

East Renfrewshire Council

2019/20 Annual Audit Report



Prepared for the Members of East Renfrewshire Council and the Controller of Audit

26 November 2020

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Key messages

2019/20 annual accounts

- 1** The financial statements of East Renfrewshire Council and its group give a true and fair view of the state of affairs of the Council at 31 March 2020 and have been properly prepared in accordance with the financial reporting framework.
- 2** The financial statements include an explanatory paragraph within Note 6 Critical Judgements in Applying Accounting Policies and Note 7 Assumptions made about the Future and other Major Sources of Estimation Uncertainty, describing the effect of significant uncertainties, caused by Covid-19, as declared in the property valuation reports. This is a significant management disclosure in the financial statements that impacts on the users' understanding of the accounts. We have included an Emphasis of Matter referring to these paragraphs in our independent auditor's report on the financial statements. Although the Emphasis of Matter paragraph constitutes a modification to our independent auditor's report our opinion on the financial statements is not qualified in respect of this matter.
- 3** The council delivered the unaudited annual accounts in accordance with the original audit timetable. Despite some delays during the audit process the annual accounts were signed off in line with the revised timetable permitted to reflect the impact of Covid-19.

Financial management

- 4** The Council has appropriate and effective financial management. For 2019/20 a budget underspend of £3.401 million was reported with all services performing within budget.
- 5** Systems of internal control operated effectively in 2019/20 with some scope for improvement noted.
- 6** The Council should review its systems of internal control to ensure that they continue to operate as intended with the impact of revised working arrangements as a result of Covid-19.

Financial sustainability

- 7** The Covid-19 global pandemic has had a significant impact on the short-term finances of the Council with a forecast budget deficit of £11.828 million identified for 2021/22. The impact on medium and long term planning is still to be evaluated.
- 8** In June 2020 the council decided to adopt a single year approach for the 2021/22 budget. The Council intends to revert to 3-year budget setting for the period 2022-25, when it is hoped that multi-year settlements will be available from Scottish Government.
- 9** The Council has a strong history of achieving savings targets however with the financial pressures arising from continued increases in demand for services and Covid-19 pressures, this will become increasingly difficult.

Governance and transparency

- 10** During 2019/20 there were appropriate and effective governance arrangements in place.
- 11** The Council reacted promptly and appropriately to the Covid-19 pandemic. The emergency governance arrangements that were implemented ensured that the Council continued to deliver services while also being reactive in dealing with new emerging demands.

Best Value

- 12** The Annual Strategic Performance Report for 2019/20 shows that the Council is performing well against many of the indicators in the Outcome Delivery Plan.
- 13** The Council has an appropriate and effective Best Value framework in place.

Introduction

1. This report summarises the findings arising from the 2019/20 audit of East Renfrewshire Council (the Council) and its group.

2. The scope of the audit was set out in our 2019/20 Annual Audit Plan presented to the 12 March 2020 meeting of the Audit and Scrutiny Committee. This report comprises the findings from

- an audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2019/20 have been:

- an audit of the annual accounts of the Council and its group including the statement of accounts of the section 106 charities administered by the council and the issue of independent auditor's reports setting out our opinions
- a review of the Council's key financial systems
- consideration of the four audit dimensions

4. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the Council has had to respond to the global coronavirus pandemic. This impacted on the final month of the year and will continue to have significant

impact into financial year 2020/21. This has had significant implications not least for the services it delivers, sickness absence levels, and the suspension of non-essential projects and activities, such as capital construction. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit.

Adding value through the audit

5. We add value to the council through the audit by:

- having regular communication with senior officers during the period of remote working to enable our audit to proceed in line with the revised timetable
- identifying significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 5](#)) and good practice guides
- providing conclusions on the appropriateness of corporate governance, performance management arrangements and financial sustainability

6. In doing the above we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

7. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

8. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

9. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

10. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the Council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

11. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

12. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

13. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

Auditor Independence

14. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £231,500 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

15. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual accounts



Main judgements

The financial statements of East Renfrewshire Council and its group give a true and fair view of the state of affairs of the Council at 31 March 2020 and have been properly prepared in accordance with the financial reporting framework.

The financial statements include an explanatory paragraph within Note 6 Critical Judgements in Applying Accounting Policies and Note 7 Assumptions made about the Future and other Major Sources of Estimation Uncertainty, describing the effect of significant uncertainties, caused by Covid-19, as declared in the property valuation reports. This is a significant management disclosure in the financial statements that impacts on the users' understanding of the accounts. We have included an Emphasis of Matter referring to these paragraphs in our independent auditor's report on the financial statements. Although the Emphasis of Matter paragraph constitutes a modification to our independent auditor's report our opinion on the financial statements is not qualified in respect of this matter.

The Council delivered the unaudited annual accounts in accordance with the original audit timetable which enabled the annual accounts to be signed off in line with the revised timetable permitted to reflect the impact of Covid-19.

The annual accounts are the principal means of accounting for the stewardship of resources and performance.

Our audit opinions on the annual accounts are unmodified

16. The accounts for the Council and its group for the year ended 31 March 2020 were approved by the Audit and Scrutiny Committee on 26 November 2020. As reported in the independent auditor's report;

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

17. We have included an 'Emphasis of Matter' paragraph in our independent auditor's report which refers to the impact of Covid-19 on the valuations of land and buildings. Emphasis of Matter paragraphs are included in auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. Notes 6 and 7 in the annual report and accounts describes the uncertainty. The audit opinion is not qualified in respect of this matter. Further information is contained in [Exhibit 3](#).

18. The working papers provided with the unaudited accounts were of a reasonable standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts ran smoothly.

The annual accounts were signed off in line with the revised timescales permitted to reflect Covid-19

19. The Scottish Government has advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised timetable for the Annual Accounts.

20. The Council delivered the unaudited annual accounts in accordance with the original audit timetable. The impact of Covid-19 and the limitations of carrying out an audit remotely had an impact on the time taken to complete the audit.

21. Although later than originally planned, the annual accounts were signed off in line with the revised timetable permitted to reflect the impact of Covid-19.

Our audit opinions on Section 106 charities were unmodified

22. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of the seven registered charities where members of East Renfrewshire Council are sole trustees, irrespective of the size of the charity.

23. Out of the seven registered charitable trusts, two have not made any grant awards in the last six years and consideration should be given to making these dormant if there are no plans to rectify this. The Council has been unable to reduce the number of charitable trusts where it is the sole trustee either by combining trusts or by making them dormant. The progress has been limited by the specific terms and conditions permitted by some of the trusts' deeds.

24. Our audit opinions on the Section 106 charities are unmodified.

Objections

25. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations. There were no objections to the 2019/20 accounts.

Whole of Government Accounts

26. In accordance with the WGA guidance, the council submitted a consolidation pack for the whole of government accounts audit on 23 September 2020. The required assurance statement was submitted to the National Audit Office (NAO) by the 4 December 2020 deadline.

Overall materiality is £3.87 million

27. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of any misstatement in the financial statements.

28. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). On receipt of the unaudited annual accounts we reviewed our materiality judgements and concluded that no changes were required to our planned levels.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£3.87 million
Performance materiality	£2.32 million
Reporting threshold	£38,000

Source: Audit Scotland Annual Audit Plan 2019/20

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

29. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. [Appendix 2](#) summarises the work we undertook to address these risks and our conclusions from this work.

30. We have no issues to report from our work on the risks of material misstatements highlighted in our 2019/20 Annual Audit Plan.

