



# Midlothian Council

**Annual Audit Report to Members  
and the Controller of Audit - year  
ended 31 March 2020**

**October 2020**



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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Council (the Council) for financial years 2016/17 to 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

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## Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# Executive Summary: Key Conclusions from our 2019/20 audit

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We have issued an unqualified audit opinion on the Council and Group 2019/20 financial statements.

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We have continued to update our risk assessment in response to the global pandemic, and as a result placed additional focus on:

- ▶ the adequacy of the Council's disclosures in relation to the pandemic; and
- ▶ management's assessment of going concern and the financial impact of Covid-19 on its future financial position.

## Financial Statements

We have concluded our audit of the Council's financial statements for the year ended 31 March 2020. During the course of the audit, 9 adjustments were required to be made, which are outlined within Appendix E. One unadjusted difference is also noted that we are required to communicate to the audit committee. The draft financial statements and supporting working papers were provided in time and were of a good quality. We worked with management to update and make enhancements to the Management Commentary, Annual Governance Statement and notes to the financial statements, in particular to reflect the implications of the Covid-19 global pandemic on the financial statements, the Council's governance arrangements and future plans.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the Annual Governance Statement reflects the requirements of the *Delivering Good Governance Framework*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

## Going Concern

Management is required to conclude on the going concern basis of preparation of the financial statements. As a result of the financial and operational pressures faced by the Council to respond to Covid-19, we placed additional emphasis on management's assessment of going concern, and particularly the need to report on the impact of financial pressures on the Council and its future financial sustainability.

The Council has concluded that there are no material uncertainties around its going concern status, however it has enhanced the disclosures around its future financial position in the financial statements to reflect the impact of Covid-19. Our audit opinion is not modified in respect of going concern.

## Wider Scope and Best Value

We summarise the conclusions we reached in response to our work on the wider scope dimensions below.

<p><b>Financial Sustainability</b></p> <p>The adoption of the Medium Term Financial Strategy and supporting governance meant savings proposals were well advanced prior to Covid-19. Updates to the MTFS will be presented to the Council later in 2020 to provide options to balance the 2021/22 and 2022/23 budgets. Early work to develop Midlothian's local route map through and out of the crisis provides clear and coherent focus on priorities, including economic recovery for the community, and will therefore support the development of future financial plans.</p> <p>The Council has demonstrated shared leadership to respond to the challenge of the pandemic, but there is a need for continued member and officer focus to safeguard financial sustainability.</p>	<p><b>Financial Management</b></p> <p>The Council demonstrates good financial control of the in-year budget, including understanding the impact of Covid-19 in early 2020/21. Financial reporting was clear and consistent throughout the year and improvements have been made to the management and monitoring of the capital programme. We note that while improved governance arrangements have been adopted to approve and monitor savings within the Business Transformation programme, the Council delivered only 71% of planned savings in 2019/20.</p> <p>Some areas, including the delivery of savings and updating of financial regulations, will require continuing focus and attention.</p>
AMBER	GREEN
<p><b>Governance &amp; Transparency</b></p> <p>The key features of good governance at the Council are in place and operating effectively. The Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. We were satisfied that Council members continued to have access to sufficient information as a result of the implementation of virtual meetings, and regular briefings to all members.</p> <p>The Council has taken steps to improve the transparency of financial information during the year. Development sessions help to improve the effectiveness of the audit committee.</p>	<p><b>Value for Money</b></p> <p>The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. The Council has a commitment to self-assessment of its performance to ensure that services remain focussed on improvement.</p> <p>We note that performance in some areas to fall short of the targets set within the Council's own performance management framework. The Council should continue to review the targets to ensure that they are achievable and represent changing priorities. We also note that service performance continues to be mixed compared to other councils.</p>
GREEN	AMBER

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. Our work will continue to focus on specific aspects of Best Value over our audit appointment period to ensure we cover all required areas. In light of the Council's focus on responding to and recovery from the pandemic, we have agreed to defer some of our initially planned work in this area until 2020/21.



# Introduction

As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the Council by at least 12 months, to 2021/22.

## Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Council (“the Council”). Our appointment term has been extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

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

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

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations.

## Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

## Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Council's audit committee on 10 March 2020.

The ongoing disruption to the delivery of Council services, as a result of the Covid-19, has a pervasive impact upon the financial statements.

The financial statements have been updated to reflect the impact of Covid-19 on the Council's financial position and performance.

## The impact of the Covid-19 Pandemic

We conducted our planning in accordance with Audit Scotland's Code of Audit Practice in February 2020. Following the declaration of the global Covid-19 pandemic and the resulting lockdown arrangements in late March 2020, we considered the implications for our audit approach. As a result, we presented our Audit Plan Addendum to the audit committee on 22 June 2020, which outlined the main anticipated areas of impact on the audit following our reassessment of our audit planning and risk assessments.

The key changes to our audit risk assessment was the increased risk around the valuation of property, plant and equipment and our subsequent classification of this as a significant risk to the financial statements. We also outlined a number of areas of the financial statements impacted by Covid-19, including:

- ▶ **Management Commentary**

The Scottish Government revised some of the content requirements of the management commentary to ensure that it can be streamlined to focus on the headline financial results for the year, financial position and risks. There is an expectation that future risks will include those arising from Covid-19.

- ▶ **Governance Statement**

The Annual Governance Statement requirement to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This was required to include how key governance functions continued to operate, such as key committee meetings and the delivery of internal audit's programme of work.

- ▶ **Accounting estimates and judgements**

Additional disclosures required throughout the financial statements to reflect the additional risks facing the Council and how these have impacted the key judgements and estimates made in preparation of the financial statements.

- ▶ **Events after the balance sheet date**

Significant events after the balance sheet date require to be disclosed within the financial statements.

The impact of the pandemic occurred late in the financial year, and as a result there were minimal changes in the anticipated financial results for 2019/20. There were no material additional transaction streams before 31 March 2020 which required new accounting policies or treatments.

### Adaption to remote working

As we outlined in the Annual Audit Plan Addendum, our audit fieldwork was completed remotely as a result of the Scottish Government's lockdown restrictions. The key impacts included:

- ▶ In some areas of the audit additional work was required to assess the format of evidence provided and, where necessary, supplementary procedures were performed to validate the authenticity of evidence.
- ▶ All contact with the Chief Officer, Corporate Solutions and the Council finance team was conducted via virtual meetings, with screen sharing as required. The majority of audit information required was already established for electronic sharing through existing arrangements.

Both the audit team and Council finance team worked in conjunction to ensure the additional impact of these working arrangements were minimised as far as possible. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

### Our review and reassessment of materiality

We remain satisfied that the values reported to you in our Annual Audit Plan for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of 2% of the Council's net expenditure. We considered whether any change to our materiality was required in light of Covid-19 and we remained satisfied that the materiality measure reported within our Annual Audit Plan were appropriate. Minor changes were made to the value of materiality that we applied during the audit, to reflect the 2019/20 draft financial statements.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Overall Materiality	Tolerable Error	Level that we report to committee
<b>£6.8 million</b>	<b>£3.4 million</b>	<b>£250,000</b>
2% of the Council's net expenditure	Materiality at an individual account level	Nominal amount

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

### **Financial statement audit**

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

- ▶ whether they give a true and fair view of the financial position of the Council as at 31 March 2020 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

### **Wider Scope audit**

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- ▶ Financial sustainability;
- ▶ Financial management;
- ▶ Governance and transparency; and
- ▶ Value for money.

Our findings are summarised in Section 3 of this report.

### **Best Value**

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. We outline our findings and assessment for 2020/21 on page 41.

In light of the Council's focus on responding to and recovery from the pandemic, we have agreed to defer some of our work in this area, including the Best Value Follow Up process, until 2020/21. This supports our focus on the audit of the financial statements and most immediately impacted aspects of the wider scope audit in 2019/20.



# Financial Statements audit

## Introduction

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

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan. Our Annual Audit Plan was considered by the audit committee on 10 March 2020.

The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- ▶ the risk of fraud in revenue and expenditure recognition (significant risk); and
- ▶ misstatements due to fraud or error (fraud risk).

Our Annual Audit Plan Addendum identified another significant risk in relation to the valuation of property, plant and equipment as a result of the uncertain impact of Covid-19, which may cause valuers to highlight a material uncertainty.

Our plan also highlighted a number of areas of higher inherent risk within the 2019/20 financial statements:

- ▶ Pension Liability and Asset Valuation;
- ▶ Accounting for Public Private Partnerships (PPP); and
- ▶ Valuation of long term investments in subsidiary undertakings.

## Compliance with Regulation

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by a committee with an audit or governance remit. The Coronavirus (Scotland) Act 2020 allowed the Council to postpone submitting the unaudited financial statements until it was reasonably practicable to do so. Despite the pandemic, the Council complied with the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 30 June 2020.

The inspection notice was published by the Council on 17 June 2020, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

The financial statements were submitted for audit and available for inspection within expected timescales, with no need to draw upon the flexibility provided within the Coronavirus (Scotland) Act 2020.

The Council has responded to sector developments to improve the presentation and accessibility of the financial statements.

## Preparation of the Financial Statements

The Council has responded to increased expectations from CIPFA and external reviews to improve the quality and accessibility of the financial statements. We were pleased to note that the financial statements were reviewed against good practice to ensure that the presentation and clarity of disclosures was improved.

While there were significant additional pressures on the finance team after the year end, information related to the audit and financial statements was provided in a timely manner. The unaudited financial statements prepared by management were to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, we worked with management and the finance team to make amendments and enhancements to the presentation.

The continuing change to circumstances driven by Covid-19 led to a number of disclosure changes within the financial statements. This reflects developing risks, additional information becoming available in respect of the valuation of key judgements and estimates in the financial statements, and agreement between management and the audit team on key disclosure requirements for areas of specific focus in 2019/20.

### Group financial statements

The Council has identified and accounted for the following associates within its group financial statements:

- ▶ Lothian Valuation Joint Board; and
- ▶ Midlothian Integration Joint Board.

The Council also consolidates interests in small subsidiaries, including common good and community funds. No matters were identified as a result of our review of the group consolidation arrangements within the financial statements.

Midlothian Integration Joint Board is the only entity in scope for our group audit arrangements. All required audit work was provided by the IJB audit team to the Council audit team in line with timeframes agreed and with no exceptions or reportable matters noted.

### Audit outcomes

We identified one unadjusted judgemental audit difference relating to additional updated information being made available in relation to the Local Government Pension Scheme. Nine adjustments were processed as part of the audit, primarily relating to challenge associated with the valuation of property, plant and equipment. The Local Government Pension Scheme net liability valuation was also amended following updated information being made available after the unaudited financial statements were published. Details of the adjustments are outlined in Appendix E.

Our overall audit opinion is summarised on the following page.

