of 'material valuation uncertainty'.



Deloitte response

- We have engaged our property specialists in relation to the impact of COVID-19.
- We have previously engaged our property specialist and assessed the competency, capability and objectivity of the valuer in previous years; and
- We have assessed the presentation of revaluation movements and impairments, taking into account revaluation reserves for asset, and the disclosure of the key sources of estimation uncertainty included in the financial statements.

Deloitte view

Based on the audit evidence obtained, we are satisfied that the valuation of the Board's estate is appropriate. However, have included an 'Emphasis of Matter' in our Independent Audit Report due to the material uncertainty identified by the valuers concerning valuations at 31 March 2020 due to the impact of COVID-19 on the property market. This has been appropriately disclosed in the notes to the financial statements.

Other areas of audit focus (continued)

Defined benefits pension scheme



Background

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

The net pension liability has improved from a net liability of £610k in 2018/19 to a net asset of £566k in 2019/20. The movement is a combination of a reduction of £1,034k in the fair value of the assets and a reduction of £2,210k in the liabilities as a result of demographic changes and financial assumptions.

The Board's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Following recent consultation published by the SPPA subsequent to the year end, the actuary has amended its estimate of the impact of McCloud to only include members that were in service before 1 April 2012. This has resulted in a reduction of £135k to the liability disclosed in the draft accounts which has been updated in the final accounts. The actuary has made this adjustment to past service costs, but has not made any allowance within the current service costs for the impact of McCloud; therefore, it does not fully represent the cost of the benefits accruing for current service. The Board's actuary has estimated that the potential impact of this is a £6.5k understatement of the liability. This is an estimate and the actual cost could be different. As this amount is not material, management have not made this adjustment to the accounts and this has been reported as an uncorrected misstatement in the Appendix at page 28.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow). The actuary has amended its estimates to take into account this case, which has resulted in an increase in liability of £67k to the liability disclosed in the draft accounts which have been updated in the final accounts.

Deloitte response

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

	Council	Comments
Discount rate (% p.a.)	2.3	Reasonable, prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.9	Prudent end of reasonable range
Salary increase (% p.a.)	3.0	Real salary increases 1.1% above CPI inflation
Pension increase in payment (% p.a.)	1.9	Reasonable
Pension increase in deferment (% p.a.)	1.9	Reasonable
Mortality assumptions	Various	Reasonable

Deloitte view

Following receipt of the updated accounts to reflect the changes to the liability for both McCloud and Goodwin arising from events after the balance sheet date (net impact was an increase in asset of £68k), we are satisfied that the net pension liability disclosed in the accounts is materially correct. The Board's actuary has estimated the potential impact of McCloud on the current service cost as £6.5k which has been recorded as an uncorrected misstatement in the Appendix on page 28.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

We have issued an unmodified audit opinion.



Material uncertainty related to going concern

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

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



Emphasis of matter and other matter paragraphs

As discussed on page 12, we have included an 'Emphasis of Matter' paragraph within our audit report in relation to the material uncertainty associated with the property valuations. There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

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

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 16.

Coronavirus (Covid-19) outbreak

Impact on the annual report and audit

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

Impact on Board annual report and financial statements

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

- Principal risk disclosures
- Property valuation material uncertainty
- Impairment of non-current assets
- Going concern
- Events after the end of the reporting period