Significant findings from the audit in accordance with ISA260

31. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

32. The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan at [Appendix 1](#) has been included.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Impact of Covid-19 on valuations of land and buildings</p> <p>The Council's land and properties are part of a rolling 5-year valuation programme.</p> <p>The valuer noted in the final valuation report that '(year-end) valuations do not reflect the consequences of the prevailing Covid-19 pandemic and its influence on the property market and wider economy which are anticipated to be significant.'</p> <p>Therefore, a higher degree of uncertainty should be attached to the valuations than would normally be the case. This reflects Royal Institute of Chartered Surveyors (RICS) guidance which is the basis of the work undertaken by the valuer.</p>	<p>The accounts have been amended to include more information setting out the impact of Covid-19 on land and buildings valuations.</p> <p>We have included an Emphasis of Matter paragraph in the independent auditor's report because the disclosure is fundamental to users' understanding of the accounts.</p> <p>The audit opinion is not modified in respect of this matter.</p> <p>We have sought assurances on management's assessment of the fair value of land and property in the ISA 580 representation letter.</p>

Issue	Resolution
<p>Detail on the uncertainty was provided in note 6 and note 15, however, the unaudited accounts did not provide sufficient information about this in Note 7 Assumptions about the Future and other Major Sources of Uncertainty.</p>	 <p>Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. McCloud Pension adjustment</p> <p>We reported in our 2018/19 Annual Audit Report that the financial statements included an adjustment to the value of the Council's pension liability to reflect an age discrimination legal ruling (commonly referred to as the McCloud Ruling) resulting from the transitional arrangement within firefighters' and judges' pension schemes. This adjustment increased the actuarial present value of pension liabilities by £6.677 million.</p> <p>In July 2020 the Government announced the proposed remedy in the McCloud Case which used different parameters to the presumed remedy that had been used to calculate the £6.677million in 2018/19. In light of this, the scheme's actuary, Hymans Robertson, provided a revised IAS19 actuarial valuation which highlighted an approximate overstatement in the previous assessment for the Council of £3.841 million.</p>	<p>The £3.841 million adjustment was appropriately accounted for in the 2019/20 past service cost line, resulting in a decrease in the Council's net pension liability by the same amount.</p> <p>As this adjustment is fully mitigated by a statutory adjustment, it has no impact on the reported general fund reserve balance.</p> <p>We reviewed the adjustments and were satisfied that the updated net pension liability reflected in the audited financial statements was properly stated.</p> <p>There is no further action required by the Council.</p>
<p>3. Clyde Valley Waste Treatment arrangement</p> <p>In 2016 the Council, with four other local authorities, entered into a 25-year agreement with a private sector partner, Viridor, to divert non-recyclable domestic waste from landfill to be converted into low carbon energy at Viridor's energy recovery facility at Dunbar.</p> <p>The contract started in January 2020 and the Council accounted for its share of the running costs in the 2019/20 unaudited accounts, however its share of the assets and liabilities associated with the facility were incorrectly excluded.</p>	<p>To correct for this an audit adjustment to account for the Council's share as a finance lease was made to the accounts. This adjustment increased the value of Property, Plant and Equipment in the Balance Sheet by £2.972 million with a corresponding adjustment to Finance Lease lines by the same amounts. The net impact on the total Net Assets balance is therefore nil.</p> <p>Management confirmed that there are on-going discussions with partners and financial advisors over the financial model to be applied, and that it is possible that their assessment may change in future periods. We are satisfied that the accounting treatment applied in 2019/20 is a materially accurate estimate</p>  <p>Recommendation 2 (refer appendix 1, action plan)</p>

Source: Audit Scotland

Identified misstatements were adjusted in the accounts and we did not need to revise our audit approach

33. Only the misstatement noted above in relation to the treatment of the Clyde Valley Waste Treatment arrangement exceeded our performance materiality level of £2.32 million. However, we have concluded that the misstatement arose from an

isolated issue and does not indicate further systemic error. We therefore concluded that no further audit work was required.

34. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements. There are no unadjusted errors.

Progress has been made on prior year recommendations

35. We have followed up the actions which were reported in our 2018/19 Annual Audit Report. Overall, the Council has made reasonable progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

The Council has appropriate and effective financial management. For 2019/20 a budget underspend of £3.401 million was reported with all services performing within budget.

Systems of internal control operated effectively in 2019/20 with some scope for improvement noted.

The Council should review its systems of internal control to ensure that they continue to operate as intended with the impact of revised working arrangements as a result of Covid-19.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

Budget process was appropriate

36. We have reported in previous years' reports on the accuracy and timing of reporting to members of significant budget underspends. The Council reviewed its budget setting process in 2017/18. Since this review, budget underspends have reduced from 4% of budget in 2017/18, and 2% in 2018/19 to 1.3% in 2019/20.

37. The projected outturn for 2019/20 was reported to members in March 2020 forecasting an underspend of £1.618 million. The actual outturn of £3.401 million represents a 110% movement on the previous forecast outturn. It should be noted that due to the impact of Covid-19, the later April outturn report was not reported to members.

38. We acknowledge that the council continues to make progress in the level of underspend and that the budget reports provided to members are sufficiently detailed. The council should continue to ensure that reports to members are accurate and timely.

The 2019/20 budget included planned savings and contributions from reserves to address the funding gap

39. The Council approved its 2019/20 budget in February 2019. The budget was set at £242.90 million net expenditure with a funding gap of £13.453 million. Plans to address this gap included a council tax increase of 3%, identified savings of £9.118 million and a transfer of £4.312 million from reserves.

The Council operated within budget in 2019/20

40. The final outturn for 2019/20 reported to members in June 2020 confirmed that all service departments operated within their agreed budget for the year. As noted above, the approved budget included a planned draw-down from reserves of £4.312 million, however the final outturn reported that only £0.911 million of

reserves required to be utilised. This therefore represents a total budget underspend of £3.401 million for 2019/20.

41. As with previous years, the reasons for the budget underspend remain largely similar. The Council had again directed departments to implement identified savings as soon as possible in order to allow for an increase in reserves to mitigate the future savings requirements resulting from anticipated funding pressures.

42. A key saving in 2019/20 and beyond is due to the re-profiling of debt repayments from the general fund and the HRA. This was carried out to bring the life of the repayment of debt in line with the benefits of the capital spend (e.g. the useful lives as per the asset register). The impact of this is that debt will be repaid over a longer time, giving savings presently, but higher future costs.

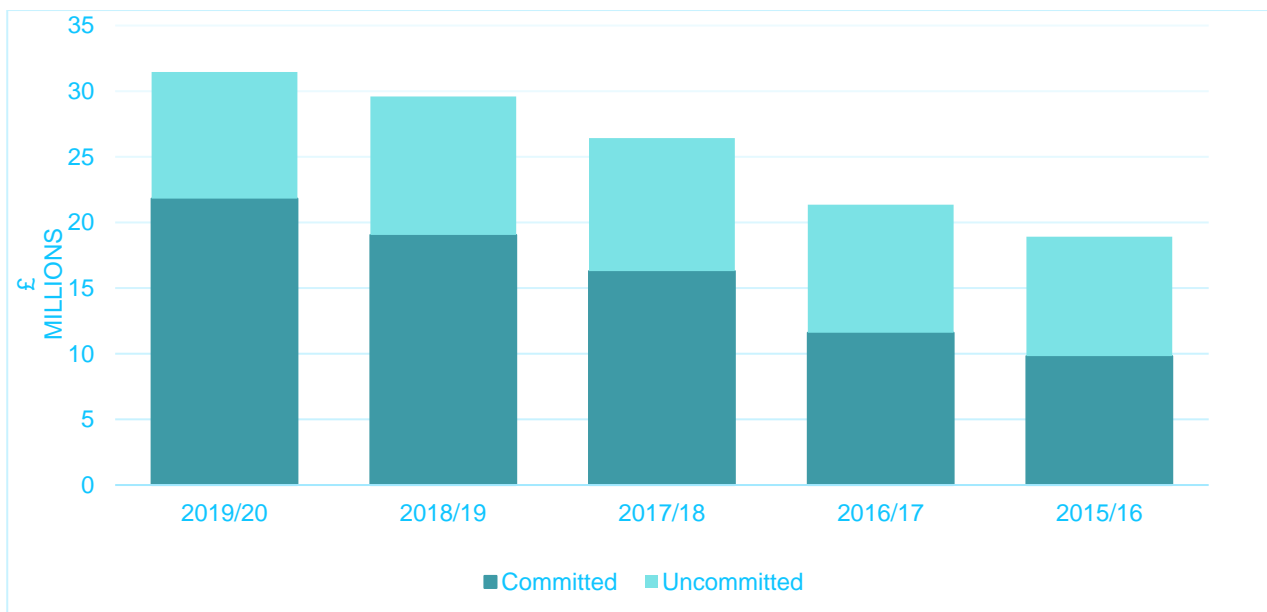
The level of General Fund reserves has increased slightly

43. One of the key measures of the financial health of a body is the level of reserves it holds. The level of usable reserves held by the Council increased from £43.687 million in 2018/19 to £44.222 million in 2019/20. In line with previous years, the level of general fund reserves also increased from £29.603 million to £31.461 million.