# Our audit opinion

## Element of opinion

## Basis of our opinion

## Conclusions

<p>Financial statements</p> <ul style="list-style-type: none"> <li>▶ Truth and fairness of the state of affairs of the Council at 31 March 2020 and its expenditure and income for the year then ended</li> <li>▶ Financial statements in accordance with the relevant financial reporting framework</li> </ul>	<p>We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable</p> <p>We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.</p>	<p>We have issued an unqualified audit opinion on the 2019/20 financial statements for the Council and its Group.</p>
<p>Going concern</p> <ul style="list-style-type: none"> <li>▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting</li> </ul>	<p>We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis</p> <p>Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.</p>	<p>In accordance with the work reported on page 18, our audit opinion is unqualified in this respect.</p>
<p>Other information</p> <ul style="list-style-type: none"> <li>▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit</li> </ul>	<p>We conduct a range of substantive procedures on the financial statements.</p> <p>Our conclusion draws upon review of committee minutes and papers, regular discussions with management, our understanding of the Council and the sector and our participation in the Local Area Network with other scrutiny bodies.</p>	<p>We are satisfied that the other information in the accounts meets the core requirements set out in the Code of Practice on Local Authority Accounting.</p>
<p>Matters prescribed by the Accounts Commission</p> <ul style="list-style-type: none"> <li>▶ Audited part of Remuneration Report has been properly prepared.</li> <li>▶ Management Commentary / Annual Governance Statement are consistent with the financial statements and have been properly prepared.</li> </ul>	<p>Our procedures include:</p> <ul style="list-style-type: none"> <li>▶ Agreeing the format of the reports to regulations and agreeing the disclosures to underlying accounting records, including to the underlying partner's accounting records.</li> <li>▶ Reviewing the content of narrative disclosures to information known to us.</li> <li>▶ Our assessment of the Annual Governance Statement against the <i>Delivering Good Governance</i> Code.</li> </ul>	<p>We have issued an unqualified opinion.</p>
<p>Matters on which we are required to report by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>▶ there has been a failure to achieve a prescribed financial objective,</li> <li>▶ adequate accounting records have been kept,</li> <li>▶ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or</li> <li>▶ we have not received the information we require.</li> </ul>	<p>We have no matters to report.</p>

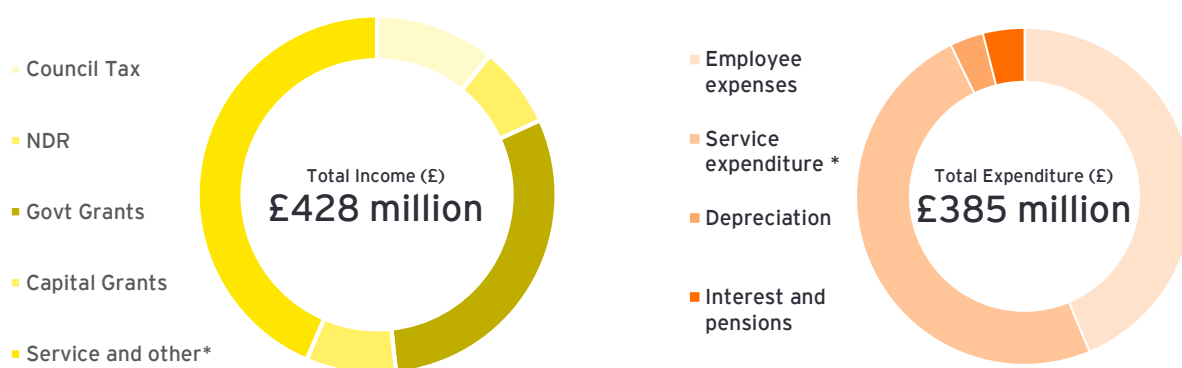
# Significant and fraud audit risks

## Risk of Fraud in income and expenditure recognition

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

In our audit planning, we rebutted the risk of improper recognition of core grant funding income from the Scottish Government, as well as in respect of council tax and non-domestic rate income because there is no judgement in respect of these income streams. We also rebut the risk around payroll expenditure recognition. We have outlined below how our assessment impacts our testing strategy on the Council's financial statements.

### Exhibit 1: Key components of the Council's income and expenditure



Source: 2019/20 Financial Statements: Comprehensive Income and Expenditure Statement

We undertake specific, additional procedures for income and expenditure streams where we identified a fraud risk. For 2019/20 our work included:

- ▶ Review and challenge of management's accounting estimates on revenue or expenditure recognition for evidence of bias.
- ▶ Review transaction listings for individually material transactions as well as unusual items to agree to supporting documentation and third party evidence. Test a representative sample of transactions across the remaining income and expenditure population to ensure coverage of testing across all balances.
- ▶ Review and test revenue recognised around the financial yearend through manual journals and credit notes raised after yearend.
- ▶ Search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.
- ▶ Review of additional revenue streams and cut off testing for additional income received as a result of the Covid-19 pandemic.

## Our Audit of Other Income and Expenditure

We undertook walkthroughs in respect of the processes management has established to account for material income and expenditure streams. We obtained data downloads from the Council's financial ledger to allow us to trace key transactions from initiation to recording in the financial statements.

### Other audit procedures: non-significant risk areas:

Our audit work on other non-significant accounts identified no audit misstatements. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.

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

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

**Non ring-fenced grant income:** We substantively tested these balances to grant confirmation letters from third parties.

**Interest income:** We agreed balances to bank statements and other third party reports.

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

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

**Pension costs:** We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on page 16. In respect of all pension transactions impacting the CIES we have agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.



## Judgements and Estimates

Management disclose their assessment of the critical accounting judgements and key estimates in the financial statements. We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates.

We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias.

## Accounting Policies

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

## Risk of Misstatement due to Fraud or Error

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

## Risk of Fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. As a result of a specific risk identified in relation to procurement, we were required to undertake additional testing on purchases. The results of this work are summarised within our Financial Management section, on page 31. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

## Testing on Journal Entries

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

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions.

In particular, we reviewed property, plant and equipment expenditure to ensure it fulfils the accounting requirements to be capitalised. We also tested Housing Revenue Account expenditure to ensure funds were not being used to meet General Fund expenditure.

### Our conclusions

- ▶ Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- ▶ There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

## Valuation of Property, Plant and Equipment

The Council's property, plant and equipment (PPE) portfolio totals £892 million of assets. The valuation of these assets requires expertise and judgement. In our Annual Audit Plan Addendum, we reported that the Royal Institute of Chartered Surveyors (RICS) had issued guidance highlighting that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty in the valuation of assets at 31 March 2020.

As a result we increased our risk assessment around the valuation of property, plant and equipment from inherent to significant. To address the increased risk, we used our internal specialists to examine the work performed by Council valuers, including the assessment of assets not subject to valuation in 2019/20.

Our work focused on the following key areas of judgement:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ We considered the work and conclusions of the City of Edinburgh Council's valuers in relation of the valuation of the joint Millerhill plant.
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ Reviewed management's assessment of assets not subject to valuation in 2019/20 to confirm that no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.
- ▶ Tested accounting entries to ensure they have been accurately processed in the financial statements.

### Our conclusions

- ▶ Appendix E outlines three audit adjustments that were made to reflect the result of our challenge. We continue to identify weaknesses in some of the judgements applied by the internal valuer. In 2018/19, we recommended that the Council should subject a sample of internal valuations to review by an external specialist. While we continue to note some improvements in the challenge process undertaken by the Finance Team, the valuations process continued to require disproportionate audit effort and inconsistencies in judgement resulted in audit adjustments.
- ▶ As anticipated, the valuations completed in 2019/20 were subject to material uncertainties in line with RICS guidance. While this does not mean the valuation cannot be relied upon, the Council has included the uncertainty in its disclosures around key estimates and judgements in the financial statements. The internal valuer was able to lift the material uncertainty in relation to housing.
- ▶ We concluded that management has undertaken sufficient procedures to identify any assets which should be revalued before their cycle valuation date, but this will remain an area of focus in future years.

## Valuation of pension liabilities

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Lothian Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2020 the net liability totalled £97.7 million.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. We highlighted in our Annual Audit Plan Addendum the increased likelihood of significant movements in both the valuations of the pension assets and liabilities due to the impact of Covid-19 on investment assets and actuarial assumptions.

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

- ▶ The reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent developments in relation to the equalisation case judgements known as the McCloud and Goodwin rulings.
- ▶ Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.
- ▶ The findings of the appointed auditor of the Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2020.

### Our conclusions

- ▶ The assumptions used by the actuary have been reviewed by both PWC, through its nationally contracted role to consider the outputs of actuaries provided to local government bodies, and our EY actuarial team who have both concluded that the assumptions and methodology used are considered to be appropriate.
- ▶ We have assessed the approach taken by actuaries and management to account for the estimated impact of the recent consultation around the McCloud judgement and Goodwin ruling. Due to the timing of events these were not accounted for in the unaudited financial statements and, as such, have been included in the schedule of adjusted and unadjusted differences at Appendix E.
- ▶ The auditor of the Lothian Pension Fund reported no material differences in the valuation of assets held by the Fund. However, it reported a material uncertainty in relation to the valuation of complex investments at 31 March 2020, specifically investment properties. As a result the Council has reported the same uncertainty its own financial statements for its share of the Fund's assets.

### Accounting for Public Private Partnerships (PPPs)

The Council has 5 PPP contracts, with liabilities amounting to £96 million (£85 million in 2018/19). Four of the PPPs were operational and recognised in the Council's balance sheet in 2018/19. The most recent PPP is a 25 year contract which was jointly procured between Midlothian and the City of Edinburgh Council for a residual waste treatment plant at Millerhill. The service became operational on 17 April 2019.

Our work focused on the following key areas of judgement:

- ▶ We engaged an internal EY PPP specialist in this area to ensure that the proposed accounting treatment by the Council is appropriate. Due to the nature of the joint contract, the specialist participated in joint calls with the Midlothian and City of Edinburgh procurement and finance teams to provide challenge and insight in relation to the accounting treatment.
- ▶ Our specialist conducted analysis of the contract, and review and consideration of the financial model.

For all pre-existing PPP schemes we reviewed the existing contracts and inquired with management outside the finance team to ensure there were no material changes to the arrangements that should be accounted for. We tested the accounting entries made in the year to supporting schedules and contracts.

#### Our conclusions

- ▶ Subject to the audit adjustment identified within Appendix E, our PPP specialist team agreed with the approach adopted by the Council.
- ▶ We agreed the PPP liability calculations to supporting contracts.

### Valuation of long term investments in subsidiary undertakings

The Council holds a 5.5% shareholding in Lothian Buses Plc. The Council's shareholding was held at £8.1 million as at 31 March 2019. Our Annual Audit Plan Addendum identified a risk that the audited financial statements as at December 2019 may not reflect the impact of the pandemic. Our work focused on the following key areas of judgement:

- ▶ We reviewed management's assessment of the Lothian Buses valuation, including consideration of up to date management accounts to identify any material changes in financial results.
- ▶ We reviewed the Council's disclosures in relation to key estimates and judgements.

#### Our conclusions

- ▶ Following our challenge process, the Council conducted an updated impairment review in relation to the carrying value of the investment. The adjustment as a result of this is reflected within Appendix E.

# Going concern

The rationale for going concern remains the same, but we placed increased focus on management's assertion of going concern and disclosures relating to financial sustainability as a result of the uncertainty and unprecedented budget pressures caused by Covid-19.

