



# Falkirk Council

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

**2 March 2021**

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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 Falkirk 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.

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

## Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to 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 intend to issue 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, two adjustments were required to be made, which are outlined within Appendix E. Six unadjusted differences are also noted that we are required to communicate to those charged with governance. The draft financial statements and supporting working papers were provided in time and were of a good quality. Additional audit effort and focus was required 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.

## Whistleblowing Allegations

We became aware as a result of press reports of whistleblowing allegations in relation to procurement anomalies in October 2020. As a result of the nature of the allegations, following receipt of information from officers on 24 November 2020, additional audit procedures were required by our forensics team to support our conclusions on the audit. This work is reported within our wider scope work on financial management on page 29.

## 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 as a result of the audit process 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 Council considered its updated Corporate Plan and Business Plan in September 2020. This highlights that the budget gap over the next 3 years has increased by £3 million. The Council's business transformation strategy, Council of the Future, accounts for £6.9 million, 24% of the £28.8 million total savings required.</p> <p>There are ongoing challenges facing the Council in delivering 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. Continued member engagement and collective political leadership is critical to identify savings options that are sufficient to protect reserves while delivering the Council's refreshed priorities.</p>	<p><b>Financial Management</b></p> <p>The Council continues to demonstrate good financial control of the in-year budget. Financial reporting was clear and consistent throughout the year, but we noted that it is not currently possible to verify the savings that have been delivered through the Council of the Future programme. The Council continue to record significant overspends within Children's Services, and specifically in the care of looked after children. There is also an ongoing need to improve the management and monitoring of the capital programme. Management noted significant weaknesses in relation to procurement following an investigation in response to whistleblowing allegations. Additional audit procedures were required to allow us to conclude our 2019/20 audit.</p>
<p><b>RED</b></p>	<p><b>AMBER</b></p>
<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 established revised governance arrangements in May 2020, until fuller committee arrangements recommenced in August 2020. We were satisfied that members continued to have access to sufficient strategic information to fulfil their role.</p> <p>Training sessions for members has helped to improve the effectiveness of the Audit Committee. We do, however, note that there is scope to improve the quality and frequency of reporting on fraud and whistleblowing, and to ensure that key documents are kept up to date.</p>	<p><b>Value for Money</b></p> <p>The Council's arrangements for performance monitoring have continued through the global pandemic. The Council's services perform well against national comparators.</p> <p>We do, however, note that there is scope to improve the public performance reporting arrangements to ensure that the Council complies with the revised Statutory Performance Indicators Direction, and ensure that sufficient information is available to assess whether the Council delivers Best Value.</p>
<p><b>AMBER</b></p>	<p><b>AMBER</b></p>

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, Audit Scotland agreed to defer the Best Value Assurance Report until 2021.



# 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 Falkirk 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.

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.

## 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 impact of the Covid-19 Pandemic

We conducted our planning in accordance with Audit Scotland's Code of Audit Practice in February 2020, and were due to present our Annual Audit Plan to the Council's audit committee in April 2020, before its cancellation as a result of the declaration of the global Covid-19 pandemic and the resulting lockdown arrangements. We supplemented our Annual Audit Plan, presented to the Audit Committee in August 2020, with an addendum outlining the main anticipated areas of impact on the audit following our reassessment of all 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 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>£13.1 million</b>	<b>£9.8 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 38.

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 Assurance Report process, until 2020/21. Early engagement has taken place with Audit Scotland to agree revised timescales for this process.

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 23 August 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; and
- ▶ Accounting for Loans Fund.

## 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 25 June 2020.

The inspection notice was published by the Council on its website and in the Falkirk Herald, in line with the requirements of the Regulations by 17 June 2020. 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.

### **Group financial statements**

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

- ▶ Falkirk Community Trust;
- ▶ Falkirk Community Stadium Limited;
- ▶ Thinkwhere;
- ▶ Central Scotland Valuation Joint Board; and
- ▶ Falkirk Integration Joint Board (IJB).

A number of adjustments are identified within Appendix E, relating to adjustments made within the final financial statements of group bodies. Falkirk IJB 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 six unadjusted judgemental audit differences, including two relating to additional updated information being made available in relation to the Local Government Pension Scheme. Three 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 17, 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 financial statements 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>

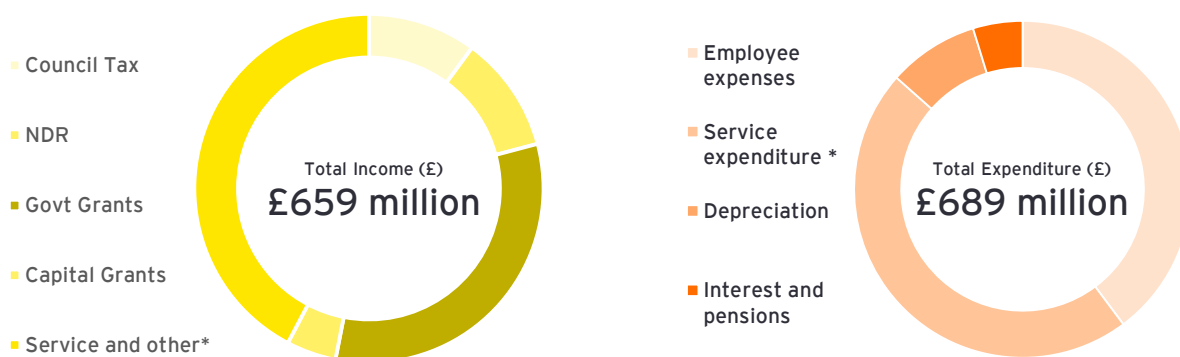
# Significant and fraud audit risks

## 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. 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 over £1 billion 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 management's experts in relation to the valuation of non-operational assets valued during the year; and the implications of a draft report from the District Valuer on the housing valuation.
- ▶ Reviewed key asset information used by the valuers in performing their valuation.
- ▶ 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.

### Recommendation 1:

The Council must ensure that asset valuations are undertaken with sufficient frequency to keep them up to date.

### Our conclusions

- ▶ Appendix E outlines one significant audit adjustment made in relation to the housing valuation. The draft report from the District Valuer noted a £85 million increase in value. We reviewed and agreed with management's assessment that the change in valuation could be attributed to 2019/20. Movements of this scale highlight that the current arrangement to value significant classes of assets once every 5 years is insufficient to keep asset valuations up to date.
- ▶ The financial statements disclose material uncertainties in relation to the valuations completed in 2019/20, 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.
- ▶ We concluded that, as a result of obtaining the early housing valuation, 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 Falkirk Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2020 the net liability totalled £272.5 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 Falkirk 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 Falkirk 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.



# 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.

During the audit process, the Council updated its 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 £9.5 million in uncommitted general reserves at 31 March 2020, exceeding the £7.5 million minimum required by its reserves policy. The Council also had other useable reserves in committed funds which could be reallocated as necessary. The forecast reserves position for 2020/21 is £8.6 million, and management has plans in place to address the forecast £13.5 million budget gap in 2021/22, including making use of the opportunities available through financial flexibilities in relation to the Loans Fund or other cost savings.

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 as a result of our work.

# 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 Council considered updated corporate planning arrangements, including a three year Business Plan in September 2020. This highlights that the net impact of the global pandemic in 2020/21 is likely to be limited to £0.9 million, but has increased the budget gap over the period of the plan by £3 million as a result of the impact on savings plans. The Council's business transformation strategy, Council of the Future, accounts for £6.9 million, 24% of the £28.8 million total savings required.

There is an 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. We would also note that there is a risk that assumed savings from Falkirk IJB and Falkirk Community Trust may not be achieved as result of the ongoing impact of the pandemic. Continued member engagement and collective political leadership is therefore critical to identify savings options that are sufficient to protect reserves while delivering the Council's refreshed priorities. There is therefore a need for continued member and officer focus to safeguard financial sustainability.

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## Medium Term Financial Plan

The Council considered the updated Medium Term Financial Plan as part of the 2020/21 budgeting process in February 2020. This paper set out the scale of the challenge ahead, including a budget gap over the five years of the plan totalling £69 million. The revenue budget outlined officer proposals to deliver savings of £8.416 million for 2020/21. Following the adjournment of the Council meeting, and subsequent approval of amendments, the Council approved savings totalling £4.462 million in 2020/21. As a result of the full year effect of savings agreed in 2019/20, the planned savings to be delivered in 2020/21 was therefore £7.677 million.

Initially, the 2020/21 budget relied on a contribution from reserves of £2.8 million. As a result of the local government financial settlement being higher than anticipated, this contribution was not required to balance the budget.

The Council considered a suite of strategic update reports in September 2020, including the Corporate Plan 2020-22 and Three Year Business Plan, which incorporated:

- ▶ The updated Medium Term Financial Plan;
- ▶ Workforce Plan; and
- ▶ Council of the Future update.

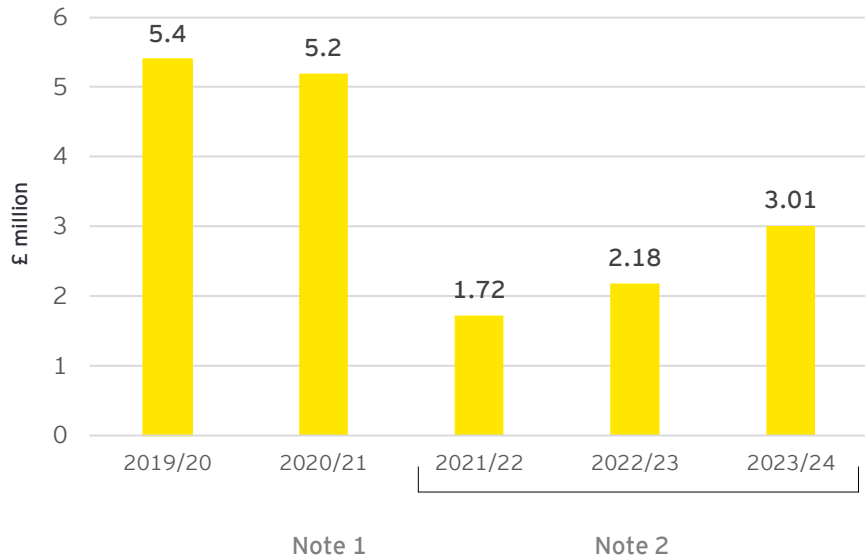
The Business Plan updated the budget gap to £28.8 million in the three year period to 2023/24 (an increase of around £3 million to the equivalent gap presented to Council in February 2020). One of the key factors in the increase is the pandemic's impact on the Council's ability to achieve planned savings.

The local government settlement exceeded revenue projections, which meant that the budget could be balanced without a £2.8 million contribution from reserves.

## Council of the Future

Wave 2 of the Council's business transformation programme, Council of the Future (COTF), was launched in May 2019. An update report presented to the Executive in March 2020 outlined expectations that the programme would deliver around £24 million in savings over the period to 2023/24. As Exhibit 2, below, notes, in September 2020, the projected savings to be delivered in the period to 2023/24 appears to have fallen to £17.4 million, as a result of the ongoing impact of the global pandemic on the deliverability and reprioritisation of savings.

### Exhibit 2: The Savings to be delivered through COTF are lower than original estimates



Note 1: Estimate based on projected 2020/21 COTF savings revised for delays presented to Council on 30 September 2020

Note 2: Projected savings identified within the 3 Year Business Plan

Source: Falkirk Council Business Plan and Financial Monitoring Reports

**Recommendation 2:**  
The Council should ensure that progress against the COTF transformation programme is reported to allow specific scrutiny of the savings and benefits delivered by the programme.

While the Council has recently agreed changes to the governance arrangements in place to deliver the COTF, in our view, the Council should be more specific in its financial reports on which savings form part of the Council of the Future Change Programme. The benefits from the projects in the Change Programme should be more clearly set out for members. While internal audit planned to conduct an exercise to verify the achievement of savings in 2019/20, this review was postponed as a result of the global pandemic.

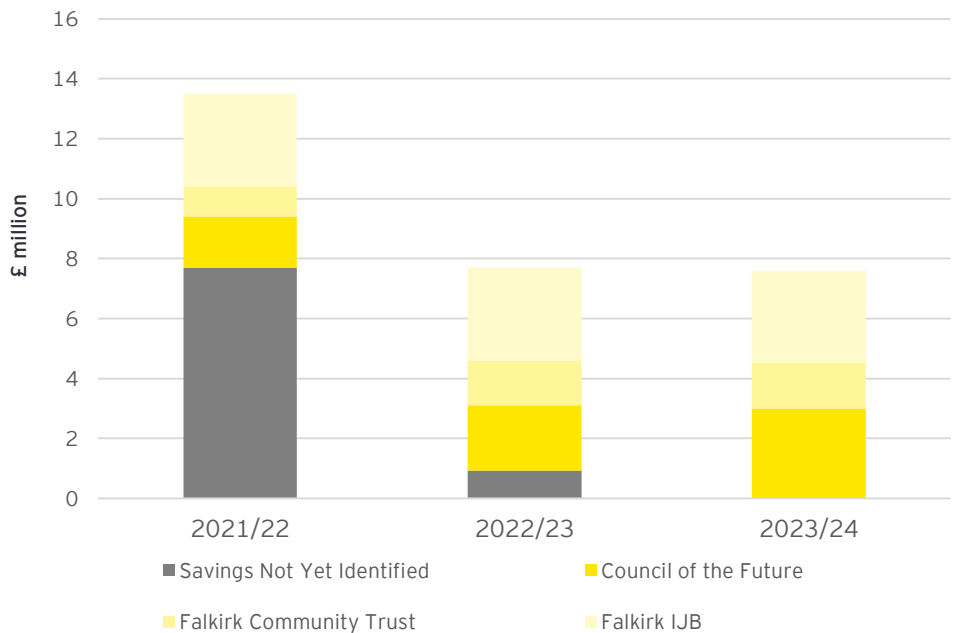
While reporting has been impacted by the governance arrangements adopted during the global pandemic, there has been a lack of rigour about reporting the financial and non-financial impact of transformation work. This should include details of the return on investment on the use of Change Fund monies.

### Risks and uncertainties within the MTFP

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.

As Exhibit 3 highlights, the update presented to the Council in September 2020 noted that savings of £8.62 million have not yet been identified. We also note that the current MTFP anticipates that savings will be secured by the Falkirk Integration Joint Board (£9 million) and Falkirk Community Trust (£4 million) over the three years of the plan.

**Exhibit 3: Savings of £8.62 million required to be identified over the life of the Business Plan, and other savings may be at risk**



Source: Falkirk Council Business Plan, September 2020

**There is an urgent need to identify the savings required to deliver a balanced budget over the life of the Business Plan.**

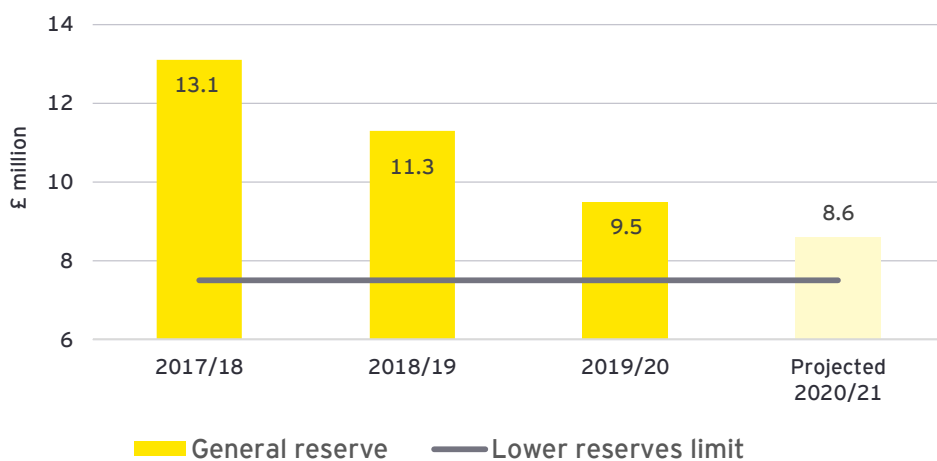
We note that each of these bodies has been significantly impacted by the coronavirus pandemic. For example, the most recent mobilisation plan submitted by the IJB in August 2020 identified cost pressures of £12.34 million. The Falkirk Community Trust has outlined a net impact of £1.4 million. There are 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.

## Impact on Reserves Strategy

The Council has set a target level for reserves of between 2% and 4% of net service expenditure, which equates to £7.5 to £11 million. As Exhibit 5, below, highlights the Council's reserves continued to fall by £3.2 million, against a budgeted use of £1 million. Current financial projections for 2019/20 suggest that the net impact on reserves will be a further £0.9 million, resulting in a balance of £8.6 million at 31 March 2021.

While the full impact and financial flexibilities available to the Council as a result of recent approvals granted by the Scottish Government is not yet known, the Cabinet Secretary has stressed that the flexibilities, such as use of capital receipts and a loans fund repayment holiday should not be seen as an opportunity to maintain or grow reserves. Local authorities are expected to take into consideration the contribution their reserves can make to meet their funding pressures.

**Exhibit 5: The Council projects that it will use a further £0.9 million of reserves in 2020/21.**



Source: Falkirk Council Financial Monitoring Reports

Any failure to deliver the savings programme will result in a further reduction in reserves. In addition, the Council continues to monitor the potential financial impact of claims relating to historic child abuse. There is therefore a continuing need for political consensus and leadership to identify and agree savings options to manage future risk, including non-delivery of savings estimated at £3.2 million.



## The impact of Covid-19

The Council continues to face unprecedented challenges, including the impact of COVID-19, in delivering essential services whilst resources are constrained. Over recent months substantial work has been undertaken to identify the estimated additional costs of COVID-19. While there remains uncertainty around COVID-19 implications going forward, the September update to Council forecast an additional net cost of £0.982 million.

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. Response costs are estimated at around £7 million. In addition, the Council estimates that the impact on loss of income from fees and charges will be £3 million. The projected Falkirk Community Trust deficit is £1.4 million, and will be met by the Council. These costs were offset by additional ringfenced or additional funding from the Scottish Government of £14.5m.

As a result of the impact on the Council's savings programme, the Medium Term Financial Plan presented to the Council in September 2020 notes that the budget gap for the next 3 years has increased to c£29m.

The Council continues to regularly monitor its financial position and provide full financial updates to Council Management Team and the Council as appropriate, including options on addressing any new budget gaps and spending pressures. A range of savings options will also be identified for elected member consideration within Member Budget Working Groups that are convened to allow the Council to set a balanced budget for 2021/22 in February 2021. This may include fiscal flexibilities relating to the use of capital receipts, debt repayments, reprioritisation of earmarked reserves and balances, revisions to service delivery or service standards and identification of additional saving measures.

## Covid-19 Recovery Planning

The Council has drawn upon public consultation and stakeholder focus groups to define priorities for the Corporate Plan 2020-22.

In June 2020, the Council considered the Recovery Plans from each of the Directorates to outline the steps and priorities to inform the recovery through and out of the Covid-19 crisis. At a strategic level, the Council launched a programme of consultation with elected members and the public to inform and support the development of the Corporate Plan 2020-22. As a result of the consultation, the Council has refined its planning in line with three strategic priorities:

- ▶ Communities
- ▶ Enterprise; and
- ▶ Innovation.

The ability of the Council to prioritise spend to protect communities, including the wider economic recovery, will continue to be an area of focus for the Best Value audit in 2021.

# 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, but we noted that it is not currently possible to verify the savings that have been delivered through the Council of the Future programme. The Council continue to record significant overspends within Children's Services, and specifically in the care of looked after children. There is also an ongoing need to continue to improve the management and monitoring of the capital programme.

We became aware of work undertaken by management to respond to whistleblowing allegations in October 2020, and noted significant weaknesses in relation to procurement within the Corporate and Housing Directorate. Further audit work will be undertaken in this area in 2020/21.

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## Financial Outturn

The Council spent £351 million on the provision of services in 2019/20. The Comprehensive Income and Expenditure Statement records a surplus for the year of £178 million, principally as a result of the impact of revaluation of the Council's housing estate (£87 million) and by movements in the pension liability (£91 million).

The Council recorded a net overspend of £1.782 million on service expenditure, which was principally as a result of:

- ▶ an overspend of £5.7 million within Children's Services;
- ▶ a £0.9 million overspend in adult social care, which is managed by Falkirk IJB;
- ▶ offset by higher than forecast Scottish Government grant and Council tax income.

The key factors in the Children's Services overspend in 2019/20 related to additional residential care costs for looked after children. While the Closer to Home Strategy is one of the COTF's priority projects, spend in this area has continued to significantly exceed budget. The Strategy seeks to identify more strategies to ensure that children are cared for as effectively as possible through, for example, increased use of foster carers rather than residential care homes.

Underspends were recorded within the Development and Corporate and Housing Services Directorates, primarily as a result of employee vacancies.

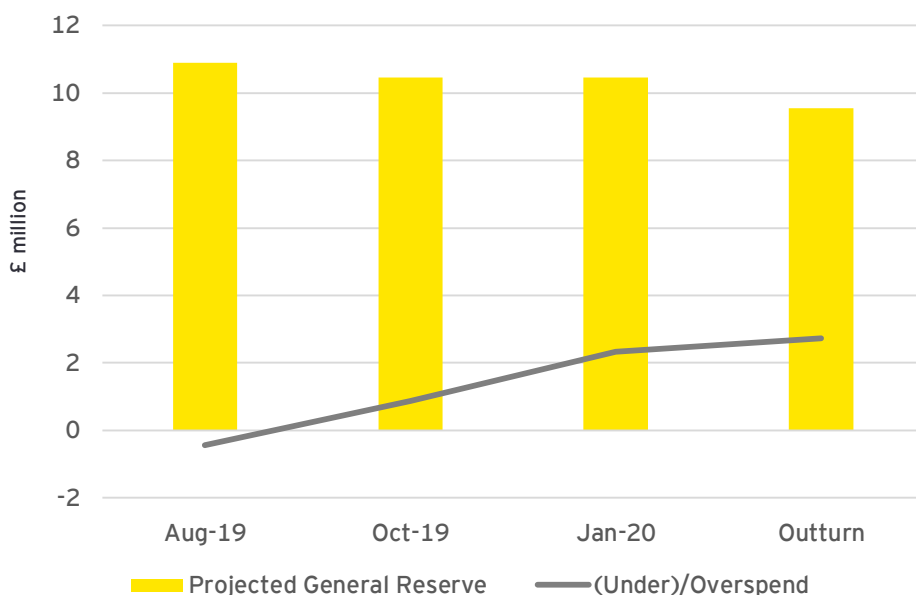
Due to the timing of the coronavirus pandemic, there were no material cost implications of the response in 2019/20.

### 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, we note that the projected overspend grew throughout the year. While the Council reported within financial monitoring reports that all savings measures were delivered as planned, the Closer to Home savings of £0.837 million were insufficient to offset a significant overspend in this service. As we note within Financial Sustainability, we were unable to verify the savings reported as being delivered. While the measures were expected to result in an overall reduction of full time equivalent (FTE) staff numbers of around 130, the actual FTE increased during 2019/20 as a result of ring fenced funding for early years. There were 18 voluntary severance agreements reached in 2019/20.

**Exhibit 3: The Council's financial monitoring highlights a decline in overall financial position as a result of overspends**



Source: Falkirk Council 2019/20 Financial Monitoring Reports

## Strategic Property Review

One of the Council's key priority projects within the COTF programme is the Strategic Property Review (SPR). The SPR has identified that the Council's portfolio is too large, is deteriorating, and that over time it may be subject to property and/or service failures. The Council's Headquarters, Municipal Buildings, in Falkirk, is considered to be at the end of its useful economic life, and ongoing maintenance costs are now considered to be uneconomical. The Council has considered a number of iterations of proposals on the development of a new headquarters, including an options appraisal exercise in October 2019. Further proposals for an HQ/Arts Centre within the 2020/21 capital strategy were rejected to ensure that plans could be developed within an agreed envelope of £45 million.

In September 2020, the Council endorsed plans to develop a multi-functional space within Falkirk Town Centre. Additional office accommodation will be developed within other office locations. While no location has yet been identified for the new Centre, work can now begin on consultation and development of the proposal. This will be a significant project for the Council, and is intended to deliver further efficiency savings. We therefore anticipate that this project will be an area of interest for the Best Value Assurance Report in 2021/22.

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

### Capital programme

We have noted in prior years that the Council has experienced significant slippage against the capital budget. During 2018/19, the Council's internal auditors reviewed the General Fund capital planning process, including arrangements for dealing with slippage. The internal auditors identified a number of key controls to monitor the progress of the capital plan and reduce slippage. While it was hoped that slippage would be reduced in 2019/20, as the Council delivered only 71.8% of the approved capital plan in 2019/20 (63% in 2018/19), representing slippage of £11.8 million.

**Recommendation 3:**  
The Council should ensure that capital monitoring arrangements provide assurance that the programme will be delivered as planned.

In our view, there is scope to improve the capital planning and monitoring process. The Council's significant capital programme supports key investments that will aid the economic recovery in Falkirk. Increased oversight and transparency on the progress of capital projects against key milestones, would provide additional assurance that investments will be delivered as planned.

## Whistleblowing allegations

In October 2020 we became aware, as a result of press reports, of a number of whistleblowing complaints in relation to procurement activity within the Corporate and Housing Directorate. We received copies of two Counter Fraud Team investigation reports, and the resulting Management Response, on 24 November 2020. We were unable to support the conclusions reached within the management response to the investigation reports. As a result, our Forensics team undertook additional work to allow us to conclude the audit.

The additional procedures included the examination of documents provided by the Council, including a fact finding investigation report, which was requested and drawn upon by the Service Manager to complete their Management Response. We also met with key officers who had been involved with the CFT and Fact Finding exercises. The Council's Chief Governance Officer acted as key contact during the process and attended each of the meetings.

The Council found a number of areas of weakness, particularly in relation to procurement controls, and an improvement plan was developed to respond. However, our work identified a number of gaps in the investigation undertaken by the Council's Counter Fraud Team, and subsequent fact finding investigations in relation to the fraud allegations. Following a discussion with the Monitoring Officer and the Chief Finance Officer, additional fact finding work was undertaken, including open source intelligence searches, end to end walkthroughs of the procurement review conducted by the investigation team and review of the Council's supplier data and approval limits.

We found no direct evidence of collusion as a result of this work. Urgent work should be undertaken to address the lack of segregation of duties identified within one team. In our view, the control environment within the service does not adequately mitigate the risk of manipulation and collusion with sub-contractors.

We also noted that it was necessary to manually link invoices to related contracts during the investigations as this link was not undertaken as a matter of course. The inability to reconcile actual spend to contract awards creates a risk of error and could result in the Council being unable to monitor that contractual spend is in line with agreed values within mini-competitions. This presents a weakness in financial and contract monitoring arrangements.

Due to the nature of the allegations, and the weaknesses identified, our audit work in 2020/21 will further consider the effectiveness and appropriateness of the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function. Our work will include a focused review addressing:

- ▶ The overall management of the risk of procurement fraud, including internal audit coverage.
- ▶ The appropriateness of policies and controls around the procurement process, including segregation of duties and training to identify risks.

**Recommendation 4:**  
As part of its lessons learned exercise, the Council should revisit its investigation process to ensure that it has satisfied itself that it has fully complied with its Whistleblowing and Disciplinary processes.

**Recommendation 5:**  
As recommended in the Fact Finding report, the Council should review and update its authorisation process and limits and improve segregation of duties as a matter of urgency.

**Recommendation 6:**  
The Council should ensure that robust contract monitoring arrangements are in place to ensure that work performance and invoices are in line with values agreed in competitive processes.

### **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.

### **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 established revised governance arrangements in May 2020, and an Emergency Executive met fortnightly until fuller committee arrangements recommenced in August 2020. 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.

Training and development sessions for audit committee members has helped to improve the effectiveness of the committee, and Interim Charring arrangements have been established following the resignation of the Independent Chair. We do, however, note that there is scope to improve the quality and frequency of reporting on fraud and whistleblowing, and to ensure that key documents are kept up to date.

## 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 “this Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for 2019/20 and the period to date. It highlights areas for improvement, and is consistent with the Council’s established improvement agenda.”

Arrangements were 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 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. The Council held a remote emergency meeting of the Council on 6 May 2020 to allow an Interim Decision Making Structure to be agreed. As a result, an Emergency Executive Committee, was established to meet remotely, by video conference, on a fortnightly basis. These emergency arrangements continued until a fuller schedule of Council Committee meetings resumed in August 2020.

While meetings could not be held in public, video recordings were made available following the meetings, and reports were published on line, in the normal way, in advance. We were therefore satisfied that regular and consistent communication and decision making arrangements were developed. Other councils were able to resume the full committee cycle more quickly as a result of previous digital investment. We understand that the Council’s Digital Strategy has been refreshed to align with the new Vision Framework. Overall, the Council continued under existing arrangements with minimal use of extraordinary measures.

The Chief Internal Auditor has concluded that governance arrangements are satisfactory.

### **Assurance Statement**

Based on the work completed in the year, the Council's Chief Internal Auditor concluded that "Internal Audit can provide substantial assurance on the Council's arrangements for risk management, governance, and control for the year to 31 March 2020." The internal audit work planned for the year 2019/20 was broadly completed in line with planned deadlines, although we note that two of the 23 planned reviews were ongoing in March 2020 and were therefore stopped. The reviews of Savings Tracking will now be deferred to 2021/22. The review of Business Continuity Management will now be considered as part of the corporate COVID-19 recovery and lessons learned process.

### **Annual Governance Statement**

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.

### **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 Working Group set up by the Corporate Management Team. The Council has received updates on risk through the quarterly risk management reporting arrangements, and via briefing sessions for elected members.

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. 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.

### **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. In addition, provision is always made to ensure that a member of the local press can attend meetings.

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. The Council is also considering how the public could access live meetings via webcasts in the future.



## Audit Committee

The Council has appointed a member of the opposition as the Interim Convenor of the Audit Committee, following the resignation of the previous Independent Chair.

In late 2019, the Audit Committee appointed a new independent Chair, following an extended period when interim chairing arrangements were in place. The new Chair instigated a programme of informal training and development sessions with the committee to help promote and improve the level of scrutiny applied, including sessions with external audit and the Chief Internal Auditor.

The independent Chair resigned during summer 2020. As a result, the Council has appointed a member of the opposition as an interim Chair. In our view, this is appropriate and a pragmatic response to meet the Council's needs. One of the recommendations within the Redmond review, which reported in September 2020, is that an independent member could be appointed to local government audit committees to provide specific support on governance, risk and accounting matters. We will continue to work with the Chair to support the continuing development and improvement of the committee.

## 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. We note that the Council has a counter-fraud unit in place as part of the Internal Audit Service. The Council draws upon national publications to highlight fraud risks, including Audit Scotland's publication *Safeguarding Public Money: are you getting it right?* The Council's policies and procedures are in relation to fraud and corruption are subject to routine review, update and approval by the appropriate officers and Audit Committee.

The Council's Whistleblowing Policy and Anti-Fraud and Corruption Strategy were approved in September 2016. In a number of instances the terminology and guidance for support is out of date.

We note that there is currently no reporting on fraud activity or lessons learned to the Council's Audit Committee. We consider that this is a gap in the Council's risk management arrangements.

**Recommendation 7:**  
The Council should review the Whistleblowing Policy and Anti Fraud and Corruption Strategy to ensure that they remain in line with good practice across the sector. This should establish reporting arrangements to the Council's audit committee to improve awareness and openness about fraud investigations undertaken.

## 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.

## Group Governance Arrangements

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 Falkirk Integration Joint Board was due to be updated in November 2020 by the Board's partners, the Council and NHS Forth Valley. 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.

The Falkirk Community Trust has been significantly impacted by the pandemic with leisure centres closed through the start of 2020/21, with a corresponding financial impact. The most recent financial monitoring report presented to Council in September 2020 notes that the financial impact has been significantly improved as a result of the Trust furloughing 80% of their staff. The projected deficit that Falkirk Community Trust has asked the Council to meet is now £1.38 million.

As a result of its financial difficulty Falkirk Community Trust has requested, and received, a letter of support from the Council. As outlined on page 10 of our report, the Trust is immaterial to the consolidation of the Council's Group financial statements, and as such this material uncertainty does not impact the going concern conclusions around the Group financial statements. The financial position and possible impact on support required by the Council has been reported to the Emergency Executive and Council by the Chief Financial Officer, most recently in September 2020.

Despite previous recommendations made as part of the annual external audit process over a number of years, we note that the Council has not yet acted to resolve the conflict of interest caused by officers acting as Directors for the Falkirk Community Stadium. In our view, this continues to present a heightened governance risk during a period of significant financial challenge.

**Recommendation 8:**  
The Council should ensure the that actions agreed previously to remove potential conflicts of interest in relation to the governance of Falkirk Community Stadium Limited are actioned.

# Value for Money

The Council's arrangements for performance monitoring have continued through the global pandemic. The Council's services perform well against national comparators.

We do, however, note that there is scope to improve the public performance reporting arrangements to ensure that the Council complies with the revised Statutory Performance Indicators Direction, and ensure that sufficient information is available to assess whether the Council delivers Best Value.

A  
M  
B  
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R

## Performance Management framework

The Council established updated performance management arrangements to align with the five year Business Plan that was approved in May 2019. The performance management framework that has been agreed will draw on existing local indicators to provide assurance that the Council is delivering on the priorities within the plan and achieving the transformational change necessary.

We do, however, note that progress against the Corporate Plan Priorities was reported only annually to the Scrutiny Committee. The performance reporting adopted a One Council approach, across the three priority areas of the Corporate Plan. Due to the impact of the coronavirus pandemic, this meant that performance reporting was spread across 11 months:

- ▶ People - reported in November 2019
- ▶ Place - reported in January 2020
- ▶ Partnerships - due to report in April 2020, but delayed until September 2020.

The performance reports provide a 'RAG' rating system of actions and indicators. For example, for the Place Priority, all actions are complete or considered "green" for on track, but 5 of the performance indicators remain red. In our view, as a result of the timing, and the limited nature of reporting, it is difficult to conclude on overall performance against the Corporate Plan. No Annual Performance Report is yet in place to draw together performance as a whole.

Elected members have access to the Pentana performance management system, which provides more up to date performance indicators. This includes the Council's analysis of reported "Important Indicators" which are summarised within the Council's annual report and on the Council's performance pages of its website. As these indicators are not disclosed it is difficult for members of the public to conclude on whether performance is improving against key priorities.

## Local Government Benchmarking Framework

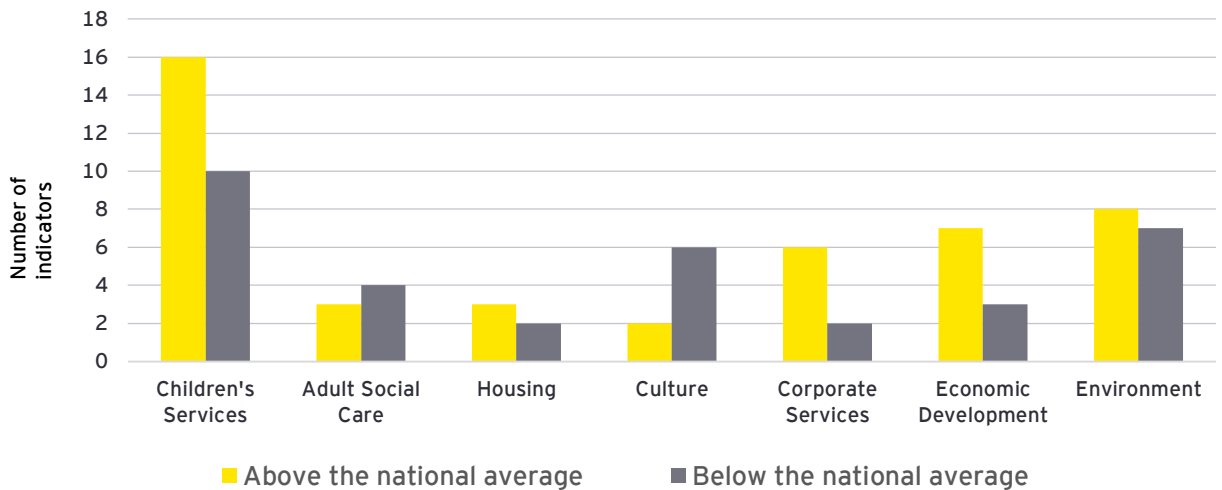
The Council reported its performance against the Improvement Service's 2018/19 Local Government Benchmarking Framework (LGBF) results in September 2020. Our analysis, within Exhibit 7, below shows that performance continues to be mixed against peers.

Performance improved in a number of priority areas including improving attainment amongst all pupils and those in deprived areas, and the percentage of unemployed people assisted into work from Council operated/funded employability programmes,

The Council also performed above the national average for 52.2% of indicators, including:

- ▶ The cost of waste disposal per premise (£75.66 per premise compared to £97.34);
- ▶ Household waste recycling 50.8% recycled compared to 44.7% in Scotland;
- ▶ Assisting more people into work through council employability programmes (24.26% compared to 12.59% in Scotland); and
- ▶ Business gateway start-ups (19.33 compared to 16.70 per 10,000 population).

### Exhibit 7: Council service generally perform well in relation to other councils in Scotland



Source: Falkirk Council Analysis of LGBF results 2018/19

Areas where performance declined in 2018/19 include:

- ▶ The gross cost of 'children looked after' in a community setting per child per week. We would also note that the percentage of children being looked after in the community is lower than the national average (82.27% in Falkirk and 89.92% in Scotland) and is an area being reviewed as part of the Closer to Home Strategy;
- ▶ Number of days people spend in hospital when they are ready to be discharged, per 1,000 populations (75+) increased in 2018/19. The number of days people spend in hospital when they are ready to be discharged, per 1,000 population is 1,178 in Falkirk against a national average of 792.66.

### 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 their:

- ▶ 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.

**Recommendation 9: The Council must ensure that revised priorities and corporate planning and supported by a performance management framework that demonstrates Best Value.**

The Council is required to meet the requirements of the revised Statutory Performance Information Direction, for which 2019/20 is the first year. While the Council continues to report a range of performance information to elected members to demonstrate the relative value and effectiveness of Council services, public reporting is less effective.

Information reported to committee covers the quality and effectiveness of local services and progress against key priorities. 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 continued to focus on improving its corporate planning arrangements, including medium term financial planning and business transformation. We also noted improvements in learning from the public and other stakeholders, including member/officer working to agree key projects and priorities.

In light of the Council's focus on responding to and recovery from the pandemic, Audit Scotland have deferred the Best Value Assurance Report that was planned to take place in 2020 until 2021, 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, there is scope to improve arrangements to demonstrate Best Value. This would include the identification of savings to prepare a balanced medium term financial plan, and public performance reporting arrangements.

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

The Best Value Assurance work has been postponed until 2021 to allow the Council to reflect on learning and implications of the recovery from the pandemic.

Our Annual Audit Plan reflects the impact of the lockdown on the planned Best Value Assurance Report, originally due for publication in November 2020. Audit Scotland agreed to postpone this work until 2021. 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.

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 April 2021.

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

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

2 - Best Value Assurance Report planned in 2019/20 and subsequently deferred to 2020/21.

3 - Best Value work indicatively planned in 2020/21 to be re-profiled across next two financial years in conjunction with the Best Value Assurance Report.



# 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 and unadjusted 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 April 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 24 February 2021.

## Audit Fees

Component of fee:	2019/20	2018/19
<b>Auditor remuneration - expected fee</b>	<b>£192,280</b>	<b>£187,900</b>
Additional audit procedures: related to Covid-19	£22,000	£0
Additional audit procedures: Whistleblowing	£30,000	£0
Additional audit procedures: Valuation of PPE	£15,500	£0
Audit fee in respect of S106 Trust Fund	£2,000	£550
Audit Scotland fixed charges:		
Pooled costs	£18,810	£18,220
Performance audit and best value	£96,610	£95,510
Audit support costs	£11,620	£11,800
<b>Total fee</b>	<b>£388,820</b>	<b>£313,980</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 whistleblowing allegations and the impact of Covid-19 on financial statement disclosures, including the risk around valuation of property plant and equipment and the valuation of the Council's share of assets and liabilities in the Falkirk Pension Fund. Significant additional audit time was also required in relation to the valuation of housing assets.

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 2020 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020). 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 and remain an area for concern. 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	Recommendation	Management response / Implementation timeframe
1	<p>As a result of the draft valuation report commissioned for 31 March 2021, a movement of £85 million was noted in relation to housing assets net book value held at 31 March 2020. Management reviewed the key factors and data points that impacted the valuation and satisfied themselves that the valuation could be materially attributed to 2019/20. As a result, a valuation adjustment has been processed, as noted in Appendix E.</p> <p>While we are satisfied that the Council has demonstrated that the movement relates to 2019/20, the significance of the movement and necessity to request an early draft from the District Valuer underlines that housing assets should be subject to a more frequent valuation schedule.</p>	<p>The Council should ensure that valuations are undertaken with sufficient frequency to remain up to date.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Management has agreed that revisions are required to the valuation process. Whilst the Code permits a five year rolling programme of valuations, there is the requirement to consider if material movements have taken place during the year.</p> <p>Finance staff have initiated discussions with the Council's Asset Management team to consider how best to take this forward.</p> <p>However, it must be highlighted that a balanced approach needs to be taken to asset valuations. The Council does not retain specialist valuation staff and instead contracts with specialist valuers. In short, the valuation process is expensive and provides little in the way of benefit, beyond satisfying the requirements of the Code. Significantly increasing the costs associated with asset valuation would not demonstrate value for money, particularly at a time of financial constraint.</p> <p>Responsible officer: Capital Manager</p> <p>Implementation date: March 2021</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	Management response / Implementation timeframe
2	While the quarterly Financial Monitoring Reports track management's overall assessment of the delivery of savings, there is no specific reporting that distinguishes transformation saving through COTF.	The Council should ensure that progress against the COTF transformation programme is reported to allow specific scrutiny of the savings and benefits delivered by the programme.  <i>Grade 1</i>	CoTF savings to be specifically identified in future Financial Reports.  Responsible Officers: Corporate Finance Manager & Change Manager  Implementation date: January 2021
3	The Council has a significant capital investment programme, which has long term implications for future funding and treasury management arrangements. The Council continues to experience significant slippage in delivery of the programme.  The Council's significant capital programme supports key investments that will aid the economic recovery in Falkirk.	There is scope to continue to improve the capital planning and monitoring process. Increased oversight and transparency on the progress of capital projects against key milestones, would provide additional assurance that investments will be delivered as planned.  <i>Grade 2</i>	There is scope to continue to improve the capital planning and monitoring process. Increased oversight and transparency on the progress of capital projects against key milestones, would provide additional assurance that investments will be delivered as planned. The position for 2019/20 improved from the 2018/19 position.  The Capital Section staff monitor the capital programme. This is one element of a much wider remit. As such, there is not enough resource in the team to allow a more detailed, project by project review by milestones to be undertaken. Instead, it falls to the Project Leads within the Services to provide updated information. They will usually provide this based on a progress review of projects, undertaken with the design staff involved.  Updates are regularly reported to Executive; there is a regular meeting of the Capital Planning & Review Working Group where updates are requested and the Capital Section send out updates of actual spend to date to services each month.  Slippage in the capital programme is an issue encountered by all Councils and is not unique to Falkirk. There are many reasons for slippage, examples include weather, issues with land acquisition, tenders coming in over budget and the project having to be reviewed and possibly redesigned. In terms of purchase of equipment, there may be issues with supply chains etc. These are all inherent risks in the capital investment process. It is considered unlikely therefore that slippage can be completely removed.  Improvements can always be made and it would be helpful to have more detail on the audit suggestions.  Responsible officer: Capital Manager  Implementation date: March 2021

## Classification of recommendations

No.	Findings and / or risk	Recommendation	Management response / Implementation timeframe
	<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.	<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.	<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.
4	<p>The Council does not appear to have followed its own policy for the investigation of whistleblowing activity. A fact finding report was commissioned to provide additional evidence, but the focus of the investigation was on the scope for a successful procurement challenge, rather than fully addressing the whistleblowing allegations or the results of a Counter Fraud Team investigation.</p> <p>Our Forensics Team will support the Council's lessons learned exercise to share findings and best practice.</p>	<p>The Council should revisit its investigation process to ensure that it has satisfied itself that:</p> <p>a. Initial procurement decisions are robust. This should include the use of a Subject Matter Expert to review the original scoring that was awarded through the technical evaluation in line with framework requirements.</p> <p>b. It has complied with its Whistleblowing and Disciplinary processes, including interviews with employees as necessary.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>A lessons learned piece of work will be undertaken when the new Audit Manager is appointed.</p> <p><b>Responsible Officer - Audit Manager</b> <b>Implementation Date - June 2021</b></p>
5	<p>While the Council's investigative work identified concerns in relation to segregation of duties, in our view the relative prioritisation was insufficient. The lack of segregation undermines the effectiveness of internal controls and does not adequately mitigate the risk of manipulation and collusion with sub-contractors.</p>	<p>The Council should:</p> <p>a. Review and update its authorisation process and limits (as recommended in the Fact Finding report).</p> <p>b. Review its procurement process and implement segregation of duties.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>This will be addressed through the implementation of the management response action plan.</p> <p><b>Responsible Officer - Head of Procurement and Housing</b> <b>Implementation Date - March 2021</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	Management response / Implementation timeframe
6	During our work, and management's fact finding investigation, we found that it was necessary to manually link invoices to related contracts during the investigation as this like was not undertaken as a matter of business as usual. The inability to reconcile actual spend to contract awards creates a risk of error and could result in the Council being unable to monitor that contractual spend is in line with agreed values within mini-competitions. This presents a weakness in financial and contract monitoring arrangements.	The Council should ensure that contract monitoring arrangements are in place to ensure that work performance and invoiced is in line with the mini-competition agreed values.  <i>Grade 1</i>	This has been identified in the Management Response to the CF reports. Internal Audit will support this work.  Responsible Officer - Head of Procurement and Housing Property Implementation Date - June 2021
7	The Council's Whistleblowing Policy and Anti-Fraud and Corruption Strategy were approved in September 2016. In a number of instances the terminology and guidance for support is out of date.  We note that there is currently no reporting on fraud activity or lessons learned to the Council's Audit Committee. We consider that this is a gap in the Council's risk management arrangements.	The Council should review the Whistleblowing Policy and Anti Fraud and Corruption Strategy to ensure that they remain in line with good practice across the sector. This should establish reporting arrangements to the Council's Audit Committee to improve awareness and openness about fraud investigations undertaken.  <i>Grade 1</i>	A review of relevant policies will be undertaken when a new Audit Manager has been appointed.  Responsible Officer - Audit Manager Implementation Date - June 2021

## Classification of recommendations

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**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	Management response / Implementation timeframe
8	We note that the Council has not yet acted to resolve the conflict of interests that we have highlighted in each year of audit since 2016/17, where Council officers act as Directors for Falkirk Community Stadium.	Management should ensure the that actions agreed previously about conflicts of interest in relation to the governance of Falkirk Community Stadium Limited are completed.  <i>Grade 1</i>	The current management arrangements, where senior officers have been appointed as directors to FSCL, have been in place since the first company was formed in 2003.  Following the recent decision by Council to refurbish and fit-out the vacant accommodation at the Stadium, the overall arrangements for managing the property are currently being reviewed and this will allow an assessment of any issues around conflict of interest.  Responsible Officer: Corporate Finance Manager Implementation Date: March 2021
9	The revised Statutory Performance Indicators Direction issued by the Accounts Commission became effective in 2019/20. In our view, there is scope to improve public performance reporting to ensure that the full requirements of the Direction are achieved.	The Council should ensure that public performance reporting fully reflects the Accounts Commission's expectations.  <i>Grade 1</i>	Performance Indicators have been prepared to monitor the Corporate and Business Plans. These will be considered by the Executive in November. Performance Indicators will be used in monitoring reports to members on both Plans. These new Performance Indicators will be used in our public performance reporting.  Responsible Officer - Head of People, Technology and Transformation. Implementation Date: March 2021

## 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.

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# 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>Revaluation of Council Houses</i>		DR Fixed Assets - Land and Buildings £89,595,000 CR Revaluation Reserve £89,595,000
2.	<i>Consolidation differences between draft and final financial statements relating to the Group entities</i>	CR Actuarial (gains)/losses on pension assets & liabilities (CSVJB) £1,148,000	DR Liabilities in Associates and Joint Ventures (CSVJB) £1,148,000 DR Short Term Debtors (FCT) £1,283,000 CR Short Term Creditors £1,283,000

## Unadjusted judgemental difference

No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1.	Impact of addressing costs of and McCloud Goodwin judgement on the Council's LGPS liability valuation at 31 March 2020, 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.	CR Actuarial (gains)/losses on pension assets & liabilities £2,561,000  DR Past Service Costs £1,130,000	DR Pension Liability £2,561,000  CR Pension Liability £1,130,000
2.	Adjustment to reflect the updated IAS 19 report, with actual asset valuation as at 31 March 2020	CR Actuarial (gains)/losses on pension assets & liabilities £4,140,000	DR Pension Liability £4,140,000
3.	Unexplained variance between the General Ledger and Payroll	DR Payroll £262,648  CR Expenditure £262,648	
4.	Revaluation of Gateway: Judgemental adjustment to reflect the anticipated revaluation of a Council asset.	Dr Loss on Revaluation £1,500,000	Cr Fixed Assets - Land and Buildings £1,500,000

## Disclosure misstatement

A number of issues were identified as a result of lease testing, however as these relate to operating leases, this has no balance sheet impact, with the only impact being to the disclosure note within the financial statements. The impact of the identified error is the disclosure is overstated by:

Under 1 year - £4,500

Between 2 and 5 years - £68,000

Over 5 years - £1,570,300

# 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	August 2020
MAR	<ul style="list-style-type: none"> <li>Review progress of NFI exercise</li> </ul>	Submit NFI Questionnaire	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> <li>Education Maintenance Allowance (EMA) grant claim testing</li> <li>Wider scope work underway</li> </ul>	Annual Audit Plan - addendum	August 2020
JUL		Certified EMA return	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	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)	February 2021
NOV		Certify Annual Financial Statements	February 2021
DEC		Issue Annual Audit Report	
	<ul style="list-style-type: none"> <li>Completion of Non-Domestic Rates return testing</li> </ul>	Certified Non-Domestic Rates return	January 2021
	<ul style="list-style-type: none"> <li>Completion of Housing Benefits claim testing</li> </ul>	Certified Housing Benefit subsidy claim	February 2021

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