44. As noted in paragraph 39, as part of the 2019/20 budget setting the Council had planned to use the uncommitted General Fund reserve. As a result of the underspend noted in paragraph 37, the actual reduction in the uncommitted reserve was only £0.911 million, resulting in a year-end balance of £9.643 million as at 31 March 2020. This represents 3.8% of the annual budgeted net revenue expenditure and is slightly below the council's target level of 4%.

45. [Exhibit 4](#) provides an analysis of the general fund over the last five years showing the split between committed and uncommitted reserves.

Exhibit 4 Analysis of general fund balance



Source: East Renfrewshire Council annual report and accounts

46. Although the uncommitted general fund decreased during 2019/20, the above shows that the Council has continued to increase the level of committed or ring-

fenced general funds. The largest increase in year is in unspent grants. This is as a result of the review undertaken on developers' contributions received by the Council, and also education grants in relation to Early Years. Further detail is provided in the [Exhibit 5](#) below:

Exhibit 5 Movement on Committed Reserves

Fund	Description	Net Movement in year	Balance at 31 March 2020
Equalisation Fund	To mitigate any future revenue impact of PPP/PFI contracts	0.036 million	2.835 million
Modernisation Fund	To facilitate the Council's transformation programme	(0.610 million)	7.050 million
Unspent Grants	Grants received which the Council has not spent due to timing	3.243 million	5.246 million
Whitelee Wind Farm	Contributions and projects at Whitelee Windfarm	0.055 million	0.747 million
Commuted Sums	Amounts received from developers' contributions under planning act	(0.333 million)	2.160 million
Devolved School Management	Allows Head teachers to carry forward a set % of school budget	0.378 million	3.580 million
Feasibility Fund	To allow for early preparation and investigations for capital projects	-	0.200 million
Total		£2.769 million	£21.818 million

Source: East Renfrewshire Council 2019/20 Financial Statements

Housing revenue account operated within budget

47. The council is required by legislation to maintain a separate Housing Revenue Account (HRA) and to ensure that rents are set at a level which will at least cover the costs of its social housing provision. The council rent increase approved by members on 1 March 2018, was 3.9% for 2019/20.

48. Income and expenditure reported in the HRA was in line with budget with a small underspend of £0.598 million being recorded. This has increased the HRA reserve to £2.316 million.

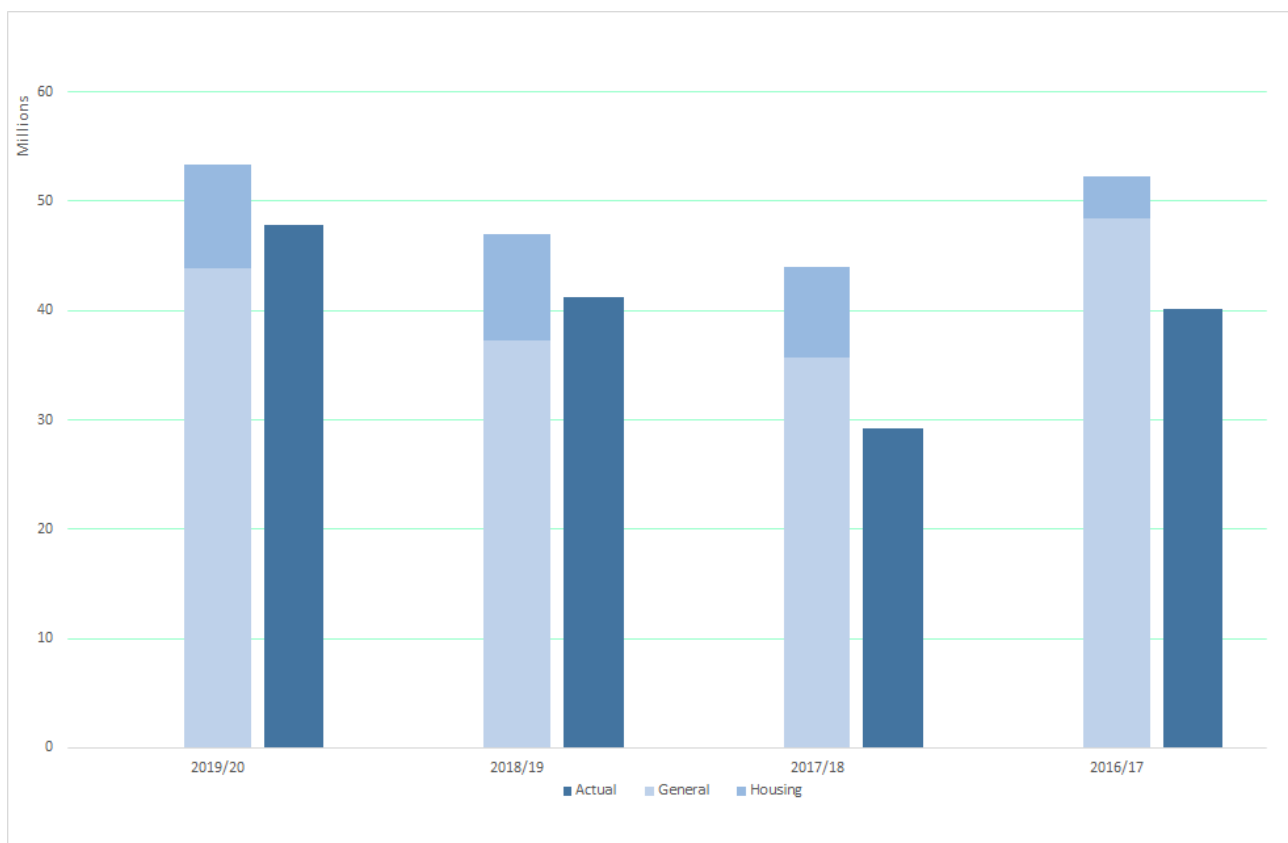
Capital programme 2019/20

49. As part of the budget setting meeting in February 2019, the Council approved capital expenditure of £58.986 million for 2019/20. This comprised, the General Fund capital programme 2019/20 - 2026/27 of £48.017 million and £10.969 million housing capital programme 2019/20 – 2023/24.

50. The final 2019/20 capital monitoring report to Cabinet on 12 March 2020 reported a total capital programme of £53.318 million (£43.822 million for general fund and £9.496 million for housing). This represents a reduction of £6.488 million or 11% of the original budget. This compares favourably to the £21.788 million (33%) reduction in 2018/19.

51. Total capital expenditure in 2019/20 was £50.844 million of which £41.359 million related to general services and £9.485 million to the HRA. This figure includes the addition of the Clyde Valley Residual Waste lease. The actual capital spend was £6.488 million (11%) below the re-scheduled budget. It should be noted that the timing of the last report and reschedule of the programme was undertaken before lock-down when work on all sites ceased. The Council has a history of slippage/under-spending in its capital programme as reported in the past and this is illustrated in [Exhibit 6](#).

Exhibit 6 Capital slippage



Source: East Renfrewshire Council

Impact of Covid-19 on the capital programme will be significant

52. The impact of Covid-19 will have significant effect on the capital programme from 2020/21 onwards. The capital monitoring report presented to members in June 2020 shows the rescheduling of projects with some deferred into 2021/22 and notes the additional costs associated with restarting work that has been stopped for some time and the impact of having to observe social distancing on sites.