Our audit opinion will include an emphasis of matter to draw attention to the Council's disclosures in relation to the impact of Covid-19 on its future financial position.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

We are required to review and challenge management's assessment of going concern, including testing of the adequacy of the supporting evidence and the appropriateness of related disclosures. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and Group, and its financial sustainability.

Management's going concern assessment reported that:

- ▶ In accordance with the CIPFA Code of Local Government Accounting, the Council shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity.
- ▶ The Council has significant access to cash to support the cost of delivering services, with balances more than sufficient to cover a plausible downturn in Council income from variable sources.
- ▶ Management noted the Council had £4.05 million in uncommitted general reserves at 31 March 2020, exceeding the £3.3 million minimum required by its reserves policy. The Council also had other useable reserves in committed funds which could be reallocated as necessary. Additionally, management was continuing to review other cost saving mitigating actions to address the forecast budget deficit in 2020/21.

On this basis the Council concluded that there are no material uncertainties around its going concern status.

## Our conclusions

- ▶ We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key Council reports and finance treasury management forecasts of future cash balances. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council, or of the wider Group where they are material to the consolidated financial statements.
- ▶ We worked with management to enhance the disclosures in the financial statements in relation to the impact of Covid-19 on the Council's future financial performance.
- ▶ Our opinion is not modified in relation to going concern.



# Looking ahead

The implementation of IFRS 16 has been delayed until 1 April 2022 following the impact of Covid-19 on local government and to ensure other areas of financial management are prioritised.

Prior to this management had demonstrated progress in undertaking work to understand and disclose the impact of the change on the Council's financial statements.

## IFRS 16 - Leases and Other changes

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

As we outlined in our 2019/20 Annual Audit Plan, implementation of IFRS 16 was due to be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21 and work was therefore necessary to prepare information required to enable the Council to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

As part of the consideration of the impact of Covid-19 on local government, CIPFA confirmed the implementation of the standard was to be delayed to 1 April 2021.

As outlined in our 2019 Annual Audit Report, full compliance with the revised standard is likely to require a detailed review of existing lease and other contract documentation prior to the implementation date in order to identify:

- ▶ all leases which need to be accounted for;
- ▶ the costs and lease term which apply to the lease; and
- ▶ the value of the asset and liability to be recognised as at 1 April
- ▶ where a lease has previously been accounted for as an operating lease.

Before the delay in implementation was confirmed we discussed progress made in preparing for the implementation of *IFRS 16 Leases* standard with the finance team over the course of our 2019/20 audit and were satisfied robust arrangements were being established to assess the impact of the changes for inclusion in the financial statements.

We will continue to assess the Council's progress, including the results of its impact assessment, including the accuracy and completeness of disclosures required in the 2020/21 financial statements.

We will continue to work with management to proactively agree any material changes to financial statement accounting and related disclosures following amendments to the underlying CIPFA code.

### CIPFA/LAASAC Code for 2020/21

Changes have been made to the CIPFA/LAASAC Code on local authority accounting in the United Kingdom for 2020/21. These changes include:

- ▶ Implementation and emphasis of IFRS amendments relating to the application of materiality, and the requirement to avoid obscuring material information;
- ▶ Implementation of Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement; with guidance on initial proxy assessment of quantitative materiality;
- ▶ Reflection of legislative amendments for England, Wales and Scotland;
- ▶ Amendments to reporting by pension funds to align with presentation practices under the Pensions SORP; and
- ▶ Amendments relating to financial instruments.

The 2020/21 Code also includes agreed reporting text for the implementation of the deferred *IFRS 16 Leases* standard. This appendix will apply from 1 April 2021 and it will allow local authority financial statement preparers to make effective preparations for the implementation of the standard in the 2021/22 financial year.

It is important that management performs its own assessment of the impact in advance of preparation of the 2020/21 financial statements.

# Best Value and Wider Scope dimensions

## Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the Council's arrangements for the four wider scope audit dimensions. We also draw upon these assessments and other work to form conclusions on the Council's ability to demonstrate Best Value in its activities. In undertaking our work in respect of the wider scope audit dimensions, we also integrate our assessment of the Accounts Commission's five Strategic Audit Priorities.

In doing so, we draw upon conclusions expressed by the Council's Chief Internal Auditor, and the scrutiny bodies that we work with on the Local Area Network (LAN) including Education Scotland and the Care Inspectorate. We also consider national reports and guidance from regulators and Audit Scotland. The LAN determined, in agreement with the Council, that no separate scrutiny plan has been necessary since the 2019/20 plan published in September 2019. We subsequently considered if any additional action was required in response to the global pandemic. LAN members agreed that it remained appropriate to continue to hold the next LAN meeting in line with the usual cycle to allow for fuller consideration of the impact on the Council.

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

## The wider scope dimensions

**Financial Sustainability:** Considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

**Financial Management:** Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

**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.

**Value for Money:** Considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

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

# Financial Sustainability

The adoption of the Medium Term Financial Strategy and supporting governance arrangements meant that savings proposals were well advanced prior to the impact of Covid-19. We understand that updates to the MTFs will be presented to the Council later in 2020 to provide options to balance the 2021/22 and 2022/23 budgets. Early work to develop Midlothian's local route map through and out of the crisis provides clear and coherent focus on priorities, including economic recovery for the community, and will therefore support the development of future financial plans.

Our assessment of 'amber' reflects the early planning and shared leadership to respond to the challenge of the pandemic, balanced with the ongoing challenge facing the Council to deliver savings in light of the level of risks and uncertainty that are outside the Council's control, including Covid-19 factors and decisions on funding allocations and fiscal flexibilities. There is therefore a need for continued member and officer focus to safeguard financial sustainability.

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## Medium Term Financial Planning

The Council's Medium Term Financial Strategy was approved in June 2019, and represented a step change in the Council's strategic financial planning. Initial resource allocation measures reduced the budget gap over the three years to 2022/23 from £18.8 million to £8.3 million. The cross-party Business Transformational Steering Group was tasked with assessing and approving further proposals to deliver a sustainable financial plan, drawing upon consultation with communities.

The Council received a Medium Term Financial Strategy update, along with finalised 2020/21 budget projections in February 2020. The local government settlement exceeded revenue projections, but a 17% reduction in capital meant that the budget gap grew over the life of the strategy to £9.7 million. Early work undertaken by the Business Transformation Steering Group meant the Council had identified and approved savings of £4.5 million to be delivered in 2020/21 by October 2019. In February 2020, the Council was therefore able to set a balanced budget for 2020/21, along with a risk allowance of £400,000.

## Impact of Covid-19

Like all councils in Scotland, the impact of the Covid-19 pandemic has resulted in significant financial pressure in 2020/21. The Council's most recent financial update report, prepared in August 2020, outlines additional costs relating to the pandemic of £7.8 million, comprising:

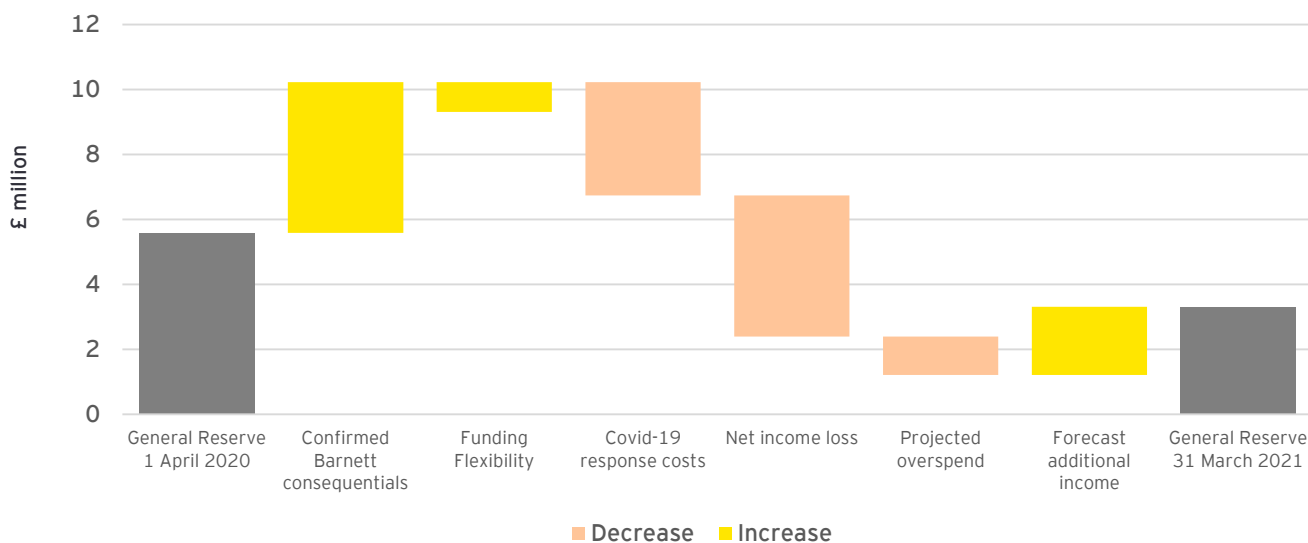
- ▶ £3.5 million in additional response costs to 31 July 2020; and
- ▶ £4.3 million net reduction in forecast income.

These costs have been partially offset by additional resources from the Scottish Government, including the Council's share of 'Barnett consequentials' (£4.6 million) and flexibility in Early Years funding of £0.9 million and an initial estimate of £2.2 million from further government funding in relation to the income loss support scheme.

## Projected Impact on Reserves

The full impact and financial flexibilities available to councils as a result of the global pandemic is not yet fully understood. As Exhibit 2, below, highlights, the Council projects that General Reserves will fall over 2020/21 as a result of the impact of the pandemic. The projected reserve at 31 March 2021 is £3.44 million, marginally above the £3.3 million target set within the Council's Reserves Strategy in February 2019.

**Exhibit 2: The Council's financial monitoring reports project that General Reserves will reduce by £2.2 million in 2020/21**



Source: Midlothian Council Financial Monitoring Report, August 2020

As with other councils, the key areas of additional spend associated with the global pandemic related to the costs of childcare for children of key workers, support for vulnerable groups including homelessness accommodation and provision of free school meals and the costs of personal protective equipment. Around £2.1 million of the costs incurred (61%) were met by ringfenced or flexible funding directed by the Scottish Government, resulting in a net cost of £1.4 million.

The Council has also monitored the financial impact associated with lost income. Key areas include:

- ▶ net lost income for the Snowsports Centre and Leisure Centres are forecast to be £2 million in 2020/21;
- ▶ as in 2019/20, the Council is not expected to receive an anticipated £0.45 million dividend from Lothian Buses; and
- ▶ a reduction in forecast council tax income growth of £0.5 million as a result of the pausing of the extensive house building programme across private and public sector developments.



## Risks and uncertainties within the MTF5

There are a number of areas, before the impact of Covid-19, where other uncertainties could materially impact the Council's delivery of financial plans, balanced budgets and the underlying required savings. These include the risks around accuracy of assumptions in existing financial plans, such as around inflation, pay awards and demographic drivers of income and expenditure.