Impact on our audit

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

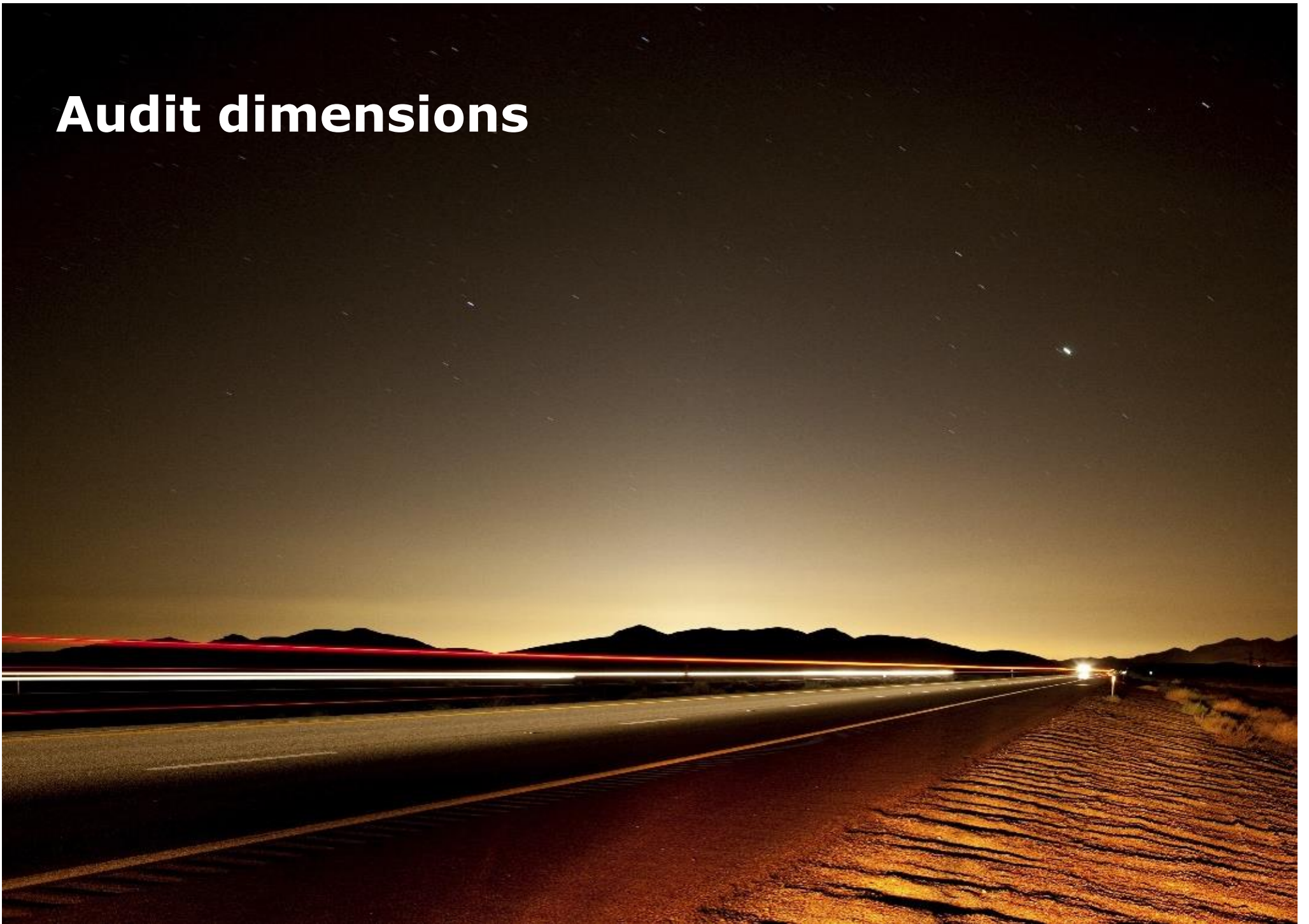
- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some Council staff.
- The teams have had regular status updates to discuss progress and facilitate the flow of information.
- Consideration of impacts on the areas of the financial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

Your annual report

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

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Board also focusses on the strategic planning context.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Following minor amendments we are able to conclude that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Senior Employees and Senior Councillors.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulation.
Annual Governance Statement	The Annual Governance Statement reports that the Board's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts regulations. We are satisfied that the Annual Governance Statement is consistent with the financial statements, our knowledge and the accounts regulations.