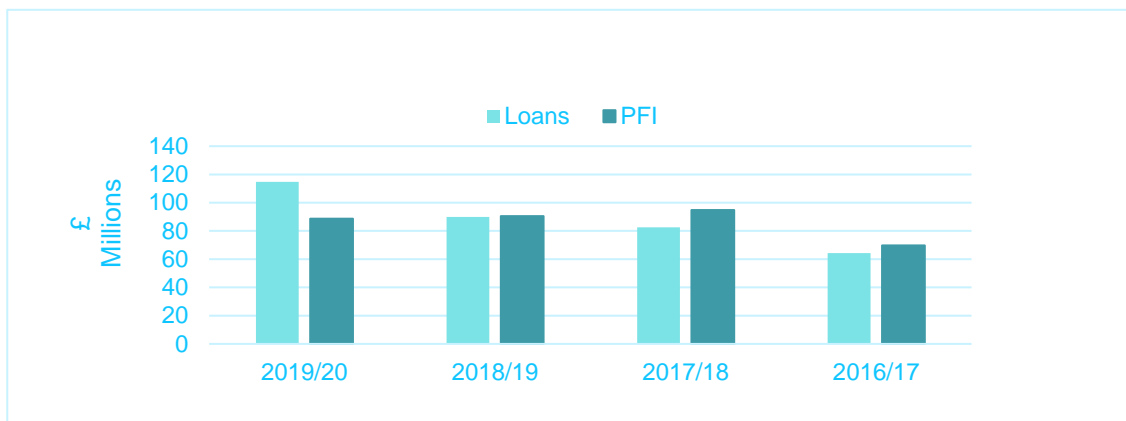
53. The Council are currently preparing a mid-year review of the existing capital programme to provide a clearer picture of what can be delivered in 2020/21. This update will be presented to members in late November 2020.

Borrowing levels have increased

54. At 31 March 2020, total borrowings from loans and PFI obligations stood at £203.488 million, an increase of £23.057 million on the 2018/19 level of £180.431 million. This movement reflects new borrowing in 2019/20 from the Public Works Loan Board (PWLB) of £27million, the new Clyde Valley Residual Waste agreement and PPP/PFI payments. This increase in borrowing was as noted in the approved Capital Plan for 2020-2027.

55. As shown in [Exhibit 7](#), of the total debt outstanding of £203.488 million, PFI and PPP and finance lease contracts account for £88.701 million (43%). The future revenue commitment to the Council over the term of the PFI and PPP contracts is £181.61 million (2018/19: £191 million) and represents a significant future pressure on revenue budgets.

Exhibit 7 Overall indebtedness over four-year period



Source: East Renfrewshire Council annual report and accounts 2019/20

56. The Management Commentary discloses gross external debt of £202.693 million, which includes the Council's long-term liabilities. This reconciles to the figures recorded above due to the exclusion of the effective interest rate on LOBO loans from the Management Commentary figure. Gross external debt was within the authorised limit and operational boundary set by the treasury management strategy presented to the Audit and Scrutiny Committee in February 2020.

Financial systems of internal control operated effectively

57. As part of our audit we identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

58. Our findings were included in our management letter that was presented to the Audit and Scrutiny Committee in September 2020. Due to the current Covid-19 situation and staff working at home, we reported that we were unable to complete our full controls testing on the payroll system. However, we were able to conclude that the other key system controls were operating effectively.

59. Testing was completed on the payroll system as part of our financial statements audit. While no errors were detected with our testing, we did note a weakness in relation to the process of awarding responsibility allowances to education staff. For

council staff, a standard form is required to be completed and approved by line managers, however such a form is not required to be completed for education staff.



Recommendation 3

The Council should consider the implementation of a council-wide process for the award of responsibility allowance.

60. The new HR and payroll modules were initially planned to go live in 2019/20 but were delayed with implementation now planned for late 2020/21. Additionally, a new system for Council Tax and Housing Benefit is planned by the end of 2020/21. We will carry out a full review of the controls in place in the new systems as part of our 2020/21 audit.

61. As a result of Covid-19 many staff have been working from home for all of 2020/21. This change in working arrangements will impact on how the internal controls operate. The framework of controls for the new systems planned for 2020/21 will also need to be assessed to ensure that they are appropriate and sufficient.



Recommendation 4

The Council should review its systems of internal control to ensure that they continue to operate as intended with the impact of revised working arrangements as a result of Covid-19.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

62. The council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

63. Instances of fraud and corruption can be particularly prevalent in the procurement function. As reported in the Annual Audit Plan, we used the work of Internal Audit in this area. Their report, Procurement Red Flags provides coverage of many aspects of Audit Scotland's *Red Flags in Procurement*. Further audit work will be undertaken by external audit by 2021/22 to ensure full coverage of the controls identified within this report.

64. We have reviewed the arrangements in place to maintain standards of conduct including for example the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

65. Appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities. We are not aware of any specific issues that we need to bring to your attention.

National Fraud Initiative

66. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Audit Scotland coordinate NFI in Scotland. Computerised techniques are used to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

NFI activity



3,457
Matches



654
**Recommended for
investigation**



1,417
**Completed/closed
investigations**

Source: East Renfrewshire Council; Internal Audit

67. We conclude that the council is pro-active in investigating matches and reporting the outcomes of NFI activity. The latest report to members was presented to the Audit and Scrutiny Committee in September 2020.

Part 3

Financial sustainability



Main judgements

The Covid-19 global pandemic has had a significant impact on the short-term finances of the body with a budget deficit of £11.828 million identified for 2021/22. The impact on medium/long term planning is still to be evaluated.

In June 2020 the Council decided to adopt a single year approach for the 2021/22 budget. The intention is that they will revert to 3-year budget setting for 2022-25, when it is hoped that multi-year settlements will be available from Scottish Government.

The Council has a strong history of achieving savings targets however with the continuing increase in demands and Covid-19 pressures, this will become increasingly difficult.

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

The financial impact of the Covid-19 pandemic will be significant

68. The Council approved its 2020/21 budget in February 2020, prior to the impact of the Covid-19 pandemic. Net expenditure was forecast to be £251.822 million. The budget identified a gap of £18.059 and this was to be funded by a 4.84% council tax increase, approved savings of £10.559m, and use of reserves of £3.5 million. This left a small gap of £1.278 million.

69. Following the agreement of the budget, additional funding of £1.875 million was received from the Scottish Government and the proposal to meet the £1.278 million with this funding was approved by members in June 2020. The remaining £0.597m will be considered as part of the response to funding of the Covid-19 related budget gap.

70. The initial report to members in June 2020, recorded an expected additional pressure on the 2020/21 budget of between £13.9 and £17.5 million, which is due to loss of income from council tax and from ERCLT venue closures, increased use of services and increased expenditure on Covid-19 response and recovery actions. The Council anticipated additional funding of £4.4 million from the Scottish Government based on national funding announcements to date.

71. Therefore, a potential Covid related shortfall in the Council's 2020/21 budget of £9.5m to £13.1m remains. The 2020/21 outturn position in June 2020, after accounting for the additional grant and with some underspend variances on routine expenditure, was a forecast year-end overspend of £8.55m, with £8.4m relating to General Fund services and £0.150m relating to the HRA.

72. The latest budget position reported to members showed an expected overspend for the year of £2.238 million which represents an improvement of £6.312 million. This is due to increases in anticipated grant funding, including

assumptions for support for income losses from sales, fees and charges, together with expenditure controls across all departments.

Medium and long term financial plans are in place but will have to be updated

73. It is important that long-term financial strategies (typically covering five to ten years) are in place, linking spending to the Council's strategies, and which reflect the impact of future pressures on the Council. The Accounts Commission recommends that Councils should plan for a range of scenarios, so they are prepared for different future levels of funding and income.

74. The Council operates a 3-year budget cycle, with 2020/21 being the final year in the current cycle. Due to the impact of Covid-19, the Council decided in June 2020 that they would adopt a single year approach for the 2021/22 budget. The intention is that they will revert to 3-year budget setting for 2022-25, when it is hoped that multi-year settlements will be available from Scottish Government.

75. However, a long-term approach to financial planning remains with departments still required to consider and manage their own financial position in support of delivery of the 3-year Outcome Delivery Plan (ODP) for the three years 2020/21 to 2022/23.

76. As part of the annual budget setting meeting, the Council present their long-term financial plan, covering the period 2020/21 to 2025/26. This provides detail on the range of funding scenarios which the Council is planning for, and also provides a commentary on the economic and demographic trends and factors that the Council expects over the period. This long-term plan has yet to be updated to reflect the future financial impact of the Covid-19 pandemic.