The risk that cost pressures as a result of demographic demand exceed budget estimates is one of the key risks identified within the Medium Term Financial Strategy. Rising school rolls place a significant pressure on the Council's capital and revenue planning. The 2020/21 education budget anticipated savings of £3 million. As a result of delays to consultation, management expectations are now that only £0.6 million will be achieved in year, resulting in a cost pressure of £2.4 million. This has subsequently been mitigated by other measures implemented by the directorate.

Other savings that have not progressed as planned as a result of the pandemic include:

- ▶ the delayed implementation of the second phase of the management review;
- ▶ cost reductions relating to digital service provision; and
- ▶ efficiency targets within the Place Directorate.

## Funding disparity

In March 2020, the Scottish Government published the Green Book, which provided additional transparency about the methodology applied to allocate central government funding to councils. One of the key factors adopted within the funding model for 2020/21 is the National Records of Scotland (NRS) population estimate, for which the 2018 mid year estimate is adopted as the indicator. As the Council is experiencing the highest population growth in Scotland, they face a particular challenge as the funding model does not keep pace with population changes. Based on NRS estimates, the Council's population in 2020 has increased by 2.8% since 2018, compared to a 0.4% increase across the whole of Scotland. In addition, management advise that the 2020/21 grant settlement Midlothian is a contributor to the floor mechanism to the value of £1.8 million. That is funding assessed as being required for Midlothian which is redirected to provide a degree of stability to other Councils, including those with reducing populations.

In March 2020, Audit Scotland drew attention to a specific funding challenge within their national report, *Early Learning and Childcare Follow up*, relating to the rollout of additional funded childcare hours. Due to a decision to base funding allocations on 2014 population figures, the funding that the Council will receive is 24% less than required due to the rapid growth in early years population.

As one of the fastest growing populations in Scotland, the Council faces an additional challenge to prepare for the future needs of the community. The difficulty associated with ring fenced funding keeping pace with population change was highlighted within an Audit Scotland report in March 2020.

## Covid-19 Recovery Planning

The Council's local route map reflects Scottish Government guidance and will have an impact on other strategies as priorities change to reflect the anticipated impact on vulnerable communities.

In June 2020, the Council approved the local "route map", outlining the steps that will be taken in a four phase recovery through and out of the Covid-19 crisis. The route map identifies a number of key priorities to guide decision-making:

- ▶ Economic Renewal
- ▶ Accelerated Capital Programme for Housing and the School Estate
- ▶ Education Recovery Plan
- ▶ Hub and Spoke Place Service Delivery
- ▶ Health and Social Care Transformation
- ▶ Digital by default, remote working and Carbon Neutral by 2030 approaches to the workplace and active travel.

The route map includes use of a significant, and accelerated, capital programme to prioritise economic and social recovery from the crisis, including additional social housing which will, whenever possible, be located close to community facilities.

The Council has taken early steps to learn from the significant changes in ways of working throughout the pandemic lockdown, to inform future planning.

In addition, the Council has worked with Nesta, a charitable innovation foundation, to learn lessons from the pandemic, and to ensure that improvements in ways of working can be harnessed for the future. Nesta interviewed a range of staff and stakeholders and found that there were a number of benefits to some, including home working, increased attendance at virtual meetings and closer community links. The Council's early willingness to learn from the opportunities and new models of working will inform future priorities and innovation.

# Financial Management

The Council continues to demonstrate good financial control of the in-year budget, including understanding the impact of Covid-19 in early 2020/21. Financial reporting was clear and consistent throughout the year and improvements have been made to the management and monitoring of the capital programme. While improved governance arrangements have been adopted to approve and monitor savings within the Business Transformation programme, the Council delivered only 71% of planned savings in 2019/20.

Our interactions with finance through the year identified no material financial control deficiencies. We did not identify any weakening of the financial management arrangements after the year end as the control environment evolved to remote working requirements. Our assessment of 'green' overall recognises that progress has been made against a number of areas where we have noted concern in prior years. Some areas, including the delivery of savings and updating of financial regulations, will require continuing focus and attention.

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## Financial Outturn

The Council spent £368 million on the provision of services in 2019/20. The Comprehensive Income and Expenditure Statement records a surplus for the year of £114 million, principally as a result of the impact of revaluation of the Council's schools estate (£44 million) and by movements in the pension liability (£43 million).

The Council recorded a net overspend of £0.506 million on service expenditure, which was offset by higher than forecast Scottish Government grant and Council tax income.

The key factors in the service overspend related to:

- ▶ under-delivery of planned business transformation savings (£2.4 million);
- ▶ a rescinded dividend relating to the Council's share in Lothian Buses (£0.4 million); and
- ▶ additional building and maintenance costs (£0.9 million).

These costs were offset by a number of favourable variances including:

- ▶ £1.78 million as a result of controlling vacancies, in a number of cases for posts that will be deleted from the establishment as transformational reviews are finalised;
- ▶ Scottish Government funding for the teachers pay award was £0.4 million above budget;
- ▶ Fee income increases, including developer contributions, of £1.1 million above budget; and
- ▶ Council tax income growth above budget projections totalling £0.2 million.

Due to the timing of the coronavirus pandemic, there were no material cost implications of the response in 2019/20.

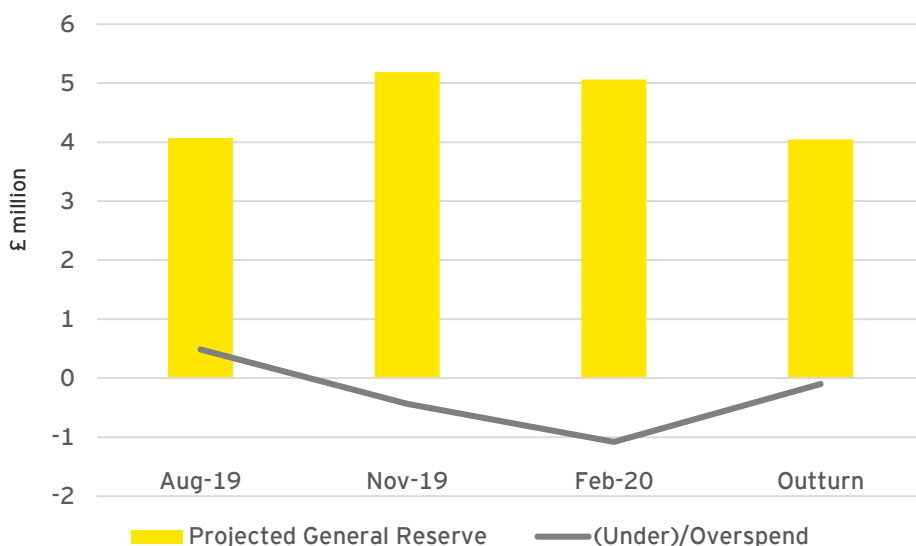
## Financial monitoring

We have noted in prior years that there has been significant variation in the projected outturn within financial monitoring reports throughout the financial year. The Council's financial monitoring arrangements in 2019/20 were consistent with previous years and include detailed analysis of key variances across services, along with the forecast impact on the Council's General Reserve.

During 2019/20, recovery actions were initiated to respond to an early projected overspend and enhanced financial control. Actions taken within the Place Directorate included the establishment of a Budget Board to monitor and respond to areas of overspend.

As a result, the Council projected an underspend position throughout the remainder of the financial year. The final outturn was lower than predicted, partly as a result of the rescinding of the Lothian Buses dividend due to the impact of the pandemic late in the financial year. We were therefore satisfied that financial monitoring was sufficiently robust, but as a result of failure to deliver savings, the Council relied upon one off, and therefore unsustainable, sources of income to deliver an underspend.

### Exhibit 3: The Council's financial monitoring supported the implementation of recovery actions to address a projected overspend

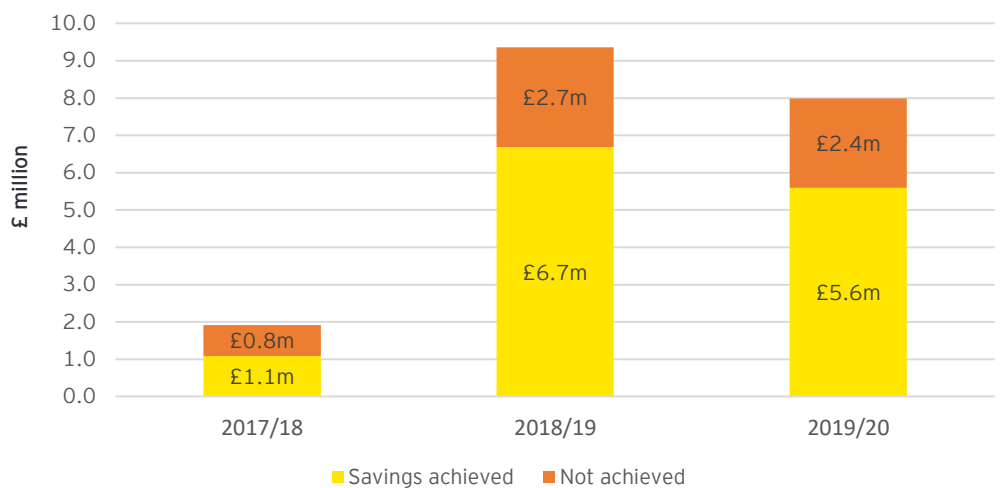


Source: Midlothian Council 2019/20 Financial Monitoring Reports

## Delivery of Savings

As in previous years, the Council continued to experience delays in the achievement of savings in 2019/20. As Exhibit 4 highlights, the Council delivered £5.6 million of savings in 2019/20 against a target of £7.988 million (71% of target delivered in year). Audit Scotland noted within the Local Government Financial Overview Report (published in December 2019) that on average, Scottish councils delivered 87 per cent of planned savings in 2018/19.

### Exhibit 4: The Council was unable to deliver all planned savings in 2019/20 as a result of continuing slippage in the transformation programme



Source: Midlothian Council Financial Statements 2017/18 to 2019/20

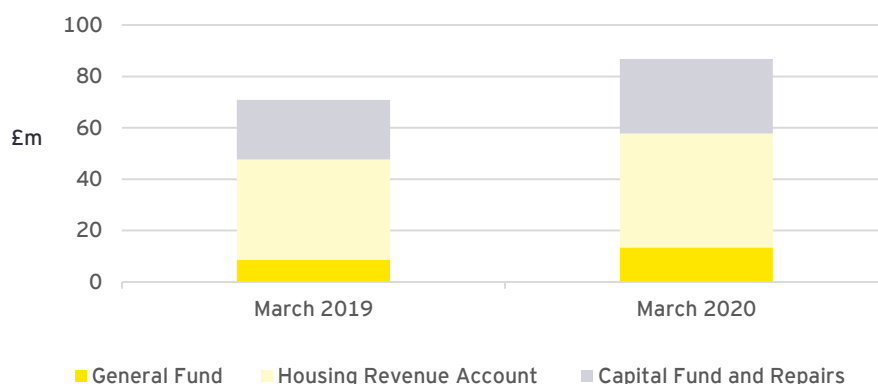
Under delivery of savings places additional pressure on the Council's general reserves. The identification of savings that protect the Council's key priorities has become increasingly challenging, and important, as a result of the global pandemic.