Audit dimensions



Audit dimensions

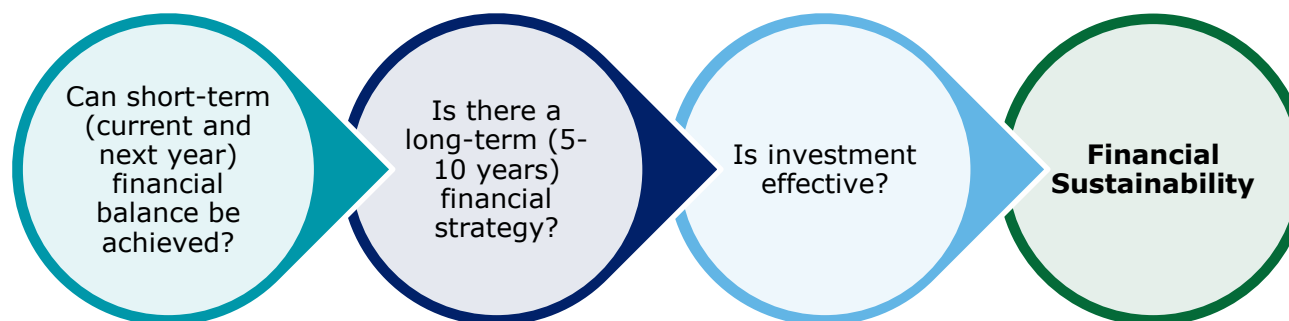
Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following areas. As set out in our plan, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the “small body” clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement** (which is discussed on page 19); and
- The **financial sustainability** of the Board and the services that it delivers over the medium to longer term.

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.



Audit dimensions (continued)

Governance statement

Regulation 5 of the accounts regulations requires local government bodies to report the results of their annual review of their system of internal control in an **annual governance statement** published as part of the annual accounts. The annual governance statement requires to be prepared in accordance with Delivering good governance in local government: framework 2016 published by CIPFA and SOLACE.

As set out in our audit plan, there is a risk that the governance statement is inconsistent with the financial statements and is not in accordance with the good governance framework. There is also a risk that the statement is inconsistent with our knowledge as auditors of the Board or is potentially misleading.

Internal audit

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. No direct reliance has been placed on the internal controls work performed by internal audit.

From our review of the internal audit reports issued during 2019/20, no "High Risk" graded recommendations were identified. Furthermore, the annual internal audit opinion has concluded substantial assurance for the system of controls for the year.

Deloitte View

We have reviewed the Annual Governance Statement for consistency with the financial statements and our knowledge gained during the audit. We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts regulations. This included comparing the Annual Governance Statement to the annual opinion issued by internal audit which concluded substantial assurance over the system of controls for the year. We are satisfied that the Annual Governance Statement is consistent with the financial statements, our knowledge and the accounts regulations.

Audit dimensions (continued)

Financial sustainability

Areas considered

Our approach to the audit dimensions is risk focussed. Within our audit plan we set out the following risk:

"There is a risk that the Board cannot effectively plan for the medium to longer term if they do not know how to prioritise resources based on their corporate plan and outcomes, and how any potential funding gaps are to be met."

Short term financial balance – budget monitoring

The Board has achieved financial balance in 2019/20 with a surplus of £51k, which represents an underspend of £250k compared to the original planned deficit of £198k. The carried forward revenue reserves at 31 March 2020 were £533k.

The in-year reporting to the Board of revenue budget monitoring has consistently reported favourable variances throughout the year (see graph to the left), with these variances increasing throughout the year. The main reason for these favourable variances are due to employee costs driven by vacancies, particularly in relation to the additional posts required for implementing the Barclay Review recommendations. The favourable variances are not sustainable in the medium term given that these posts are essential for meeting the additional responsibilities and work required from the Barclay Review.

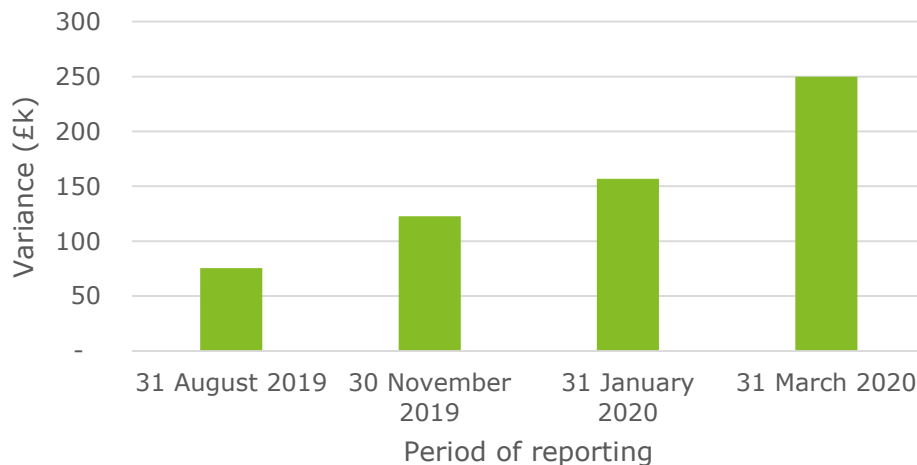
Short term financial balance – 2020/21 budget

The Board set a budget for 2020/21 at the Board meeting on 3 March 2020; the net revenue expenditure budget is £2,760k for 2020/21, which includes an expected draw on reserves of £169k. This would leave the Board with carried forward revenue reserves at the end of 2020/21 of £246k. This budget incorporates £43k of savings.

The biggest highlights from the 20/21 budget are as follows:

- total revenue requisitions from the three constituent authorities of £2,197k, representing an increase on 2019/20 of £105k;
- pay award increase of 3% in line with national agreements, including a living wage of £9.30 per hour, which has resulted in an increase of £60k to employee costs;
- an increase in the supplies and services costs and administrative costs budget by £21k;
- savings of £43k in postage, training and valuation appeals costs;
- £394k from the Scottish Government (SG) to implement the second stage of the Barclay Review implications, which includes recurring £125k plus an increase of £269k; and
- the removal of individual electoral registration (IER) funding saving £50k in expenditure and £100k in the grant income budget from the UK Cabinet Office.

2019/20 full year budget variance (£k)



Audit dimensions (continued)

Financial sustainability (continued)

Medium term financial planning

We previously recommended in the 2018/19 audit report that efficiencies and savings be identified to ensure medium to longer term financial sustainability and maintenance of healthy reserve levels. We note that a balanced budget has been agreed for 2020/21 and that this includes a planned draw on uncommitted reserves of £169k, which would leave £246k at the end of 2020/21, representing 9% of the budgeted 2020/21 net revenue expenditure of £2,760k, which is well in excess of the Board's reserves strategy of 2% (£55k) of net revenue expenditure.

Note, however, that these levels of reserves may not be sustainable in the medium to longer term, particularly when taking into consideration the main reason for having achieved a surplus in 2019/20, and therefore not needing to draw on reserves, were due to a significant favourable variance of £177k related to employee costs, which was due to not being able to fill new posts created in response to the Barclay Review recommendations, as well as other vacancies. The Board will need to ensure that it fills these posts in the short term to ensure that it is able to cope with the additional work resulting from the Barclay Review.

Covid-19 has had a slight impact on the 2020/21 budget to the extent that it has resulted in some additional costs being incurred to help staff transition to working from home and then transitioning back to working in the office, e.g. the cost of laptops and personal protective equipment. In addition, the transition to working from home has caused some delays in getting through the work, which may result in overtime costs being incurred to ensure achievement of statutory deadlines.

We also note that work is ongoing to ensure the future financial sustainability of the Board through potential savings and efficiencies from the implementation of a new operating system and digitisation of the Board's paper records, the implementation of which is still ongoing with expected go live dates of 31 October 2020 for the non-domestic rate software and January 2021 at the latest for the council tax software. The 2020/21 budget builds in projected savings of £43k based on the anticipated efficiencies and savings to be made from the

implementation of the software this year. The achievement of savings and efficiencies will continue to be monitored over the audit contract to determine whether the Board have been successful at implementing recurring savings into their annual budget.

We also recommended in 2018/19 that the Board implement a medium term Financial Strategy (2-4 years) which includes a Capital Plan, scenario planning and sensitivity analysis. This has been implemented through the 2020/21 budget, which incorporates scenario planning by examining the likely impact on reserves over the next few years if no increase in requisition was secured. This then confirms that an increase in requisitions from the three Ayrshire Councils has been secured over the next three years, with up to 5% more in both 2020/21 and 2021/22, and up to an additional 2% more in 2022/23.

The 2020/21 budget also touches on capital funding which has been confirmed as £50k to assist with implementing the new software.

Deloitte View – Financial sustainability

The Board achieved short term financial balance in 2019/20, and a balanced budget has been set for 2020/21. Healthy reserve levels well in excess of the Board's reserves strategy of 2% will be possible in the short term. However, these reserves are largely driven by favourable variances in employee costs, which are not sustainable in the short to medium term. This should be addressed by recruiting the appropriate staff into key posts in order to meet the additional responsibilities and work load resulting from the Barclay Review recommendations.

We acknowledge that work is ongoing to implement modernisation of the operating system and digitise paper records, which should help with achieving future savings and efficiencies. The recommendation on efficiencies and savings that was raised in last year's action plan is therefore still applicable (see page 29 for details).

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

Other requirements

Fraud considerations

Standards of conduct for prevention and detection of fraud and error

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

Deloitte view

The Board has appropriate arrangements in place for the prevention and detection of fraud and other irregularities.

Sector developments



Sector developments

Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast
2. Governments could be left with higher debt after a shock to the public finances
3. Debates around inequality and globalisation are renewed
4. Lines have blurred between organisations and sectors
5. The lockdown has accelerated collaborative technologies
6. Civil society has been rebooted and citizen behaviour may change
7. The legacy that still needs to be captured

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Preparing for the 'next normal'

As the COVID-19 pandemic continues to unfold there is unlikely to be a rapid or decisive transition from crisis to recovery. Organisations are more likely to face a sequence of operational environments that oscillate between restriction and relaxation, before a final end-state of relative normality.

The first phase of COVID-19 response has been characterised by significant and rapid changes in the way people live their lives and how organisations operate. Many of these changes have been government-mandated. The next phase will be an opportunity for organisations to reflect and plan for a period of uncertainty and disruption. During this period businesses will need to maintain their responsibilities to their customers and staff while modifying operations to meet changes in demand and supply as government restrictions change. They will need to ensure that their recovery is sustainable in terms of resource use and flexible enough to meet change.

Copies of this report can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/risk/articles/preparing-for-the-next-normal.html>

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recovery to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/COVID-19-impact-on-the-workforce-insight-for-hr-teams.html>

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

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

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

Use of this report

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

What we don't report

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

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

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



Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 11 September 2020

Audit adjustments (continued)

Uncorrected misstatements

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

	Debit/ (credit) CIES £k	Debit/ (credit) MIRS £k	Debit/ (credit) net assets £k	Debit/ (credit) reserves £k	If applicable, control deficiency identified
Pension Liability – McCloud current service costs [1]	6.5	(6.5)	(6.5)	6.5	N/A
Total	6.5	(6.5)	(6.5)	6.5	

[1] As discussed on page 13, the actuary has not made any allowance within the current service costs for the impact of McCloud, therefore it does not fully represent the cost of the benefits accruing for current service. The Board's actuary has estimated that the potential impact of this is a £6.5k understatement of the liability. As the pension liability is fully mitigated by statutory adjustments, this misstatement has no impact on the overall General Fund position.

Action plan

Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual audit report and we note that one of the two recommendations has been implemented, with the other recommendation partially implemented. We have updated these recommendations for management's response below. We will continue to monitor the one partially implemented recommendation as part of our 2020/21 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Planning – savings and efficiencies	The continued use of reserves is not sustainable in the medium to longer term. Efforts are ongoing to identify future sources of savings and efficiencies to ensure the maintenance of healthy reserve levels. This includes potential efficiencies from the implementation of a new operating system, the implementation of which is still ongoing. The achievement of savings and efficiencies will continue to be monitored over the audit contract.	The Board and its management acknowledge this and continue to take action in order to improve financial sustainability in the medium to longer term. It is expected that this will be realised through operational efficiencies arising from the Board's ongoing programme of modernisation.	T Baulk/ H McPhee	31/12/2020	Medium	<p><i>Partially implemented:</i> this recommendation is not yet due. As discussed on page 21, and per the updated management response below, this recommendation is on track to be achieved for the target date.</p> <p>Updated management response: Implementation of the new system is ongoing with an expected go live date of October 2020 for NDR and January 2021 at the latest for CT. The new system will then allow the identification of relevant administrative savings to be identified. The new 2020/21 budget factored in savings of £43k (1.85%).</p> <p>Updated target date: 31/12/2020</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Planning	The implementation of a medium term Financial Strategy (2-4 years) which includes a Capital Plan, scenario planning and sensitivity analysis.	<p>Financial planning has been incorporated into the 2017/18 budget setting process. However this has not been formally recorded at the Board meeting.</p> <p>Scenario planning and capital planning has been incorporated in the 2017/18 budget setting process.</p>	T Baulk	31/3/2020	Medium	<p><i>Implemented:</i> as discussed on page 21 an MTFP has been implemented through the 2020/21 budget which was approved by the Board on 3 March 2020.</p> <p>Updated management response: Financial planning over a medium term (3 years) commenced in 2019/20 with discussions with the three Chief Executives of the three Ayrshire Councils, the Assessor and the Treasurer of the AVJB. This resulted in an agreement for requisition increases for the three years 20/21 to 22/23 in an attempt to move away from reliance on reserves. Reference to this agreement was made, and inclusion of the first year increase in requisition amounts, in the Revenue and Capital budget for 20/21 approved by the Board in March 2020.</p> <p>Updated target date: N/A</p>

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in occurrence of income and management override of controls as a key audit risk for your organisation.

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

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

Independence and fees



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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and will reconfirm our independence and objectivity to the Board for the year ending 31 March 2020 in our final report to the Board.														
Fees	<p>The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £7,450 as analysed below:</p> <table><thead><tr><th></th><th>£</th></tr></thead><tbody><tr><td>Auditor remuneration</td><td>6,430</td></tr><tr><td>Audit Scotland fixed charges:</td><td></td></tr><tr><td> Pooled costs</td><td>630</td></tr><tr><td> Performance Audit and Best Value</td><td>0</td></tr><tr><td> Audit support costs</td><td>390</td></tr><tr><td>Total proposed fee</td><td>7,450</td></tr></tbody></table>		£	Auditor remuneration	6,430	Audit Scotland fixed charges:		Pooled costs	630	Performance Audit and Best Value	0	Audit support costs	390	Total proposed fee	7,450
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Audit Scotland fixed charges:															
Pooled costs	630														
Performance Audit and Best Value	0														
Audit support costs	390														
Total proposed fee	7,450														
	<p>There are no non-audit services fees proposed for the period.</p>														
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Board's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.														
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>														

Quality of public audit in Scotland

Annual report 2018/19

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

Public audit in Scotland

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

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

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

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

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

Key messages

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

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

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

Other performance measures showing good performance include:

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

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

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



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