77. The Capital Plan for the ten-year period 2020-2030 was approved by the Council on 27 February 2020.

78. An updated ODP was presented to members in late October 2020. The ODP provides indicative departmental spending figures for 2021/22 and 2022/23 but does not reflect future funding levels.

79. The financial consequences of Covid-19 will continue to present significant challenges to the council into 2021/22 and beyond. The existing long-term financial plans should be updated once there is greater clarity on the financial impacts of Covid-19 and the extent of fiscal flexibilities permitted by the Scottish Government.



Recommendation 5

The Council should update its long-term financial plan when further clarity on the impact of Covid-19 is available.

80. The budget update report presented to members in October 2020 notes a funding gap of £11.828 million but does not include any future unfunded Covid-19 pressures. The Council plans to bridge these gaps mostly by savings and from available fiscal flexibilities which are currently under discussion with the Scottish Government. Currently service directors have been asked to identify savings of up to £11.828 million.

Efficiency savings identified for 2020/21 are expected to be delivered

81. The Council's Modern Ambitious Programme (MAP) is a mixture of development projects and reviews of existing services. The Council's focus over the preceding year has been the replacement of core systems to modernise and

streamline processes. The new financial ledger was successfully implemented during 2019/20 allowing finance staff to prepare the unaudited accounts in line with the original timetable. The HR and payroll modules were initially planned to go live in 2019/20 but were delayed with implementation now planned for late 2020/21. Additionally, a new system for Council Tax and Housing Benefit is planned by the end of 2020/21.

82. Almost £4.4 million (59%) of the Council's current savings proposals for 2020/21 relate to efficiencies or to the Modern Ambitious Programme (MAP) and the focus on the Council's 5 capabilities.

83. Work is ongoing to re-schedule projects given the impact of Covid-19 on available resources. Service redesign work has now resumed. A full update on the rescheduling and impact is due to be reported to the Corporate Management Team (CMT) by December. We note that in the past there has been an annual report presented to members on the MAP programme. This provided an overview of the projects and some financial detail. The last update was presented to members in April 2019. Due to the impact of Covid-19 there has been no further reporting, however an update on the Core Systems Programme (a key part of MAP) will be presented to Cabinet in December 2020.

84. The long term budget plans recorded a reduction in the number of council posts by around 290. Due to the impact of new working arrangements and also new requirements placed on local authorities in relation to vulnerable residents, the Council will need to reassess the workforce plan.

85. The Council expects the savings identified for 2020/21 to be delivered. We have reported in the past, that the council has a strong history of delivering savings. However, this will be very challenging in view of the extent of budget savings implemented in recent years and the continued increased pressures.

Part 4

Governance and transparency



Main Judgements

During 2019/20 there were appropriate and effective governance arrangements in place.

The Council reacted promptly and appropriately to the Covid-19 pandemic. The emergency governance arrangements that were implemented ensured that the Council continued to deliver services while also being reactive in dealing with new emerging demands.

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

Governance and transparency arrangements were appropriate

86. The Council's arrangements for governance formed part of our Best Value audit of the Council. We concluded that the Council had sound governance arrangements in place with scope to improve member scrutiny. For 2019/20 we considered the following:

- council and committee structure and conduct, including member scrutiny
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption, including the response to the National Fraud Initiative
- openness of council and committees
- reporting of performance and whether this is fair, balanced and understandable.

87. We are able to conclude that governance and transparency arrangements remain appropriate and we note below the specific response the Council took in response to the Covid-19 pandemic.

The Covid-19 pandemic had a significant impact on governance arrangements from March 2020

88. An emergency meeting of the Full Council took place on 23 March 2020 to approve the following temporary emergency decision making and governance arrangements:

- an Emergencies Committee was established, the membership of which comprises the Leader and Depute Leader of the Administration and the Leader of the main Opposition Group
- all delegations to committees, with the exception of the Emergencies Committee, were suspended on a temporary basis

- delegated authority was granted to the Chief Executive, all directors and heads of service, and the Chief Officer – Legal and Procurement to take operational decisions within their respective areas of operation that would normally require Council/committee approval
- referral to the Emergencies Committee where the proposed decision would be contrary to existing Council policy, or would be seeking an amendment to an existing policy, or for any other reason that would require political approval
- the temporary extension of the delegated authority to be kept under review in order that it may be revoked at the appropriate time.

89. In a Council meeting in May 2020 it was agreed that:

- the suspension of delegations to committees be lifted
- temporary extension of delegated powers to officers be withdrawn on 30 June 2020
- committee meetings would be reconvened with the normal calendar of meetings reintroduced following the summer recess. All meetings continue to be held virtually with recordings available on the council's website.

90. During this period elected Members have been provided with daily briefings to keep them up to date with ongoing activities. On a weekly basis statistical information on a range of data indicators has also been provided.

91. The Corporate Management Team (CMT) is responsible for the strategic response whilst the Council's Corporate Resilience Management Team (CRMT) discusses and proposes the tactical arrangements. A number of subgroups of the CRMT have been established, each focussing on a specific area of response activity, for example, critical services, humanitarian assistance/shielding and staff volunteering.

92. The Council's emergency structures are part of a wider regional and national network with multi-agency engagement through the Greater Glasgow Local Resilience Partnership (LRP), which is currently operating primarily across Health Board boundaries, and includes the six constituent councils (East Renfrewshire, East Dunbartonshire, Glasgow City, Inverclyde, Renfrewshire and West Dunbartonshire) plus Argyll and Bute Council and appropriate multi-agency partners.

93. The Council reacted promptly and appropriately to the pandemic. The emergency governance arrangements that were implemented ensured that the Council continued to be able to deliver services while also adapting to new and emerging priorities and demands.

Openness and transparency

94. There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public has access to understandable, relevant and timely information about how the body is taking decisions and using resources.

95. As noted above, during the period of disruption to normal Council business since March 2020, transparency and availability of Council business and decision making was made possible by a prompt introduction of virtual meetings.

Part 5

Best Value



Main judgements

The Annual Strategic Performance Report for 2019/20 shows that the Council is performing well against many of the indicators in the Outcome Delivery Plan.

The Council has an appropriate and effective Best Value framework in place.

Best Value is concerned with using resources effectively and continually improving services.

Best Value

96. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this period. The BVAR report for the council was published in November 2017. Following the publication of the report, the council prepared an action plan to address the recommendations made within the report.

97. Follow up audit work was undertaken in 2018/19 and actions were agreed which are due to be completed by the end of 2020. The latest update on progress against the recommendations was reported to Cabinet in April 2020.

98. Best Value work planned for 2019/20 was included in our Annual Audit Plan presented to members in March 2020. However, due to the impact of Covid-19 and the challenges of remote working both from our perspective and the Councils, this work has been postponed and will be included in our Annual Audit Plan for 2020/21.

Performance management arrangements provide a sound base for improvement

99. The Council's arrangements for measuring and reporting its performance are well established. The Council website contains a range of performance reports, including service department annual performance reports.

100. The Outcome Delivery Plan (ODP) is a rolling three year plan which is revised annually. The ODP demonstrates how the Council's services will contribute towards delivery of the outcomes in the Community Plan and Fairer East Ren.

101. The Annual Strategic Performance report presents performance against the indicators and targets in the ODP 2019-2022 and demonstrates the Council's contribution to the partnership outcomes in the Community Plan. This was reported to Council in June 2020. An annual report on the Community Plan and Fairer East Ren are being prepared for online approval by the Performance Accountability Review and presented to the Community Planning Partnership Board.