We note that in June 2019, the Council established new arrangements to support the delivery and approval of Business Transformation savings. This allowed savings proposals for 2020/21 to be approved and developed significantly in advance of the start of the financial year. While the pandemic means that planned savings are unlikely to be achieved in full in 2020/21, the cross-party governance arrangements in place to support the development and early approval of savings will support the Council's recovery planning.

## Reserves Strategy

One of the key measures of the Council's financial performance in the year is the movement in the Council's useable reserves, which increased by £16 million in 2019/20, mainly due to a £17 million transfer to the HRA reserve to support planned long term investment in social housing.

### **Exhibit 5: The Council's cash backed useable reserves increased by £16 million in 2019/20, but primarily reflect commitments to meet future costs**



Source: Midlothian Council 2019/20 Financial Statements

The Council approved the Reserves Strategy in February 2019. The minimum reserves to be held as uncommitted general funds is 2% of net expenditure excluding the IJB allocation, which equates to around £3.3 million. The uncommitted balance at 31 March 2020 was £4.05 million, a slight fall of £0.05 million from 2018/19.

## Budget development

The development of the MTFS, along with supporting governance arrangements improved the development of the budget process. In December 2019, the Council considered a paper on the anticipated budget for 2020/21, along with key areas of sensitivity analysis. The work done to support the development of savings options through the Business Transformation Steering Group meant that a balanced budget was approved in line with planned timescales despite the late notification of the local government funding settlement.

Enhanced monitoring and reporting has been in place to better maintain an understanding of the impact of Covid-19 on the Council's arrangements. The Council has worked with COSLA to submit detailed returns on the costs incurred to date and future forecast impact.



## Capital programme

The Council spent £58 million on capital expenditure in 2019/20, a £9.8 million underspend against the 2019/20 budget of £67.78 million. A number of delays were experienced to projects as a result of:

- ▶ delays in tendering and remediation works
- ▶ structural issues encountered in planned change to use to support social housing; and
- ▶ changes made to the phasing of capital works.

The Council has a historic trend of slippage against the capital budget. Audit Scotland's Best Value Assurance Report noted that there is scope to improve the capital planning and monitoring process. As a result, the Council established a Capital Plan and Asset Management Board to implement a gateway review and reporting process for all projects over £1 million. The involvement of elected members allows greater transparency on progress of capital projects against milestones, and linked to individual wards.

As a growing Council, Midlothian has a significant capital programme to support key investments to meet the Council's changing demographic demands. The impact of the accelerated capital programme under the local "route map" to respond to the pandemic, together with unexpected changes to the funding allocation from the Scottish Government means that there is now a need to review the programme to ensure that investments are affordable within the updated Medium Term Financial Strategy.

## Financial Capacity and Control

As we note within our 2019/20 Annual Audit Plan Addendum, the impact of the Covid-19 pandemic meant that there were significant changes to working arrangements and requirements for the Finance Team prior to the audit.

While the impact of Covid-19 was minimal on the 2019/20 financial management arrangements due to the timing of the lockdown, we considered the impact on the Finance Team throughout our year end audit. We did not identify any significant changes to the main processes and controls across the finance function, with key controls evolving to support remote working without being altered in their purpose or robustness.

While there were significant additional pressures on the Finance Team after the year end, information related to the audit and financial statements was provided in a timely manner. We will continue to monitor the financial management arrangements and the impact on the Finance Team going forward, particularly in 2020/21 as the impact of changes due to Covid-19 continues to evolve.

The Council has reviewed the capital programme in the context of changed priorities post-Covid, and changed funding assumptions within the Medium Term Financial Strategy.

## Procurement

We reported in our Annual Audit Plan 2019/20 that the effectiveness and appropriateness of the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function would be an area of focus for the audit.

Procurement was subject to review by the Council's internal auditors in 2019/20. Their report was issued in February 2020 and internal audit reported that the level of assurance they were able to give was 'Limited Assurance'. Internal audit noted a number of substantial weaknesses including:

- ▶ Lack of capacity within the Procurement Team leading to lack of oversight on some areas of contract oversight and monitoring;
- ▶ A number of cases where contracts had expired and not been retendered; and
- ▶ There is no dedicated contract monitoring system, which limits the effectiveness of monitoring and reporting arrangements.

The Council must address capacity weaknesses within the Procurement Function as a matter of urgency.







The Council's audit committee considered the report at its meeting in March 2020 and noted that internal audit would continue to follow up recommendations and report further on progress. Members also requested a further report to be brought to the meeting of the audit committee scheduled for October 2020 on the 22 expired contracts. We understand that progress to date on the actions has been limited and must, therefore be a priority for action. This weakness is disclosed within the Council's Annual Governance Statement.

As a result of the engagement with the Chief Internal Auditor and Legal Services Manager, we sought advice from our forensics specialists to design additional audit procedures to address the specific risk relating a potential lack of oversight within expenditure in 2019/20. We engaged EY experts from the forensics team to conduct data analysis to allow us to highlight any potential 'red flags' that would merit further investigation, and ultimately allow us to conclude that expenditure was not materially misstated. The analysis focused on:

- ▶ Potential Purchase Order splitting, to address the risk that the combined value of the purchase exceeds their authorisation threshold;
- ▶ Any areas where approval limits were breached; and
- ▶ Unusual trends and relationships within transactions, which included across financial years.

The results are summarised within Exhibit 6 on the following page and highlight areas to strengthen internal control. Following investigation of specific queries, and based on the work performed, we were able to conclude that expenditure was not materially misstated.

## Exhibit 6: Results of Procurement Analysis

Area of analysis	Overall assessment	Commentary
<b>1. Supplier trend by financial year</b> <i>Analysis of data to look for unusual or unexpected trends.</i>	Green 	All significant observed movements were in line with our understanding of the Council.
<b>2. Summary of POs where the total PO value exceeds an employees approval threshold (Purchase Order splitting)</b>	Green 	As we highlight in Exhibit A within Appendix G we did not identify any unusual activity that would indicate purchase order splitting.
<b>3. Value and volume of invoices with no purchase order</b>	Amber 	As we note on Page 12, the value of Service Expenditure in 2019/20 was over £180 million. While significant expenditure is managed using other systems (such as Mosaic), the value of expenditure covered (£10.3 million) by purchase order was lower than we would anticipate.
<b>4. Invoices exceeding purchase orders</b>	Amber 	Exhibit B within Appendix G highlights a specific anomaly in relation to the volume of purchase orders raised for £1.
<b>5. Purchase orders exceeding approval threshold levels.</b>	Amber 	As Exhibit C within Appendix G highlights, where expenditure exceeds a threshold, a senior counter-signatory is required to authorise expenditure. This is a manual process performed outwith the purchase ledger and is not therefore logged within the system.
<b>6. Details of invoices with the same supplier, same document date but a different amount</b>	Green 	Our analysis provided assurance that there was no evidence of suppliers being asked to split invoices.

We will continue to work with the Procurement team and Integrity Group to provide additional analysis and commentary on areas of internal control weaknesses. This will include further sharing and analysis of the data obtained.

Source: EY Forensics analysis of purchase order and invoices in 2018/19, 2019/20 and 3 months to 31 July 2020.

### **Looking ahead: CIPFA Financial Management Code**

The CIPFA Financial Management Code was published in October 2019 and designed to support good practice in financial management and assist in demonstrating the local authority's financial sustainability. Councils are expected to work towards full compliance with the code by financial year 2021/22. We will work with management to support a preliminary assessment of its compliance as part of the 2020/21 audit.

# Governance and Transparency

The key features of good governance at the Council are in place and operating effectively. The Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. We were satisfied that Council members continued to have access to sufficient information as a result of the implementation of virtual meetings, and regular briefings to all members.

The Council has taken steps to improve the transparency of financial information during the year. Training and development sessions for audit committee members has helped to improve the effectiveness of the committee.

## Local Code of Corporate Governance

Under the CIPFA framework for *Delivering Good Governance in Local Government*, the Council uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement for 2019/20. The governance statement for 2019/20 concluded that “Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Council’s Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control.”

The Annual Governance Statement includes a summary of the impact of Covid-19 on governance arrangements and how management has responded to ensure adequate governance arrangements remained in place, particularly through the initial lockdown period. This included reference to the statutory mechanisms available to the Council, both through new and existing legislation, and where the Council took advantage of these mechanisms. We were satisfied regular and consistent communication and decision making arrangements were developed quickly. In the main the Council continued under existing arrangements with minimal use of extraordinary measures.

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. As part of the audit process we worked with management to further enhance the disclosures, in particular in relation to how governance arrangements were maintained during the revised operating period as a result of Covid-19 and how the priorities for improvement will be consistent with the learning and recovery actions emerging from the global pandemic.

Arrangements were quickly developed to ensure that the Council was kept informed of the impact of Covid-19, and that key governance arrangements could continue during the lockdown.

The Chief Internal Auditor has concluded that governance arrangements are adequate and that improvements have been made during 2019/20.

## Assurance Statement

Based on the work completed in the year, the Council's Chief Internal Auditor concluded that "the systems of internal control and governance are generally adequate with improvements having been made during the year." The internal audit work planned for the year 2019/20 was broadly completed in line with planned deadlines.

### Lockdown governance arrangements

Like all other public bodies in Scotland, the Council moved to revised governance arrangements at the beginning of the UK lockdown period. Council and committee meetings scheduled from the end of March to May 2020 were initially cancelled as a result of the pandemic, however a number then went ahead remotely, including the Audit Committee. Full committee arrangements were reinstated using virtual meetings in June 2020.

The Council considered a paper from the Chief Executive outlining discussions with the political group leaders on resilience arrangements for any local lockdown or second wave of the pandemic. These include:

- ▶ following successful transition in June 2020, the full meetings cycle will proceed by way of virtual meetings; and
- ▶ weekly Group Leader meetings initiated at the start of lockdown will recommence to ensure that effective communication across the political make up of the Council is maintained.

The Council also agreed that a seminar should be held to discuss winter planning and emergency food provision should this be required in light of the pandemic.

### EU withdrawal

Throughout 2019/20 the Council has continued to monitor potential scenarios of EU withdrawal and the possible impact on the Council through the EU Exit Working Group set up by the Corporate Management Team. The Council has received updates on risk through the quarterly risk management reporting arrangements.

As the 31 December 2020 deadline for the end of the transition period approaches, it is expected that increasing focus is given to implementing plans to mitigate identified risks. The Council also continues to liaise with community planning partners, such as NHS Lothian. Our reporting mirrors the position in last year's audit where the deadline for the UK's withdrawal was approaching. We will continue to monitor how the Council monitors and responds to developments while focus is also required on matters related to the pandemic.



The Council has responded to transparency requirements in England to ensure that all expenditure over £500 is published on its website.

### Openness and transparency

The Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers in usual circumstances, and agendas and papers are available in advance of each meeting. As meetings were re-established virtually, the Council took steps to ensure that papers continued to be available on the website in advance of the meeting, and webcasts and minutes of meetings are available shortly thereafter. Work continues to allow the public to access live meetings via webcasts.