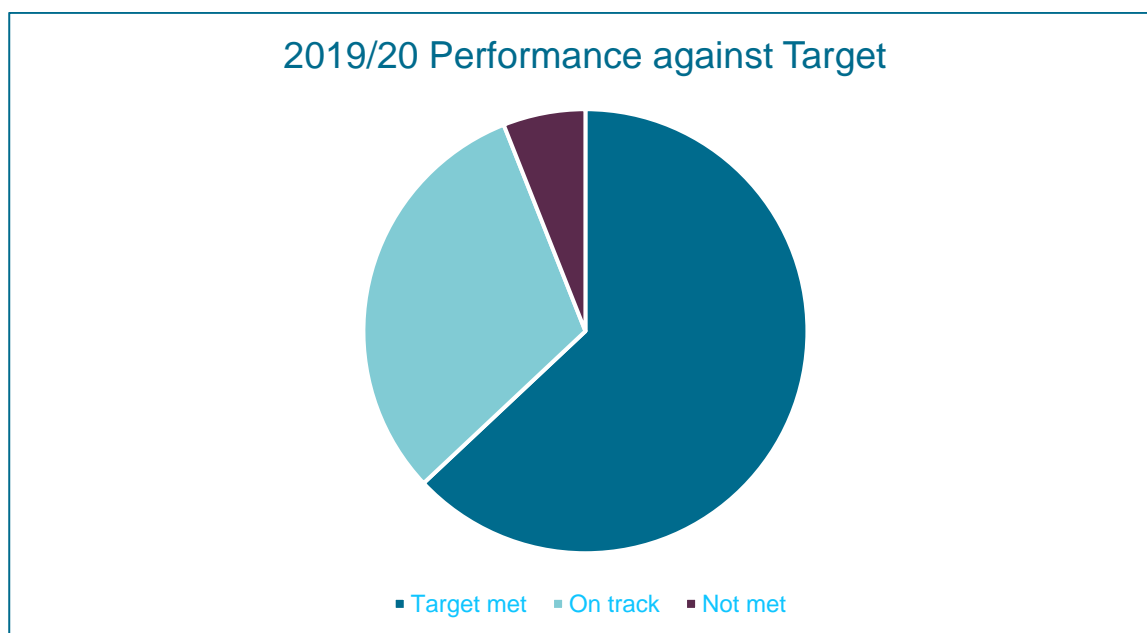
102. The Annual Strategic Performance Report for 2019/20 shows that the Council is performing well against most of the indicators in the Outcome Delivery Plan with 63% met, 31% on target and only 6% not met as shown in [Exhibit 8](#). It

was noted that Covid-19 did not impact the ability of the Council to collect the data required to measure performance in most cases, however it is anticipated that there may be delays or issues with the availability of data for 2020/21.

103. Due to Covid-19 the Council's focus will move to recovery activities and priorities and as a result the targets for indicators in the ODP will not be included in the plan for the coming year 2020-21 and will be revisited for the following year when baselines are reset.

Exhibit 8

Performance against key targets



Source: East Renfrewshire Council Strategic Performance Report 2019/20

104. The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The most recent report by the Improvement Service was submitted to the Cabinet in March 2020. The council report shows indicators are grouped under the Council's strategic outcomes and graphs showing trends against the Scottish and family group averages are included. The reports highlight what is planned to improve performance and, for each group of indicators, describe the Council's strategic policy intention.

105. Strong performance has been reported in a number of areas, in particular, Children's Services where the Council has maintained its position as the top performing council in Scotland for the educational attainment of children, and in Environmental services they were ranked as the best performing council on percentage of household waste recycled and the percentage of A class roads requiring maintenance.

106. Areas where performance could be improved are in relation to Adult Social Care and the proportion of people receiving care who felt that they had a say in how their support was provided and sickness absence levels for both teachers and local government employees. The report to Cabinet in March 2020 included context for each of the indicators to explain performance and the planned actions to address areas where improvements could be made.

Statutory performance indicators (SPIs) are being met

107. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

108. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

109. Reports on the Council's performance, as well as the Community Planning Partnership are easily accessible on the Council's website and as noted above provide detail on outcomes and strategic priorities. There is a section on Best Value which provides detail on the Best Value action plan.

110. The council is currently working towards developing a framework for Best Value and is making progress on completion of the actions in the approved plan.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Impact of Covid-19 on valuations of land and buildings</p> <p>The Council's land and properties are part of a rolling 5-year valuation programme.</p> <p>The valuer noted in the final valuation report that '(year-end) valuations do not reflect the consequences of the prevailing Covid-19 pandemic and its influence on the property market and wider economy which are anticipated to be significant.'</p> <p>Risk: There is a risk that asset valuations remain an area of uncertainty for 2020/21 and that the amounts in the financial statements are misstated.</p>	<p>The Council and the valuer should assess the ongoing impact of Covid-19 on valuation of assets in the coming year. Consideration should be given to revisiting valuations again for 2020/21.</p> <p>Paragraph 32</p>	<p>Recommendation agreed. Estates Surveyor 31 March 2021</p>
2	<p>Clyde Valley Residual Waste Treatment arrangement</p> <p>Alongside four other local authorities, East Renfrewshire Council entered into an agreement with partners in the private sector to improve and run Clyde Valley Waste Management Facility. An interim financial model has been applied in 2019/20 as the accounting treatment has not yet been agreed between partners.</p> <p>Risk There is a risk that there is an inconsistent accounting treatment between different local authorities.</p>	<p>Management should prioritise reaching an agreement over the accounting treatment for Clyde Valley Residual Waste Treatment Facility with partners and ensure that processes are put in place to ensure that the accounting treatment for future projects are considered prior to these becoming operational.</p> <p>Paragraph 32</p>	<p>Communication with the lead authority will be a priority during the year to enable any revised models to be adopted.</p> <p>Chief Accountant 30 June 2021</p>
3	<p>Payroll adjustment relating to responsibility allowances</p> <p>Testing on the payroll system identified a control weakness in relation to the process of</p>	<p>The Council should consider the implementation of a standard Council wide process for the award of responsibility allowances.</p>	<p>HR will work with Education to agree a standard council wide process for the award of responsibility allowances.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>awarding responsibility allowances to education staff. For council staff, a standard form is required to be completed and approved by line managers however such a form is not required to be completed for education staff.</p> <p>Risk: There is a risk that responsibility allowances are inappropriately awarded.</p>	Paragraph 59	<p>HR Manager</p> <p>31 March 2021</p>
4	<p>Systems of internal control</p> <p>As a result of Covid-19 many staff have been working from home for all of 2020/21. This change in working arrangements will impact on how the internal controls operate.</p> <p>Risk: There is a risk that the internal controls do not operate as expected due to home working.</p>	<p>The Council should review its framework of controls, including for the new systems, to ensure that the impact of home working is taken into account.</p> <p>Paragraph 61</p>	<p>Whilst the Council has not reduced its internal controls as a result of home working, a review of how these operate, including in respect of the new financial systems, will be carried out in the new year.</p> <p>Head of Accountancy</p> <p>30 June 2021</p>
5	<p>Medium to long term financial planning</p> <p>The Council operates a 3-year budget cycle, with 2020/21 being the final year in the current cycle. Due to the impact of Covid-19, the Council decided in June 2020 that they would adopt a single year approach for the 2021/22 budget. The intention is that they will revert to 3-year budget setting for 2022-25, when it is hoped that multi-year settlements will be available from Government.</p> <p>Risk: There is a risk that the long term impact of Covid-19 on the Council's budget is not adequately reflected in the long term financial plans.</p>	<p>The impact of Covid-19 in the medium to long term are expected to be significant. The Council will need to revise its financial plans to address the challenges once greater clarity is received on the financial flexibilities to be permitted by the Scottish Government.</p> <p>Paragraph 79</p>	<p>The Council's financial plans are updated each year. A review is underway and will be completed prior to setting the budget for 2021/22.</p> <p>Head of Accountancy</p> <p>25 February 2021</p>

Follow up of prior year recommendations

6	<p>Netherlee School 1937 Endowment Trust</p> <p>We had previously recommended in our 2016/17 Annual Audit Report that the Trustees of the Netherlee School 1937 Endowment Trust should consider the introduction of processes by</p>	<p>The Trustees of Netherlee School 1937 Endowment Trust should maintain evidence on the actual use of grant awards which supports the proper use of Trust funds.</p>	<p>Complete</p> <p>From our audit testing we were provided with evidence to support the proper and appropriate awarding of grant money.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>which the proper of grant awards could be confirmed. This recommendation has not been implemented by the Trustees</p> <p>Risk: The Trust incurs expenditure contrary to the terms of the Trust Deeds.</p>		
7	<p>Annual Instruction to the Valuer</p> <p>We recommended in 2017/18 that the Council formalise the relationship with the valuer. This has been partially implemented and we would recommend a formal instruction to be issued by Accountancy Services each year which clearly directs the valuer on the valuations to be undertaken. This instruction should include a formal impairment review to be undertaken and also instruct the valuer to consider the need for indexation to be applied to assets not subject to review under the 5 year rolling programmes</p> <p>Risk: Finance do not have ownership of the valuation exercise and changes to accounts have to be made due to late information</p>	<p>The Council should develop a formal process to include: the assets to be revalued and that valuation be provided in accordance with The CIPFA Property Valuation Guide; the need for the valuer to conduct an annual impairment review of assets; and requirement for the valuer to set out their approach to the use of indexation factors.</p>	<p>Partially complete</p> <p>We welcomed the revised guidance issued by finance to the valuer in advance of the provision of valuations of 2019/20.</p> <p>While there is evidence that an impairment review was carried out, there could be improvements in the level of detail provided to management to give greater assurance over the work done by the valuer to support the conclusions reached, particularly in relation to asset impairments.</p>
8	<p>Management Commentary</p> <p>There was no non-financial performance information contained within the draft accounts submitted to audit. The performance information was presented in a link to another document. However, the management commentary under statute is required to present a fair and balanced view of the business in the year. This was amended by the Council with further detail on performance against outcomes being provided.</p> <p>Risk: The management commentary in the annual report and accounts does not</p>	<p>The Council should further consider and develop the non-financial reporting of performance within the management commentary for 2019/20.</p>	<p>Complete</p> <p>The 2019/20 management commentary included sufficient non-financial performance information to provide a fair and balanced view of the Council.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	present a fair and balanced view of performance		
9	<p>Grants and Contributions in advance</p> <p>Due to the housebuilding and other development within the Council area, the Council have received a number of contributions in line with planning law. The accounting treatment of such contributions is dependent on an assessment of any conditions which may be applied by the developer. The code requires that a full analysis should be undertaken on these monies and the Council have agreed to undertake this review early in 2019/20.</p> <p>Risk: The Council does not correctly account for contributions received from developers.</p>	The Council should undertake a review of all monies received from developers in 2019/20 to ensure compliance with the Code and ensure that the accounting treatment reflects any conditions which may apply.	<p>Complete</p> <p>Review undertaken on contributions. Audit testing completed on the contributions at year-end and we are satisfied that these have been correctly recorded.</p>
10	<p>Budget Underspends</p> <p>The Council has a history of underspend against budget as reported in 2016/17 and 2017/18. Given the current and future pressures which service budgets are under, there is a need for the budget to reflect the actual pattern of spending and for forecasts to be reviewed to ensure they reflect demand.</p> <p>Risk: There is a risk that the Council may not be able to deliver the targeted savings in 2019/20.</p>	The Council should continue to review its budget to ensure budgets and forecasts reflect actual spending and demand patterns.	<p>Ongoing</p> <p>The 2019/20 outturn was an underspend of £3.401million which represents 1.3% of the approved budget. This represents a year on year improvement; budget underspends of 4% in 2017/18 and 2% in 2018/19.</p>
11	<p>Greenlaw Business Centre</p> <p>The Greenlaw Business Centre first became operational in 2018/19. The valuation of the centre at 31 March 2019 reflects a risk yield for rental income which is based on estimates of future occupancy levels and voids which reflect the future use of the building as an “incubator”</p>	The actual occupancy levels of the Greenlaw Business Centre should be kept under review and appropriately reflected in future valuations	<p>Complete</p> <p>Greenlaw Business Centre remained unoccupied during 2019/20. This was reflected in the year end valuation. We anticipate that the position will remain unchanged for 2020/21 as the business centre has been utilised as part of the Council’s Covid-19 response.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>for small businesses and start-ups.</p> <p>Risk: The actual levels of occupancy are not kept under review and reflected in updated valuations.</p>		
12	<p>Business Continuity/ Disaster Recovery</p> <p>We have previously reported on the need for the Council to ensure disaster recovery and business continuity plans are up to date, realistic and are tested. Progress has been made on this and a report on progress is due in mid-September on the status of the plans.</p> <p>Risk: Until the plans are fully implemented and tested, that the Council suffers a loss of data and disruption to service.</p>	<p>The Council should ensure that the business continuity arrangements are current and that disaster recovery arrangements are current and tested.</p>	<p>Ongoing</p> <p>Due to the impact of Covid-19 on Business Continuity arrangements, this work was not completed.</p>
13	<p>Financial Pressures</p> <p>The Council has identified that it needs to make savings of £24.754 million for the period 2019/20-2020/21 part of its plans to maintain financial balance. £16.368 million have been identified and approved by members. Over the last five years the Council has delivered approved savings of over £29 million.</p> <p>Risk: Given the previous level of savings already made by the Council, there is a risk that current and additional savings targets are not achievable.</p>	<p>That the Council continues to progress plans to address the funding gaps identified and continues to develop the reporting for savings both internally and to members.</p>	<p>Complete</p> <p>As reported at Action Plan point 5 the impact of Covid-19 in the medium to long term is expected to be significant. The Council will need to revise its financial plans to address the challenges once greater clarity is received on the financial flexibilities to be permitted by the Scottish Government.</p>
14	<p>Care at Home Service</p> <p>The Care Inspectorate's report on the Care at Home Service graded aspects of the service as either unsatisfactory or weak. While this report has been reported to members of the IJB, it has not been submitted to Council members.</p> <p>Risk: All members of the Council cannot formally</p>	<p>The Care Inspectorate Report of February 2019 on the review of the Care at Home service should be formally reported to Council members.</p>	<p>Complete</p> <p>The inspection report was circulated to members of the Council's Audit and Scrutiny Committee in June 2019 and referenced in the Annual Review of HSCP Performance considered by Council in September 2019.</p> <p>The Convenor Statement included an update to members to increase</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	discuss report on the Care at Home Service and the potential impact on the delivery of the Council's strategic objectives and the adequacy of the planned improvement actions.		transparency and allow elected members a further opportunity to raise questions.
15	<p>Transformation Programme</p> <p>During 2018/19 the Council have made good progress in developing a new reporting framework for the Transformation Programme. Corporate monitoring of the progress of projects and reporting to members has improved. However, the reporting of the financial links to savings targets and progress against agreed savings plans require further development.</p> <p>Risk: It is not possible to monitor progress against the target savings and benefits to be delivered by the MAP projects.</p>	Enhance the MAP reporting framework to align the Council's transformation programme and its associated projects with approved savings plans to track savings achieved at both the programme and project level.	<p>Ongoing</p> <p>The agreed actions were not due to complete until 2020/21. We will consider as part of our future audit work.</p>
16	<p>Accommodation Strategy</p> <p>A draft Accommodation Strategy was reported to the Council in October 2018. Work on the development of a final Accommodation Strategy is still ongoing.</p> <p>Risk: Future decisions on the future of the Council's estate are made in the absence of an overarching accommodation strategy.</p>	Approve a finalised Accommodation Strategy to inform future decisions, in particular the planned new build Leisure Centre, the Eastwood park master plan and the development of the Council's corporate landlord approach to asset management.	<p>Ongoing</p> <p>The agreed actions were not due to complete until 2020/21. We will consider as part of our future audit work.</p>
17	<p>Equal Opportunities Training</p> <p>Training for employees on equalities is not a mandatory part of the Council's Continuous Professional Development programme and equality training has not featured as an explicit element of the members training and induction programme.</p>	Training on equalities should be a mandatory requirement for employees and elected members should be provided with training on equality, including the Public Sector Equality Duty to ensure they can carry out their role effectively.	<p>Ongoing</p> <p>The agreed actions were not due to complete until 2020/21. We will consider as part of our future audit work.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
18	<p>Equality Impact Assessments</p> <p>There is no central oversight or quality assurance of Equality Impact Assessments and not all Equality Impact Assessments are published on the Council's website.</p> <p>Risk: That not all equality considerations are built into Council decisions and that the Council does not comply with the requirements of the Public Sector Equality Duties regarding the publication of EIAs.</p>	<p>Equality Impact Assessments should be held centrally, and quality checks carried out.</p>	<p>Complete</p> <p>Equality Impact Assessments are available on the Council's website.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Completion of cut-off testing to ensure transaction appropriately recorded in the correct year. 	<p>Testing carried out on journal entries.</p> <p>Review of accounting estimates undertaken.</p> <p>We tested a sample of transactions taken from both pre and post year end to confirm expenditure and income had been accounted for in the correct financial year.</p> <p>We tested a sample of accruals and prepayments and evaluated significant transactions that were outside the normal course of business.</p> <p>Conclusion - Our testing did not identify any evidence of management manipulating accounting records or overriding controls.</p>
<p>2 New finance system</p> <p>During 2019/20, East Renfrewshire Council introduced a new finance ledger which represents the main accounting system, together with new integrated accounts payable, accounts receivable systems and integrated fixed asset register. The system went live during September 2019 with the fixed asset register due to go live in February 2020.</p> <p>The new system will be used for the production of the 2019/20 financial statements, and, as with any major change in financial systems, there is an</p>	<ul style="list-style-type: none"> • Review and testing of the controls in place within the new payroll system. • Confirm the completeness and accuracy of balances transferred from the old to the new payroll system. 	<p>Carried out controls and substantive testing on the old and new systems with no issues identified.</p> <p>Reviewed the work carried out by Internal Audit on the transfer of balances as part of implementation of the new system.</p> <p>Conclusion - We concluded that we were able to place reliance on the accuracy and completeness of balances in the ledger.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>increased risk of misstatement in the figures and balances.</p>		
<p>3 New payroll system</p> <p>East Renfrewshire Council is due to complete the introduction of a new payroll system during 2019/20. As the new system will be used for the production of payroll figures in the 2019/20 financial statements, there is an increased risk of misstatement in the figures and balances.</p>	<ul style="list-style-type: none"> Review and testing of the controls in place within the new payroll system. Confirm the completeness and accuracy of balances transferred from the old to the new payroll system. 	<p>Implementation of the new payroll system has been deferred to late 2020/21, therefore our planned testing did not take place.</p> <p>As part of our 2020/21 audit we will carry out a full review of the controls within the payroll system.</p> <p>Conclusion - Carry forward to 2020/21 audit.</p>
<p>4 Estimates and judgements in the valuation of property, plant and equipment</p> <p>At 31 March 2019, East Renfrewshire Council held property, plant and equipment (PPE) with a net book value of £687 million. Valuation of these assets is based on specialist and management assumptions and estimates. Therefore, there is a significant degree of subjectivity in the valuation of PPE and changes in assumptions and estimates made by the valuer or management can result in material changes in value.</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' for the in-house valuer. Review and assess the reasonableness of revaluations performed in year. An assessment of the underlying information the valuer is using to base valuations to ensure it is complete and accurate. Examine evidence that the valuer is performing an annual impairment exercise. 	<p>Our review of the valuer was completed, and we concluded that we could rely on the year end valuations.</p> <p>Satisfactory evidence was obtained to confirm the reasonableness of the revaluations in the year.</p> <p>Information was received to support the work done on assessing the need to impair the value of assets. We found that there could be improvements in the level of detail provided.</p> <p>A significant valuation uncertainty was included in the valuer's report due to the impact of Covid-19 on the wider market. Additional disclosures were required in Note 7 of the accounts.</p> <p>Conclusion – While estimates and judgements included in the audited accounts are satisfactory the evidence to support the impairment review could be more comprehensive.</p> <p>Action plan point 7</p>
<p>5 Estimates and judgements in accounting for pensions</p> <p>At 31 March 2019, East Renfrewshire Council recognised a net liability of £135 million relating to the council's share of Strathclyde Pension Fund. Valuation of this liability is based on specialist (actuary) assumptions and estimates. As there is a significant degree of subjectivity in the measurement and valuation any changes made in assumptions can result in</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' for the professional actuary. Review of the estimates and assumptions made in calculating the pension fund liability. Assess the extent to which the Council has complied with the CIPFA briefing note. 	<p>Carried out review of the work of the actuary.</p> <p>Management has reviewed actuarial assumptions for appropriateness and, has sought IAS 19 values as at 31 March 2020. There was a further revision to the valuation to reflect further changes resulting from the McCloud case.</p> <p>We noted the contingent liability included in the accounts relating to the Goodwin (pension equality for opposite sex survivors) case.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>material changes to the valuation.</p> <p>Additionally, following successful legal action brought against the UK government in relation to pension schemes for judges and firefighters in 2018/19, on the grounds of age discrimination, a material change to the valuation recorded in the draft financial statements was required. Uncertainty remains over the impact of this decision and CIPFA intends to issue a briefing note setting out how Council's and pension funds should account for the impact of the legal judgements. This will need to be reflected in the pension fund liability valuation in 2019/20.</p>		<p>Conclusion - Estimates and judgements in relation to pensions included in the audited accounts are satisfactory.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>6 Financial sustainability</p> <p>The Council identified a savings gap of £5.8 million within the 2020/21 budget. Work is underway to identify further savings options. Additional savings requirements of £15.6 million have been identified for 2021/22. This is against continued rising demand for services, ongoing reductions in local government funding and a number of uncertainties that may have a financial impact on the council (e.g. the impact of EU withdrawal, increased in ring-fenced funding). There is a risk that the council is not able to deliver its strategic objectives.</p>	<ul style="list-style-type: none"> Review the 2020/21 budgets and consider the reasonableness of budget assumptions. Assessment of the adequacy of the council's longer-term financial management arrangements and plans reported to members. Monitor the council's financial position through budget monitoring reports presented to members and consider the delivery of in year savings programmes and the robustness of future savings plans and targets. 	<p>Reviewed the 2020/21 budget and assessed the proposals for meeting funding gap.</p> <p>Considered budget reporting during the year.</p> <p>Conclusion: The Council operates a 3-year budget cycle, with 2020/21 being the final year in the current cycle. Due to the impact of Covid-19, the Council decided in June 2020 that they would adopt a single year approach for the 2021/22 budget. The intention is that they will revert to 3-year budget setting for 2022-25, when it is hoped that multi-year settlements will be available from Government.</p>
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Appendix 3