In October 2019, the Council approved the publication of all expenditure over £500 on the website. Officers responded to an initial Council motion to applaud developments within local government in England. It is hoped that publishing this level of detail will enhance local engagement and accountability as it gives local people the information they require to ask questions about the management of resources.

### Audit Committee

The Audit Committee's annual report was considered by the Council in August 2020. The report noted the key areas of focus for the committee in 2019/20, along with the good record of attendance from members and/or substitutes. The report also noted the results of an annual review of the committee's effectiveness, led and facilitated by the Chief Internal Auditor. The outcome of the self-assessments was a medium degree of performance against the good practice principles and a medium degree of effectiveness. Improvements were identified focussing on enhancing the skills and knowledge necessary to fulfil the role of an audit committee member. As a result, the Audit Committee has scheduled a number of informal sessions to deliver training on specific topics including understanding the financial statements and treasury management.

The Committee has also identified further improvement areas including:

- ▶ Ensuring that the Risk Management Policy and Strategy are reviewed and scrutinised on a regular basis; and
- ▶ Understanding how committees fulfil their remits on which the Audit Committee place reliance, for example the Council's arrangements to monitor progress of the Best Value Action Plan.

### Arrangements to prevent fraud and corruption

We have worked with the Council's Chief Internal Auditor to assess the Council's arrangements to prevent and detect fraud and corruption. CIPFA's Code of Practice on Fraud and Corruption notes that leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations. The Council has a counter-fraud team in place as part of the Internal Audit Service.

In August 2020 the Council approved a revised Counter Fraud Strategy, along with support for additional resource for the Corporate Fraud Team. The strategy aims to focus on enhancing fraud prevention and detection to improve the Council's resilience to the risk of fraud. One of the key changes is the establishment of an Integrity Group to enhance the links between the finance team, counter fraud group and services. This should allow fraud risks and controls to be assessed systematically across the Council. We will therefore review the operation of the Group in 2020/21.

The Council draws upon national publications to highlight fraud risks, including the Audit Committee's consideration in 2019 of Audit Scotland's publication *Safeguarding Public Money: are you getting it right?* The Council's policies and procedures in relation to fraud and corruption are subject to routine review, update and approval by the appropriate officers and committees.

#### **Audit Scotland National Fraud Initiative (NFI) programme**

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The NFI exercise produces data matches by comparing a range of information held on public bodies' systems to identify potential fraud or error. In June 2019 we submitted an assessment of the Council's participation in the exercise to Audit Scotland, concluding that the Council has actively participated in the NFI exercise and that it is well embedded within the Council's proactive counter fraud workstream. A follow up review was completed in February 2020, with no further matters to report.

#### **Integration Scheme**

In our role as auditor for the Council we consider the governance arrangements at the Council to monitor and scrutinise the wider group as appropriate, in particular where there is the possibility for a financial or operational impact on the Council's services.

The Integration Scheme which governs the working arrangements for the Midlothian Integration Joint Board was due to be updated in 2019/20 by the Board's partners, the Council and NHS Lothian. The Council has reported in its Annual Governance Statement that work was started on this but had to be delayed due to the impact of Covid-19 and prioritisation on immediate delivery of services. Management has confirmed that both partners approved the delay with no impact on the IJB, and will update the scheme in 2020/21 for submission to the Scottish Ministers for approval.

# Value for Money

The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. The Council has a commitment to self-assessment of its performance to ensure that services remain focussed on improvement.

We note that performance continues to fall short of the targets set within the Council's own performance management framework. The Council should continue to review the targets to ensure that they are achievable and represent changing priorities. We also note that service performance continues to be mixed compared to other councils.

A  
M  
B  
E  
R

## Performance Management framework

The Council monitors its performance against its plans and performance indicators throughout the year. Quarterly scorecards are provided by management to both Council's Cabinet and the Performance, Review and Scrutiny Committee, and are made available for public information as part of the committee papers on the Council's website. These reports outline the full set of performance indicators included by the Council in its corporate plan, and the current performance of each indicator against target summarised through a 'RAG' rating system.

## Impact of Covid-19

The Council's overall performance management framework remains in place and operating despite the impact of Covid-19 on the management priorities and additional urgent business requiring prioritisation at committees. As a result, performance reporting to Cabinet and to the Performance, Review and Scrutiny Committee was delayed until September 2020. Due to the timing of the pandemic, only minor impact was noted on key performance measures as a result of the reprioritisation of resource.

## 2019/20 Performance Outcomes

The 2019/20 Annual Performance Report outlines a number of key achievements during the year, including progress on educational outcomes and positive destinations for school leavers. Significant work was also progressed on the digital agenda and in asset management, including the housing building programme. However, the key corporate performance indicators for 2019/20, as established and reported by the Council, show that 72% are in the red category. Key areas for improvement include levels of sickness absence (although this compares favourably to most other councils) and response times for complaints handling.

### Accountability and delivery of improved outcomes

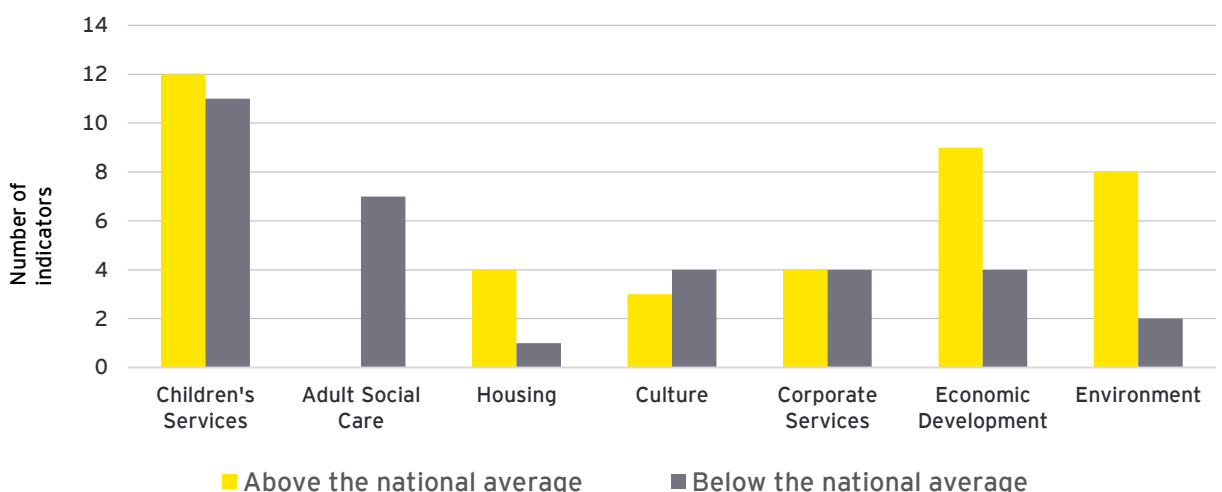
Key indicators within the Council's balanced scorecard provide an assessment of progress against the priorities within the Single Midlothian Plan. The final balanced scorecard for 2019/20 was presented to the Performance, Review and Scrutiny Committee in September 2020. This reports that 56% of indicators are on track for delivery, including:

- ▶ Benefit maximisation for local people supported by the Citizens Advice Bureau and Welfare Rights Team.
- ▶ Improvements in qualification levels within Midlothian.
- ▶ Increasing digital literacy within the community, including the provision of one-to-one IT tuition at home for older people and vulnerable adults.
- ▶ Reductions in exclusion rates in both primary and secondary schools in Midlothian.

Key areas for improvement include the completion of the Children & Young People's Wellbeing and Mental Health Strategy, the level of children living in poverty in Midlothian and levels of support for young people approaching the homelessness service.

As part of its response to the Best Value Assurance Report, the Council has implemented a digital dashboard performance management system to allow elected members to have access to up to date performance data, along with mitigating actions for all indicators. The Council has recently published its analysis of performance against the Improvement Service's 2018/19 Local Government Benchmarking Framework (LGBF) results. Our analysis, within Exhibit 7, below shows that performance continues to be mixed against peers.

**Exhibit 7: Performance across council services is mixed against other councils in Scotland**



Source: Midlothian Council Analysis of LGBF results 2018/19

## Statutory Performance Indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. The Council has a responsibility, under the duty of Best Value, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which recognises the role and effectiveness of the LGBF, but continues to require councils to report there:

- ▶ 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;
- ▶ 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.

The Council is required to meet the requirements of the revised Statutory Performance Information Direction, for which 2019/20 is the first year. The Council continues to report a range of performance information to stakeholders and the public to demonstrate the relative value and effectiveness of Council services. This includes reporting of the most recently available LGBF results to the relevant committees and to the public.

**The Council must ensure that revised priorities and corporate planning and supported by a performance management framework that demonstrates Best Value.**

Information reported covers the quality and effectiveness of local services and progress in outcomes, as well as efficiency information. Due to the timing of much of the relevant reporting, most of the reporting on the period impacted by the revised Statutory Performance Information is yet to be concluded. We will continue to monitor and consider the adequacy of reporting against the revised requirements in 2020/21, but the Council should consider its performance reporting arrangements in the context of changed expectations, and the development of the performance management system.

# Best Value

We have drawn upon our wider scope and other work to conclude on the Council's approach to Best Value. We note through work undertaken in the year that the Council has a number of key characteristics of Best Value in place, including effective performance monitoring and robust governance arrangements.

In light of the Council's focus on responding to and recovery from the pandemic, we have agreed to defer the Best Value Follow up work until 2020/21, to ensure focus on the financial statements and most immediately impacted aspects of the wider scope audit in 2019/20.

## Forming our judgement

As auditor to the Council, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities. In forming this judgement, we draw upon the work conducted in response to our wider scope responsibilities as outlined in this report. We also draw upon the work we complete around the Best Value coverage areas outlined on the following page of this report, and our wider understanding of the Council's arrangements through the year.

## Looking ahead

The Council has rightly focused on the immediate impact and required work resulting from the global pandemic within the local route map. We have concluded that, where we have considered through our work carried out in the year, arrangements around Best Value have improved.

As the immediate impact of Covid-19 transitions to assessing its longer term impact on the Council, its service users and wider public as well as other public bodies, it is important that the Council continues to reassess its own arrangements for Best Value in this changing environment. This should include both the Council's delivery of Best Value as services and priorities evolve and its own internal arrangements for ensuring its priorities are focused correctly and monitored and reported. Our Best Value work planned for the remainder of our appointment period, as outlined on the following page, will be undertaken through this lens.



### Future best value audit work

Our formal Best Value Follow Up work has been postponed until 2020/21 to allow the Council to reflect on learning and implications of the recovery from the pandemic.

Our Annual Audit Plan included a follow up of the Council's response to recommendations within the July 2019 Best Value Assurance Report. In order to allow the Council to consider the ongoing appropriateness and validity of the improvement plan, our Annual Audit Plan Addendum, signalled our intention to postpone our work on Best Value Follow Up until 2021/22. This allowed management to focus on key operational priorities during the lockdown and recovery period, and allowed our audit to prioritise the financial statements audit requirements to ensure we were flexible and pragmatic in the current circumstances.

The Council considered a 6 monthly update on the Best Value Improvement Plan in February 2020. At that stage, a number of key actions were complete, including the processes to support a Medium Term Financial Strategy. We understand that a further assessment of progress will be considered at the Council's meeting in November 2020.

We summarise below our planned Best Value work over our initial five year appointment period with the Council. Following the deferral of planned work this year and the extension of our appointment by Audit Scotland to include the 2021/22 financial year audit at least, we will engage in discussions with management and Audit Scotland to agree a re-profiled schedule of work for the next two years, which we will report to the Council's Audit Committee in March 2021.

Five year Best Value Audit Coverage						
	16/17	17/18	18/19	19/20	20/21	21/22
			BVAR	BVFU		
Vision and Leadership	1	1	1	2		
Sound Governance and Accountability	1	1			3	
Effective Use of Resources		1	1	2		
Partnership and collaborative working	1		1		3	
Community responsiveness	1		1		3	
Sustainability				2		
Fairness and equality					3	
Performance outcomes and improvement	1	1	1			

1 - Best Value work completed in first three years of our audit appointment.

2 - Best value work planned in 2019/20 and subsequently deferred.

3 - Best value work indicatively planned in 2020/21 to be re-profiled across next two financial years in conjunction with delayed 2019/20 audit work.



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

D - Action plan, including follow up of prior year recommendations

E - Adjusted errors identified during the audit

F - Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

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

### Financial Statements and related reports

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

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

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

### Standards of conduct / prevention and detection of fraud and error

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

### Standards of conduct / prevention and detection of fraud and error

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

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

### Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

# Appendix B: Independence and audit quality

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the Council.

## Matters that we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated March 2020.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the Council consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Council on 12 October 2020.

## Audit Fees

	2019/20	2018/19
<b>Component of fee:</b>		
<b>Auditor remuneration - expected fee</b>	<b>£144,550</b>	<b>£141,260</b>
Additional audit procedures (note 1)	£TBD	£16,090
<b>Audit Scotland fixed charges:</b>		
Pooled costs	£14,140	£13,700
Performance audit and best value	£64,560	£63,730
Audit support costs	£8,740	£8,870
<b>Total fee</b>	<b>£TBD</b>	<b>£243,650</b>

**Note 1:** The expected fee for the Council is set centrally by Audit Scotland, and is based on a number of assumptions including sound governance arrangements in place and operating effectively throughout the year, the preparation of comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit.

This year, material additional audit work was required to address the risks related to Covid-19. In particular there was a significant impact on the financial statement disclosures, the risk around valuation of property plant and equipment and the valuation of the Council's share of assets and liabilities in the Lothian Pension Fund. In addition, significant additional audit time was required in relation to Loans Fund and the Millerhill PPP coming on balance sheet. We are discussing the final fee for the 2019/20 audit with management and will report this to the Audit Committee when finalised as part of our 2020/21 Annual Audit Plan.

Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2019 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2019](https://www.ey.com/en_uk/who-we-are/transparency-report-2019). This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our inaugural Audit Quality Report.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the Council since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201920>.

# Appendix C: Required communications

Required communication	Our reporting to you
<p><b>Terms of engagement / Our responsibilities</b></p> <p>Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan Annual Audit Plan Addendum</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan This Annual Audit Report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>This Annual Audit Report</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>This Annual Audit Report - Appendix E</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	<p>This Annual Audit Report</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>



Required communication	Our reporting to you
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>No significant matters have been identified.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report - Appendix B</p>
<p><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p><b>Subsequent events</b></p> <p>Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p><b>Material inconsistencies</b></p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report</p>

# Appendix D: Action Plan

We recognise that a number of areas of planned progress have been delayed as a result of the response to the pandemic. We have therefore outlined below where previous recommendations have not yet been fully addressed by management. Additional risks have been identified during the course of our work in 2019/20 in relation to Procurement that will be taken forward with internal audit. We will continue to monitor areas of focus in 2020/21. We have graded these findings according to our consideration of their priority.

## Classification of recommendations

**Grade 1:** Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
1	<p>In 2018/19, a movement of £110 million was noted in relation to housing assets compared to 2017/18, largely due to the revaluation in the year.</p> <p>While we are satisfied that the Council has demonstrated that the movement relates to 2018/19, the significance of the movement suggests that housing assets should be subject to a more frequent valuation. The Finance Team had requested that this valuation was undertaken after 4 years, rather than as part of the 5 year rolling programme.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed</p> <p>The triennial revaluation of the Councils Housing stock will be incorporated into the Rolling programme of valuations.</p> <p>Responsible officer: <b>Head of Finance &amp; ISS</b></p> <p>Implementation date: <b>31 December 2019</b></p>	<p>We note that the Finance Team has revised the valuation cycle and has applied indices to ensure that the valuation of significant categories of assets remains up to date.</p> <p><b>Our assessment: Complete</b></p>
2	<p>Our review of the valuation report provided by the Council's in house Property and Investment management team identified a number of errors and inaccuracies. To comply with best practice, it is recommended that the Council employs an external valuer on a cyclical basis to review valuations performed by the in-house team.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>As part of a de-brief on 2018/19 year end processes the Council will consider options to enhance management review activity in respect of asset valuations.</p> <p>Responsible officer: <b>Head of Finance &amp; ISS</b></p> <p>Implementation date: <b>31 March 2020</b></p>	<p>We continued to note a number of errors within internal valuations, and more audit involvement was required than we would normally expect to conclude on the valuation of property, plant and equipment.</p> <p><b>Our assessment: Incomplete</b></p>

## Classification of recommendations

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
	<p><b>Grade 1:</b> Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.</p>	<p><b>Grade 2:</b> Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.</p>	<p><b>Grade 3:</b> Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.</p>
3	<p>The Council is performing a detailed review to consider the implications of new Loans Fund accounting regulations. As part of this review, the Council has committed to performing a review of their accounting policies to ensure they remain appropriate. The Council should ensure that accounting policies are subject to regular review.</p> <p>The Council should engage with external audit with respect of any changes to the accounting for Loans Fund.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed</p> <p>Responsible officer: <b>Head of Finance &amp; ISS</b></p> <p>Implementation date: <b>31 March 2020</b></p>	<p>We reviewed the Council's proposals for Loans Funds as part of our audit procedures.</p> <p><b>Our assessment: Complete</b></p>
4	<p>Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis. The Council must continue to develop a balanced MTFP in the medium to long term.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Agreed, Officers continue to support BTSG to recommend measures to council to achieve a balance MTFS.</p> <p>Responsible officer: <b>BTSG</b></p> <p>Implementation date: <b>11 February 2020</b></p>	<p>We understand that work is ongoing to develop an updated MTFS by the end of 2020 that will deliver a balanced budget for the next two financial years.</p> <p><b>Our assessment: Ongoing</b></p>
5	<p>The Council continues to experience timing and data accuracy issues in relation to feeder financial information systems</p> <p>The Council must ensure that services apply greater rigour to feeder financial systems to support improved reporting.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed. As part of the review of the 2018/19 year end an issue and lessons learnt report is being prepared which will set out recommendations for future improvement required for 2019/20 year end.</p> <p>Responsible officer: <b>Head of Finance &amp; ISS</b></p> <p>Implementation date: <b>31 March 2020</b></p>	<p>Within Financial Management, we noted that the level of variation in financial monitoring reports noted in prior years did not occur, signalling improved financial forecasting and control.</p> <p><b>Our assessment: Ongoing</b></p>

## Classification of recommendations

**Grade 1:** Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
6	<p>The Council has a significant capital investment programme, which has long term implications for future funding and treasury management arrangements.</p> <p>The Council's ambitious plans for capital spend must be matched with training and support for members to explain the long term funding implications.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed</p> <p>A training session on treasury management for Audit Committee members to which all elected members are invited is scheduled for 5 November 2019. A refresh of the capital strategy updating the long term implications and affordability of capital investment plans will be presented to Council on 17 December 2019.</p> <p>Responsible officer: <b>Head of Finance &amp; ISS</b></p> <p>Implementation date: <b>17 December 2019</b></p>	<p>Our assessment: <b>Complete</b></p>
7	<p>The Best Value Assurance Report highlighted that there is scope to be clearer about priority indicators and targets to track the Council's performance. The Council should ensure that performance reporting arrangements support elected member scrutiny.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Responsible officer: <b>Quality &amp; Scrutiny Manager</b></p> <p>Implementation date: <b>31 March 2020</b></p>	<p>While significant improvements have been made to the Council's performance reporting capability, we note within the Value for Money section that there is scope to refine key performance measures and targets.</p> <p>Our assessment: <b>Ongoing</b></p>

# Appendix E: Adjusted and unadjusted errors identified during the audit

This appendix sets out the significant adjustments processed in the financial statements finalisation.

Adjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	<i>Impact of consultation on addressing costs of McCloud judgement on the Council's LGPS liability valuation at 31 March 2020. Due to the timing of the judgement, this was not reflected within the draft financial statements.</i>	CR Actuarial (gains)/losses on pension assets & liabilities £4,773,000	DR Pension Liability £4,773,000
2	<i>Impairment of Lothian Buses investment as outlined on page 17</i>		DR Available for sale financial instruments account £382,872 CR Long-term investments £382,872
3	<i>Reclassification of non domestic rates balance</i>		DR Debtors £411,510 CR Creditors £411,510
4	<i>Millerhill PPP reallocation</i>		DR PPP Liability £1,770,000 CR PPP Donated Asset Account £1,770,000
5	<i>Purchase ledger control account reallocation</i>		DR Creditors £1,316,528 CR Debtors £1,316,528
6	<i>Removal of additions to components included in valuations</i>		DR Revaluation Reserve £334,434 CR Operational Buildings £334,434
7	<i>Millerhill - removal of food waste plant from valuation</i>	DR Expenditure £2,094,915	CR Operational Land £78,415 CR Operational Buildings £2,016,500
8	<i>Adjustment to asset valuations due to short asset lives</i>		DR Revaluation Reserve £2,967,422 CR Operational Buildings £2,967,422
9	<i>Reclassification of land to buildings</i>		DR Operational Buildings £577,151 CR Operational Land £577,151

### Unadjusted judgemental difference

No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	<p><i>Impact of addressing costs of Goodwin judgement on the Council's LGPS liability valuation at 31 March 2020,</i></p> <p><i>The Goodwin judgement was concluded in July 2020, and was therefore unknown at the time of preparing the financial statements. Management has estimated the impact of the ruling based on guidance from the Government Actuaries Department and knowledge of the members likely to be impacted. We are content that management do not propose to adjust for this difference.</i></p>	<p>DR Actuarial (gains)/losses on pension assets &amp; liabilities</p> <p style="text-align: right;">£437,000</p>	CR Pension Liability £437,000

### Disclosure difference

No.	Area	Description
1	Cash Flow Statement	Any other items for which the cash effects are investing or financing cash flows was increased by £3.738 million to £40million

# Appendix F: Timing and deliverables of the audit

We delivered our audit in accordance with the timeline set by the Council, in accordance with the annual audit planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2019/20 audit cycle, including the remaining areas of work with completion deadlines subsequent to this report.

JAN	Audit Activity	Deliverable	Timing
FEB	<ul style="list-style-type: none"> <li>Onsite fieldwork, documentation and walkthrough of key accounting processes</li> <li>Scoping of wider scope work for year</li> </ul>	Annual Audit Plan	28 March 2020
MAR	<ul style="list-style-type: none"> <li>Review progress of NFI exercise</li> </ul>	Submit NFI Questionnaire	28 February 2020
APR	<ul style="list-style-type: none"> <li>Review of current issues impacting the Council</li> <li>Review of reported frauds</li> </ul>	Quarterly current issue return submission	Quarterly
MAY		Quarterly fraud return submission	Quarterly
JUN	<ul style="list-style-type: none"> <li>Reassessment of audit planning and risks due to Covid-19</li> </ul>	Annual Audit Plan - addendum	22 June 2020
JUL	<ul style="list-style-type: none"> <li>Education Maintenance Allowance (EMA) grant claim testing</li> <li>Wider scope work underway</li> </ul>	Certified EMA return	31 July 2020
AUG		Liaison on Best Value Follow up Assessments	NA
SEP	<ul style="list-style-type: none"> <li>Submit Council dataset return to Audit Scotland</li> </ul>	Return for financial overview	18 May 2020
OCT	<ul style="list-style-type: none"> <li>Year-end substantive audit fieldwork on unaudited financial statements</li> <li>Conclude on results of audit procedures</li> <li>Issue opinion on the Council's financial statements</li> </ul>	Whole of Government Accounts assurance statement to NAO (as required)	January 2021
NOV		Certify Annual Financial Statements	22 October 2020
DEC	<ul style="list-style-type: none"> <li>Completion of Non-Domestic Rates return testing</li> </ul>	Certified Non-Domestic Rates return	TBD - end 2020
	<ul style="list-style-type: none"> <li>Completion of Housing Benefits claim testing</li> </ul>	Certified Housing Benefit subsidy claim	TBD - Audit Scotland deadline 28 February 2021



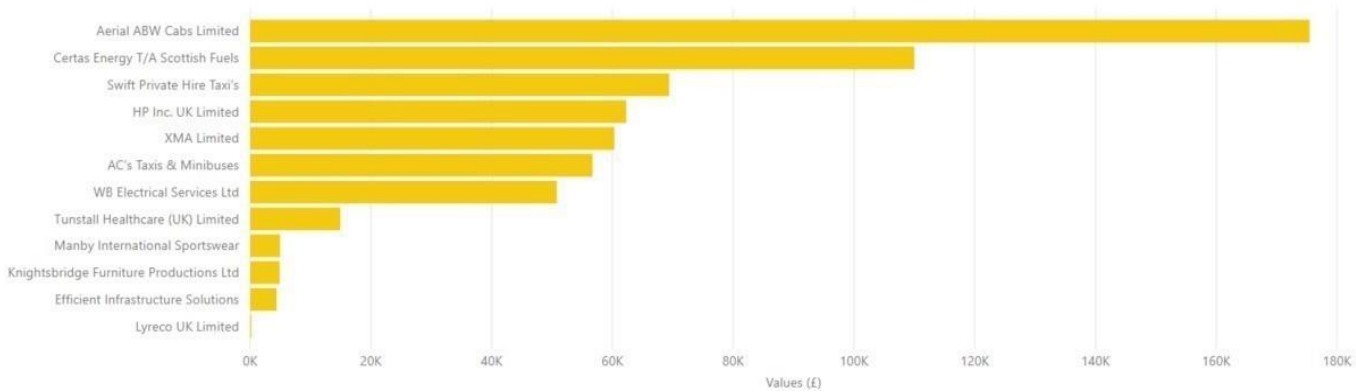
# Appendix G: Detailed Procurement Analysis

## Exhibit A: Potential Purchase Order Splitting to Circumvent Approval Threshold

The chart below highlights where multiple Purchase Orders were approved:

1. for the same supplier,
2. on the same day; and
3. Where the total combined value exceeds that threshold

### Suppliers where multiple PO's raised on the same day which exceed approval thresholds



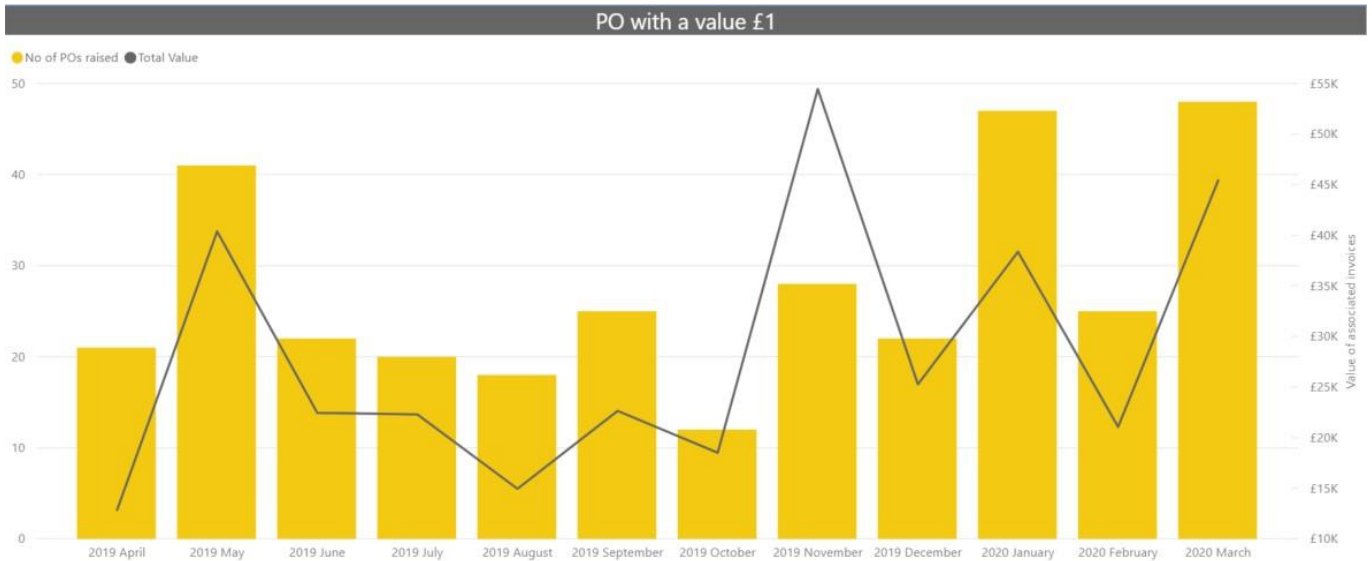
### Analysis of authoriser information

Authoriser	Supplier name	Year	Month	Day	No of POs Raised	Total value of PO raised	Approval Threshold
		2019	April	10	17	175,450.00	50,000.00
		2019	April	2	6	110,000.00	50,000.00
		2019	April	23	3	69,400.00	50,000.00
		2020	February	20	2	62,289.90	50,000.00
		2019	April	9	2	56,700.00	50,000.00
		2020	March	19	3	51,865.93	50,000.00
		2020	February	26	7	50,792.24	50,000.00
		2019	April	11	3	5,745.50	4,166.00
		2019	June	12	2	5,003.92	4,166.00
		2019	April	22	2	4,950.00	4,166.00
		2020	January	14	2	4,893.00	4,166.00
		2019	July	9	2	4,384.00	4,166.00
		2019	October	30	3	4,271.44	4,166.00
		2019	May	17	3	4,189.40	4,166.00
		2020	March	20	2	4,177.00	4,166.00
		2019	October	1	2	139.55	100.00

**Our conclusion:** We reviewed the matches including the underlying purchase orders and invoices, and where necessary discussed with the Finance Team. We did not identify any unusual activity that would indicate purchase order splitting.

### Exhibit B: Purchase Orders for £1

Where Purchase Orders (PO) were raised for a value of £1 but the associated invoices were for a value in excess of £1. This exception was identified in relation to two suppliers.



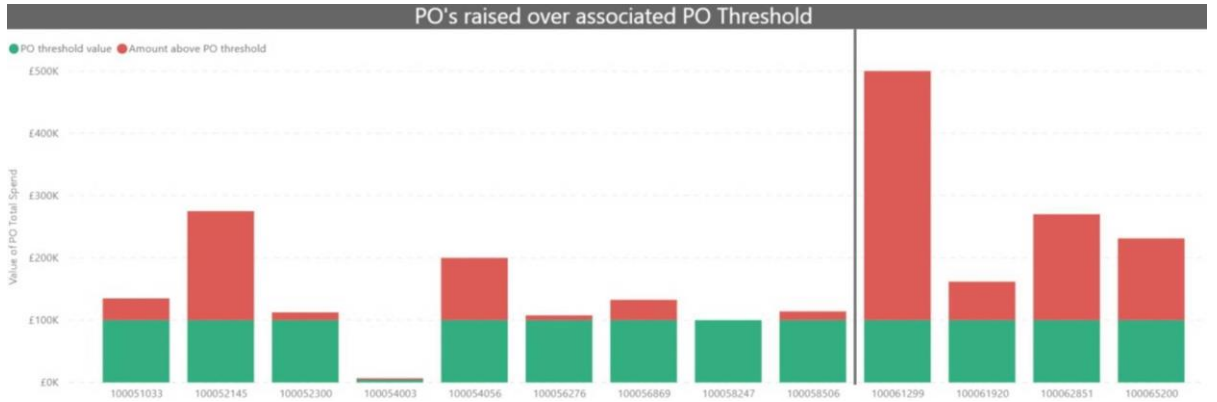
#### Supplier Information

Supplier Code	Supplier Name	Total value of Invoices	No of associated Invoices
33747500		£2,346.92	1
33587500		£336,383.60	328
<b>Total</b>		<b>£338,730.52</b>	<b>329</b>

**Our conclusion:** The Council should review the use of purchase orders for £1 to assess whether more appropriate processes can be established to manage this weakness.

### Exhibit C: Purchase Orders raised that exceed Approval Threshold

The chart below highlights a number of cases where a senior officer acted as a counter-signatory to purchases which exceeded his nominal authorisation limit of £100,000.



PO Information					
EY_PO_FY	PO Number	Authoriser	Authoriser's Threshold	PO Total Value	Amount over PO Threshold
FY19	100051033		£99,999.99	135,000.00	35,000.01
FY19	100052145		£99,999.99	274,994.88	174,994.89
FY19	100052300		£99,999.99	112,537.80	12,537.81
FY19	100054003		£4,166.00	6,800.00	2,634.00
FY19	100054056		£99,999.99	200,000.00	100,000.01
FY19	100056276		£99,999.99	107,777.00	7,777.01
FY19	100056869		£99,999.99	132,705.94	32,705.95
FY19	100058247		£99,999.99	100,000.00	0.01
FY19	100058506		£99,999.99	114,080.00	14,080.01
FY20	100061299		£99,999.99	500,000.00	400,000.01
FY20	100061920		£99,999.99	161,821.44	61,821.45
FY20	100062851		£99,999.99	270,116.16	170,116.17
FY20	100065200		£99,999.99	231,298.00	131,298.01

**Our conclusion:** We were content with the validity of underlying transactions but note that there is a manual process in place to secure counter-signatory approval. This is done via email and held as an audit trail. This represents a weakness in the internal control process.

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