Summary of national performance reports 2019/20



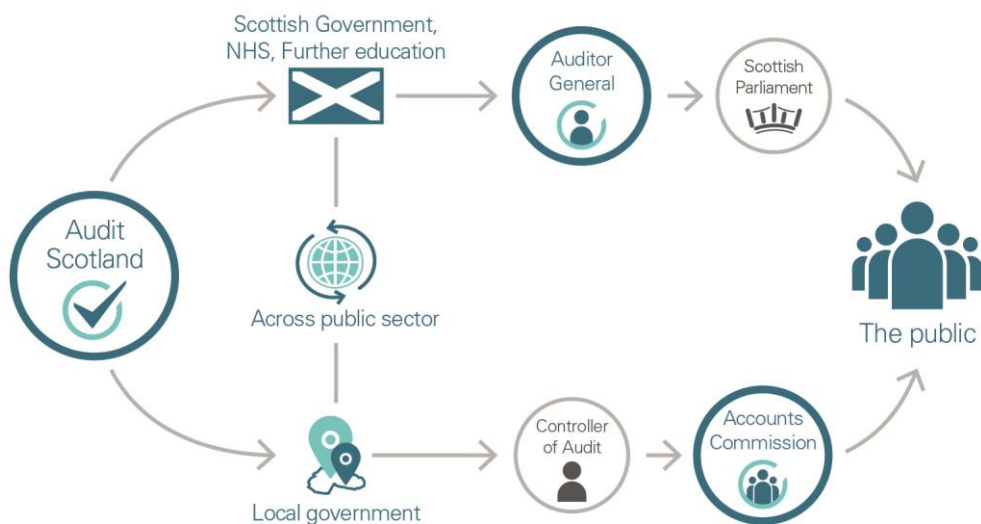
		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

Appendix 4

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money. Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

East Renfrewshire Council

2019/20 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk