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East Ayrshire Council
Comhairle Siorrachd Àir an Ear

East Ayrshire Council

Report to the Governance and Scrutiny Committee, Members of the Council and the Controller of Audit on the 2020/21 audit

Issued on 23 September 2021 for the meeting on 30 September 2021

Contents

Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Governance and Scrutiny Committee ("the Committee") of East Ayrshire Council ("the Council") for the year ending 31 March 2021 audit. The scope of our audit was set out within our planning report presented to the Committee in April 2021.

This report summarises our findings and conclusions in relation to:

- The audit of the **Annual Accounts**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Council's duty to secure best value.

Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

We have issued an unmodified audit opinion.

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

We are satisfied that the Management Commentary and Annual Governance Statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Council.

We are satisfied that, following the amendments set out on page 33, the auditable parts of the Remuneration Report have been prepared in accordance with the relevant regulations.

A summary of our work on the significant risks is provided in the dashboard on page 11. In our Audit Plan, we identified two significant risks – recognition of COVID-19 related income, and management override of controls. Due to significant issues identified in our work on Heritage Assets, we reviewed our risk assessment and identified a third significant risk relating to their valuation.

Audit adjustments in excess of our reporting threshold (see page 31 – 32) have been identified in relation to property valuations, classification of provisions, recognition of the 'thank you' payment for social care staff, valuations of heritage assets, and recognition of personal protective equipment and testing kits received by the Council. These have been updated by management. It should be noted that the adjustment relating to the personal protective equipment and testing kits is as a result of a post balance sheet event rather than an error by management.

A number of disclosure adjustments have been identified (page 33 – 34), relating to the agency transactions, disclosure of grant income, classification of creditors, classification of property, plant and equipment, heritage assets, and pensions. These have been updated by management.

We have identified two control deficiencies which should be addressed by the Council, set out on page 21.

Status of the financial statements audit

The audit is complete.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions and best value

As set out on page 3, our audit work covered the four audit dimensions. Our separate detailed report presented to the Governance and Scrutiny Committee on 17 June 2021 set out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report on page 27 – 28. Key highlights include:

Financial Management – The Council continues to have strong financial management arrangements. The General Fund reported a breakeven position at the end of the year. The leadership of the finance team has changed during the year, with the interim arrangements working well.

Financial sustainability - The Council has achieved financial balance in 2020/21 and has set a balanced budget for 2021/22. The current reserves held are at a level commensurate with the risks and challenges facing the public sector. The level of Housing Revenue Account ('HRA') reserves has continued to increase year on year, although the Council does have various plans in place for their use.

It is positive to note that the Council has re-assessed the Long Term Financial Outlook however further work is required to fully enhance a medium term position. We recognise that work has commenced to review and update the medium-term financial position, with this expected to conclude in late 2021. The cumulative funding gap of £90m over the next 10 years remains a significant risk to the Council. It is also recognised that the long-term impact of COVID-19 is not yet known across the public sector and the wider economy.

The Council has made good progress during 2020/21 with transformation, particularly the development of the "Dynamic Renewal and Recovery Action Plan" in response to the COVID-19 pandemic

Governance and transparency – While there have been a number of changes in the leadership team during the year, leadership has remained strong and a positive culture maintained. The Chief Executive undertook a management restructure that was approved by Council on 24 June 2021 to ensure capacity is sufficient to lead the Council through the changes planned.

The Council continues to have robust governance and scrutiny arrangements in place including the interim arrangements put in place during the early stages of the COVID-19 pandemic. It also continues to be open and transparent.

Value for money – The Council continues to a have a clear and robust performance management framework in place. This also includes arrangements to comply with the SPI Direction.

Best value – The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.

Introduction (continued)

The key messages in this report (continued)

Next steps

An agreed Action Plan was included in the separate wider scope report that was presented to Governance and Scrutiny Committee in June 2021. Additional actions arising from the Annual Accounts audit are included in an agreed Action Plan included on page 35 of this report. We will consider progress with all agreed actions as part of our 2021/22 audit.

Added value

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

This is provided throughout the report. In addition we invited key elected members to the “Resilient Leader: Thriving in uncertain times” webinar in March 2021.

In addition, we included our “sector developments” in the separate wider scope report that was presented to Governance and Scrutiny Committee in June 2021 which covers our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council.

Pat Kenny
Audit Director

Annual Accounts audit

Quality indicators

Impact on the execution of our audit

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

Area	Grading	Reason
Timing of key accounting judgements	!	Support for key accounting judgements such as property, plant and equipment ("PPE") valuations and net defined benefit pension asset was provided on time. However, a significant issue arose relating to the estimates and judgements used in relation to the number and valuation of heritage assets. This, coupled with the considerable change in the number of assets held, led to delays in concluding this part of the audit.
Adherence to deliverables timetable	!	The Council largely provided information in line with agreed deadlines.
Access to finance team and other key personnel		Deloitte and the Council have worked together to facilitate remote communication during the audit. This has included effective use of such technologies as Microsoft Teams and Deloitte Connect. There have been no issues with access to the finance team or other key personnel.
Quality and accuracy of management accounting papers	!	Accounting papers were substantially of an acceptable standard. Accounting records for some elements of property assets and the Remuneration Report were not consistent with working papers. Working papers for heritage assets, predominantly in relation to the number of assets held, were insufficient and resulted in additional audit work.
Quality of draft financial statements		A full draft of the Annual Accounts was received for audit on 29 June 2021. We identified a number of minor amendments which have been updated in the audited accounts, and we identified a number of areas of good practice in the Annual Accounts, including effective use of graphics, signposting and cross-referencing to the financial statements throughout.

! Lagging ! Developing Mature

Quality indicators (continued)

Impact on the execution of our audit (continued)

Area	Grading	Reason
Response to control deficiencies identified	Mature	We identified two control deficiencies during our audit, relating to: - Maintenance of accounting records and the judgements of internal experts in relation to heritage assets; and - Management review of amounts disclosed in the Annual Accounts and supporting working papers in certain areas. These are set out in further detail on page 21.
Volume and magnitude of identified errors	! Lagging	We have identified a number of adjustments to the Annual Accounts during the audit which have been accepted by management and updated. These are set out in detail on page 31 – 32. Two of the adjustments identified were individually quantitatively material, being the adjustments for property, plant and equipment (valuations) and the classification of provisions on the Balance Sheet. The remainder of the misstatements were quantitatively material in aggregate. After the 30 June Annual Accounts deadline local government in Scotland received final clarification and the distribution of confirmed figures in relation to donated PPE and testing kits from NHS National Services Scotland ("NSS"). An adjustment was necessary to reflect these final figures in the audited Annual Accounts. This is therefore not indicative of the quality of the draft Annual Accounts. We have also identified a number of disclosure adjustments, set out in detail on page 33 – 34, which have been accepted by management and updated. Four of these adjustments were individually quantitatively material. The remainder were in aggregate quantitatively material.

! Lagging ! Developing Mature

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Determine materiality

When planning our audit we set our materiality at £9.67m (Council only £9.186m) based on forecast gross expenditure.

We have updated this to reflect final figures and completed our audit to group materiality of £8.977m (Council only £8.522m), group performance materiality of £5.835m (Council only £5.539m) and report to you in this paper all misstatements above £0.250m.

In our Audit Plan, we confirmed that we set performance materiality at 70% of materiality. Due to the adjustments and control deficiencies identified, we revised this downward to 65%. This reduced performance materiality for the group by £0.449m (Council only £0.430m) and required us to revisit all audit work completed at a late stage in the audit.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement, being recognition of COVID-19 related income and management override of controls. Due to issues identified during our audit, we revised our risk assessment and identified an additional significant risk relating to heritage assets. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Governance and Scrutiny Committee's attention to our conclusions on the significant audit risks. In particular the Governance and Scrutiny Committee must satisfy themselves that management's judgements are appropriate.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Recognition of COVID-19 related income	✓	✓	D+I	Satisfactory		Satisfactory	12
Management override of controls	✓	✓	D+I	Satisfactory		Satisfactory	13
Completeness and existence of Heritage Assets	✓	✓	D+I	Not Satisfactory	+	Control deficiency, adjustment identified, and further disclosure required	16

Overly prudent, likely to lead to future credit − − + + Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Recognition of COVID-19 related income

Risk identified and key judgements

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2020/21, the Council has received additional funding in relation to COVID-19 mobilisation costs. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that are being administered by Councils on behalf of the Scottish Government.

We have pinpointed the significant risk to the completeness and occurrence of the funding for COVID-19 mobilisation costs and the completeness and accuracy of the agency arrangement disclosures.

The key judgements for management are assessing:

- Any conditions associated with the mobilisation cost funding; and
- Whether the Council is acting as a principal or agent in administering the business support schemes.

Deloitte response and challenge

We have performed the following:

- Assessed the design and implementation of the controls in relation to the accounting treatment of all COVID-19 related funding;
- Tested a sample of funding for COVID-19 mobilisation costs and confirm these have been recognised in accordance with any conditions applicable; and
- Tested the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:
    - Transactions have been excluded from the Comprehensive Income and Expenditure Statement;
    - The Balance Sheet reflects the debtor or creditor position at 31 March 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and
    - The net cash position at 31 March 2021 is included in the financing activities in the Cash Flow Statement.

Deloitte view

We have identified two adjustments in relation to the treatment of the debtor and creditor position of agency payments, as set out on page 31 and 33. Management have updated these, which reduces agency income, debtors and creditors by £2.479m each.

Given the significance of COVID-19 income and the change in the year, the funding has also been appropriately explained within the Management Commentary and the notes to the Accounts.

Significant risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates considered is provided on the following page; and

- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Accounts of the prior year.

Significant and unusual transactions

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

Deloitte view

We have identified issues in the key judgements made by management in relation to the valuation of heritage assets and the number of heritage assets held by the Council, both in the draft Annual Accounts and in response to initial audit queries (discussed further on page 16 – 17).

We have not identified any instances of management override of controls in relation to the specific transactions tested. We have identified deficiencies in respect of heritage assets and the use of independent experts – as set out on page 21.

Significant risks (continued)

Management override of controls (continued)

Key judgements The key judgements in the Annual Accounts are those which we have selected to be the significant audit risks around the recognition of COVID-19 related income (page 12) and valuation of Heritage Assets (page 16). While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (page 18), and the recognition of expenditure (page 19). Below, we set out our challenge of the assumptions used in the determination of other key accounting estimates and judgements, including property valuations, PPP projects and provisions.

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property valuations	The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. The Council has had an independent valuation carried out at 31 March 2021 by its internal valuers to include valuation of 20% of all of the Council's land and property in accordance with its 5-year rolling programme. The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards. The Council's revaluation has resulted in a upward valuation to property values of £13.41m.	We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Estate, reviewed the methodology applied by the Council's valuer in previous years and concluded it was robust. We have confirmed that the valuer and the methodology applied has not changed in the year. We have challenged management's assessment and consulted with our internal property specialists. For those valued on Existing Use Value on a market comparable basis, our property experts have confirmed that minimal market value would be expected in 2020/21. For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we have performed an analysis of changes in the Build Costs Information Service index and concluded that no material movement would be expected. We are therefore satisfied that there is no indication of a material movement in assets not formally revalued during the year. We have reviewed the valuer's report, specifically considering the impact of COVID-19. As with 2019/20, the valuer has confirmed that the valuation is reported as being subject to 'material valuation uncertainty'. In line with 2019/20, we have included an 'Emphasis of Matter' paragraph in our audit report to highlight this. It is important to note that the valuations provided can continue to be relied upon and are reasonable based on the best available information at the point of valuation. Our testing identified that the Council had incorrectly used the valuer's report as the starting point for property valuations in the year, amending these for additions during the year. As the valuer's report is 'as at' the year-end date, the report already includes the value of any additions made during the year. This misstatement resulted in the value of property assets being overstated by £8.932m, as set out on page 31. This has been corrected by management.

Significant risks (continued)

Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Provisions	The total provisions held within the Council's balance sheet are material. This comprises provisions in respect of severance payments, equal pay claims, historic child abuse and the Council's share of the former Strathclyde Regional Council's insurance claims. In a number of cases, the Council has utilised the disclosure exemption within IAS 37 whereby disclosure of specific amounts for each provision would be seriously prejudicial to the interests of the Council. In 2020/21, the Council recorded total provisions of £6.507m.	We examined the rationale for each provision, including a retrospective review of amounts provided in 2019/20. We have consulted with the Council's Chief Governance Officer to confirm completeness of the provisions, to understand the key judgements and assumptions and any relevant input data. In relation to the provision for equal pay claims, we have assessed the completeness of the provisions made through discussion with the Council's legal and HR advisers and benchmarked with our industry knowledge. We have also considered external developments and progress in dealing with the equal pay claims in determining whether the amount provided is reasonable. We identified no issues in relation to the provision for equal pay claims. We raised a disclosure adjustment in relation to non-disclosure of provisions on the face of the Balance Sheet, which has been accepted by management, as set out on page 31. As provisions are material in 2020/21, separate disclosure is required.
Public Private Partnerships ("PPP")	The Council currently has 6 PPP projects: Mauchline Primary School, Shortlees Primary School, Grant Campus, St Joseph's Academy, St Andrews Primary School and William McIlvanney Campus. Each PPP liability is valued based on the value of the remaining lease payments under the relevant accounting standards. The minimum lease rental is split between interest and principal using the actuarial method. In 2020/21, the Council made payments of £14.86m on PPP projects.	We obtained and assessed the initial PPP agreements in place and reconciled to the payment schedule for each model. We have conducted a retrospective review of the prior year liability to assess accuracy, and have challenged any changes made to the model. We have sample tested the unitary charges made in the year. We have recalculated the effective interest rate recognised within the model and have performed an overall assessment of model. We are satisfied that the PPP liability and payments recognised in the accounts are appropriate.

Significant risks (continued)

Completeness and existence of Heritage Assets

Risk identified

Heritage assets can be valued using any relevant and appropriate method of valuation, per the Code of Practice on Local Authority Accounting in the UK. Where there is no information in relation to cost or value, and where the cost of obtaining that information would be disproportionate to the value of the users of the Annual Accounts, the Council can decide not to recognise heritage assets on their Balance Sheet. In 2019/20, the Council held £65.256m of heritage assets. In 2020/21, this value was £40.796m in the unaudited Annual Accounts. By its nature, this is a significant estimate with judgement involved in determining whether valuation is possible, the method of valuation and the valuation itself. The key input data for the valuation of heritage assets is the number of heritage assets held by the Council.

As set out in our Audit Plan, we requested a management paper on the valuation of heritage assets. The paper provided was reviewed and subject to challenge. Subsequent discussions with the Council revealed that while the Council had records for heritage assets covered by its insurance policy, it did not have records for heritage assets which were not insured. Responses from management to audit queries indicated a high degree of estimation on the number of heritage assets held by the Council, and their value.

We did not identify this as a significant risk in our Audit Plan. However, due to the movement in the year and the initial identification of incomplete records impacting on the valuation (page 21), we reconsidered our risk assessment and have highlighted a significant risk to the existence and completeness of heritage assets.

Deloitte response and challenge

We have performed the following:

- Challenged management on the significant movement in the valuation of heritage assets in the year and the absence of supporting evidence for the assets held by the Council;
- Considered both corroborative and contradictory evidence identified during the course of our 2019/20 and 2020/21 audit of heritage assets;
- Engaged with internal audit on the risk associated with heritage assets;
- Assessed the design and implementation of controls in relation to the maintenance of records of heritage assets, and in relation to the use of an independent expert for valuing these assets;
- Tested a sample of heritage assets both from the records held by the Council and directly from relevant locations to assess the completeness and existence of assets, as compiled by the Council;
- Challenged the assessment of the valuation of heritage assets provided by the internal expert, including benchmarking against other local authorities;
- Considered the objectivity, competence and capability of the experts used by the Council;
- Consulted with auditors of other local authorities on the audit approach to heritage assets; and
- Reviewed advice received by the Council from CIPFA to consider the impact of issues identified during the audit, to demonstrate appropriate challenge in line with the Code.

Significant risks (continued)

Completeness and existence of Heritage Assets (continued)

Deloitte view

Prior to our audit, there was a limited list of heritage assets held by the Council with estimates on the total number of assets and their value being provided by the internal expert within East Ayrshire Leisure Trust. This initially led to the view that the total number of assets held was approximately 250,000 whereas following an actual count of the items, instructed by the Council's Chief Financial Officer and undertaken during the audit, the actual number of heritage assets held was found to be approximately 130,000. This discrepancy arose due to the Council having incomplete records in relation to heritage assets.

Through our work on heritage assets, we identified an over-reliance by management and internal audit on the opinion of internal experts, with inadequate challenge of the basis for the opinion and the input data. While it is appropriate to engage experts for complex estimates, the judgement ultimately remains the responsibility of management and management need to be able to demonstrate that they have appropriately considered whether the expert is independent, whether their opinion is based on complete and accurate source data, and whether their opinion is reasonable in light of management's own understanding of the Council.

Responses received from management to audit queries were protracted due to the views and judgement provided by the internal expert which resulted in variations in the potential values of specific heritage assets ranging from £nil to £0.747m.

Our work identified on heritage assets identified weaknesses in the objectivity of experts relied upon by the Council.

The absence of appropriate records, the outcome of the subsequent count of the items, the challenge made by audit and the control deficiencies identified necessitated a revision of the heritage asset risk assessment, required involvement from senior members of the audit team, and resulted in a considerable amount of additional audit testing.

Following our testing, we have raised an adjustment of £0.747m in relation to the valuation of heritage assets, on page 31. We have also raised a disclosure deficiency in relation to the disclosure included in the Annual Accounts on the Council's holding of heritage assets and its approach to valuation, set out on page 34.

Other areas of audit focus (continued)

Defined benefits pension scheme

Background

The Council participates in two defined benefits schemes:

- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Strathclyde Pension Fund, administered by Glasgow City Council.

The net pension liability has increased from £129.177m in 2019/20 to £183.017m in 2020/21. The increase is combination of an increase of £194.855m in the fair value of the assets and an increase of £248.695m the liabilities as a result of demographic changes and financial assumptions.

The Council's pension liability continues to be affected by the following legal cases:

- ***McCloud*** – this case is in respect of possible discrimination in the implementation of transitional protections following the introduction of the reformed public services pension schemes from 1 April 2014 and 2015. The actuary has advised that an estimated allowance for McCloud has been included within the current service cost, consistent with the prior year. There is still uncertainty about the form of compensation that will be provided to members an therefore the final actual cost of complying with the ruling may be different to the estimate.
- ***Goodwin*** – this is a legal challenge made against the Government in respect of unequitable benefits for make dependants of female members (based on service after 1988) following the earlier Walker ruling. The 31 March 2020 triennial funding valuation did not allow for the impact of Goodwin, therefore the Council's actuary has used the same percentage allowance that was used last year (0.1% of the liability).

Deloitte response

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

	Council	Comments
Discount rate (% p.a.)	2.0	Prudent end of reasonable range
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.85	Reasonable
Salary increase (% p.a.)	3.55	Real salary increases 0.7% above CPI inflation
Pension increase in payment (% p.a.)	2.85	Reasonable
Pension increase in deferment (% p.a.)	2.85	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	19.8	Prudent end of reasonable range
Mortality - Life expectancy of a female pensioner from age 65 (currently aged 45)	22.60	Prudent end of reasonable range

Deloitte view

We have not identified any issues through our work.

Other areas of audit focus (continued)

Expenditure recognition

Risk identified

In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, as discussed further on page 12, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on the basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We have considered this risk for the Council and concluded that we are satisfied that the control environment is strong and there is no history of errors or audit adjustments. This was therefore not been assessed as a significant risk area, but continued to be an area of audit focus.

Deloitte response

We performed the following procedures to address the above risk:

- A review of the number and median value of invoices processed in the year. As illustrated in table opposite, based on the medium amount, the Council would need to omit over 54,353 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 7,841 invoices were processed. We therefore concluded that a risk of material misstatement was remote.

- An analytical review to test the completeness and accuracy of year-end creditor balances was carried out.

	Invoice Analysis
Median invoice amount	£169
Average number of invoices processed per month	11,482
Number of invoices that would need to be unrecorded to cause a material misstatement	54,354
Total invoices processed in April 2020 (one month after year-end)	7,841 (total value £40.768m)

Deloitte view

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

Other areas of audit focus (continued)

Charitable trusts

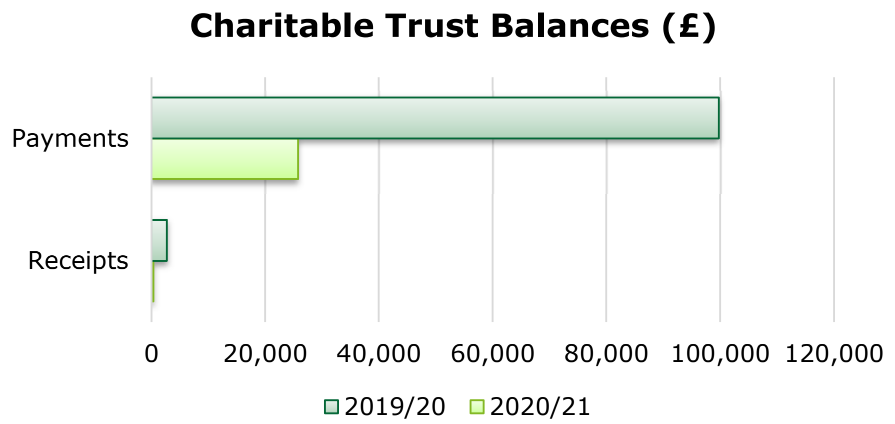
Risk identified
From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each charity, and a separate audit of each. North Ayrshire Council administers eight such registered charities, disclosed in a single set of Annual Accounts. This is in accordance with the connected charities rules.

As the gross income of each of the Trusts is less than £100,000, the Council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with The Charities Accounts (Scotland) Regulation 2006. Fully compliant Charities SORP accounts are therefore not required and disclosure is limited to that specified in the Regulations.

Deloitte response

We have assessed that the Statement of Receipts and Payments and the Statement of Balances to ensure these have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006.

A summary is provided in the table adjacent. From an initial review of draft Annual Accounts we note that there has been a large movement in payments which have dropped from £99,777 in 2020/21 to £25,764 in 2020/21. This is largely due to the impact of the COVID-19 pandemic.



Deloitte view
No issues have been identified through our work. We have issued an unmodified audit opinion.

Other significant findings

Internal control and risk management

During the course of our audit we have identified two internal control and risk management finding, which we have included below for information.

Area	Observation	Priority
Maintenance of accounting records	During our testing of heritage assets, we identified a significant discrepancy between the number of assets the Council indicated they held (approximately 250,000) and the number of assets actually held (approximately 130,000). This discrepancy arose due to the Council having incomplete records in relation to the number of heritage assets as well as estimates and adjustments from internal experts that were later adjusted. While management have significantly addressed this during the 2020/21 audit, an ongoing control needs to be designed and implemented to ensure that up to date records are maintained. Management should also ensure that there are appropriate controls in place to assess the reasonableness of the judgements and estimates provided by experts.	High
Management Review	As set out on page 31 – 34, we have identified a number of adjustments during our audit. A detailed management review, acting as a detective and corrective control, could have identified a number of these – for example, revaluations of PPE, errors in the Remuneration Report, the disclosure of Grants in Advance and provisions. In future years, we would encourage the Council to further enhance their existing processes in reviewing the Annual Accounts and key supporting working papers areas in advance of the audit before submitting the draft Annual Accounts for audit, to minimise the number of adjustments.	Low

The purpose of the audit was for us to express an opinion on the Annual Accounts. The audit included consideration of internal control relevant to the preparation of the Annual Accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings (continued)

Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The Council has prepared its Annual Accounts in line with the Code of Practice on Local Authority Accounting. We are satisfied that the Council's accounting practices are appropriate. The Council could improve its Annual Accounts by setting out the 'Expenditure and Funding Analysis' as a note to the primary statement, rather than as a primary statement itself. This approach to the 'Expenditure and Funding Analysis' is set out in the Code of Practice on Local Authority Accounting and is the approach taken by other local authorities. However, we note the Council's view that the current positioning of the EFA in the Annual Accounts assists in telling the story of the financial year and aids the understanding of the accounts by users.

The Council could also improve its disclosures on critical judgements and sources of estimation uncertainty to include more information for the users of the Annual Accounts, appropriately tailored to the specific conditions facing the Council.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation. In particular, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) guidance on accounting for Personal Protective Equipment (PPE) COVID-19 suggests that the Council is acting as principal regarding the PPE transactions and therefore should recognise any income, expenditure, or stocks of PPE. This was discussed with management and it was confirmed that this guidance has been followed.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We will obtain written representations from the Council on matters material to the Annual Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our audit report

Other matters relating to the form and content of our report

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

Our opinion on the financial statements

We have issued an unmodified audit opinion.

Material uncertainty related to going concern

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

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.

Emphasis of matter and other matter paragraphs

As discussed on page 14, we have included an 'Emphasis of Matter' paragraph within our audit report in relation to the material uncertainty associated with the property valuations arising from the impact of COVID-19.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

The narrative parts of the Annual Accounts is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

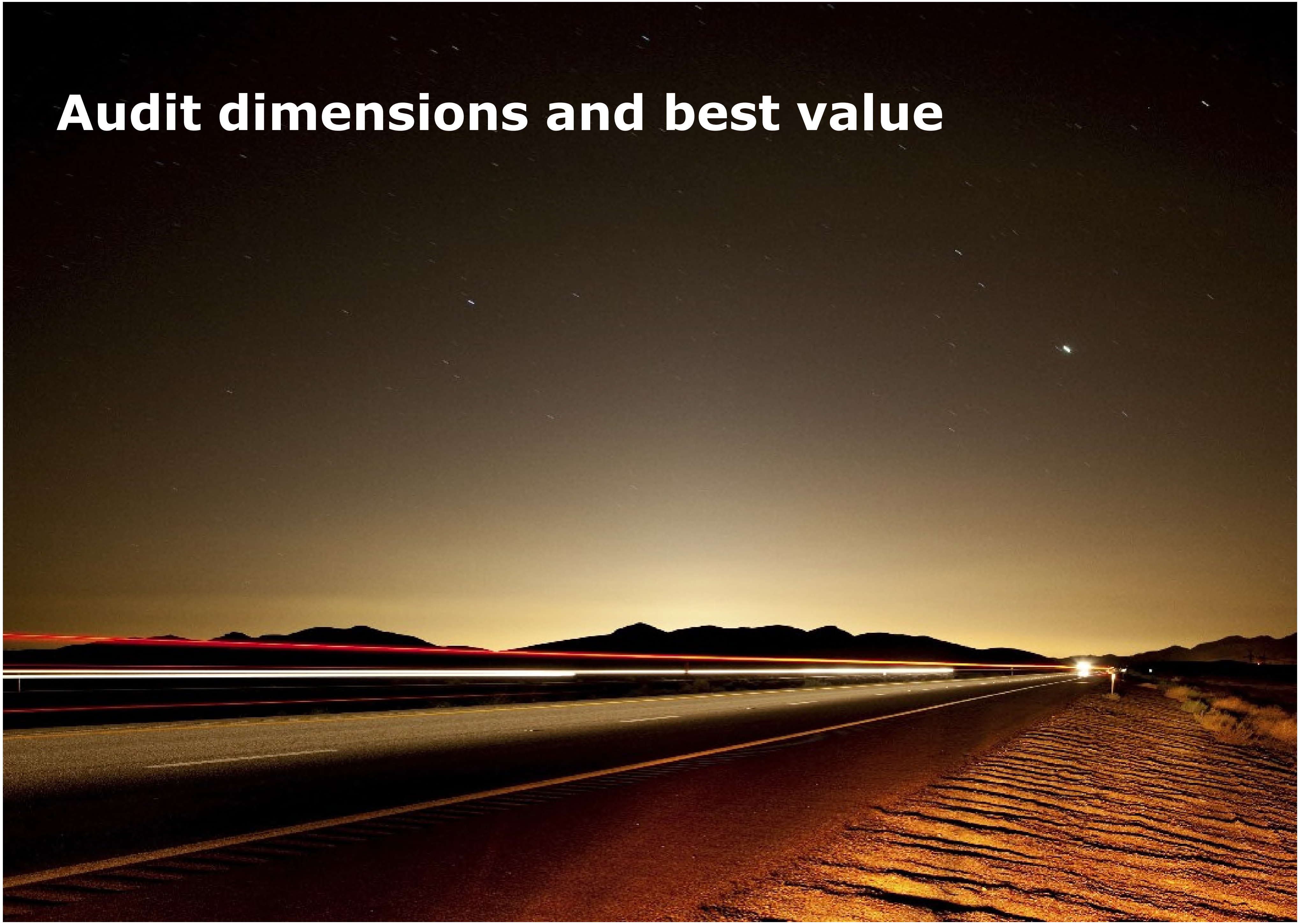
Our opinion on matters prescribed by the Controller of Audit as discussed further on page 24.

Your Annual Report

We are required to provide an opinion on the auditable parts of the Remuneration Report, the Annual Governance Statement and whether the Management Commentary is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Council also focuses on the strategic planning context.	We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. As set out on page 8, a number of areas of good practice were identified within the Management Commentary. Comments arising from the audit process were generally minor. We have concluded that the Management Commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.
Remuneration Report	The Remuneration Report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the Council.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and have identified (see page 33), adjustments required which have been corrected by management. We confirm that the Remuneration Report has been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Council's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government Framework. We requested that management update the Annual Governance Statement to reflect the lack of records in relation to heritage assets. However, management arranged a full count of all heritage assets to be undertaken during the audit and this has been completed and records are now available for all heritage assets. The Annual Governance Statement has been updated to reflect this work and to highlight the risks that previously existed. We have concluded that the Annual Governance Statement is consistent with the financial statements, our knowledge and the accounts regulations.

Audit dimensions and best value



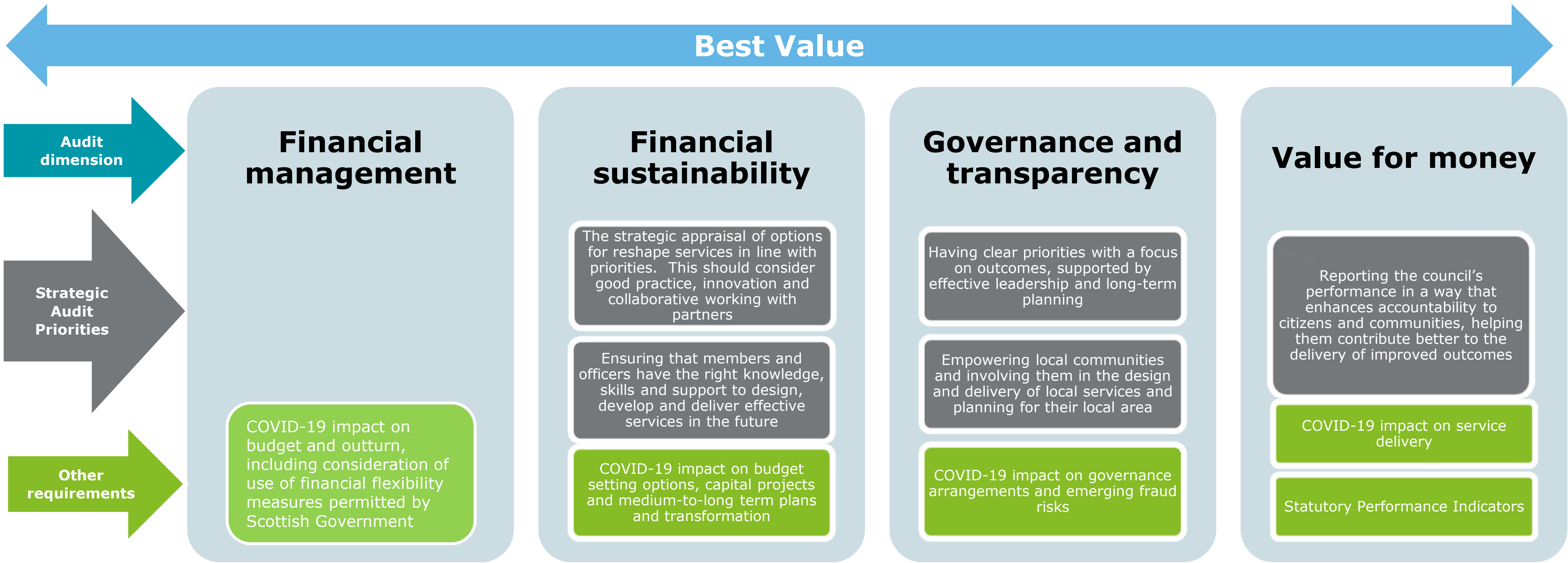
Audit dimensions and best value

Overview and conclusions

As set out in our audit plan and separate report on the "Audit Dimensions and Best Value" presented to the Committee in June 2021, public audit in Scotland is wider in scope than financial audits. Ours separate report sets out our findings and conclusions on our audit work covering the areas set out below. Our report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on Best Value, the Accounts Commission's **Strategic Audit Priorities (SAPs)** and the **Statutory Performance Information (SPI)** Direction.

The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. Our audit work across each dimension has therefore been specifically focussed on how the Council has responded to these risks.

In recognition of the demands on auditors' time and the challenges of remote auditing, the Commission agreed that auditors are not required to specifically consider and report on the SAPs as part of the 2020/21 audit. The SAPs continue to be important but the work on the audit dimensions will be used to inform progress. We have therefore set out below how each SAP inter-relates to the audit dimensions.



In accordance with the Code of Audit Practice, our overall conclusions on each audit dimension and best value are summarised on the following page.

Audit dimensions and best value (continued)

Overview and conclusions (continued)

Financial management

The Council continues to have strong financial management arrangements which are robust enough to manage financial activity and capture and address any challenges to the achievement of financial targets. The General Fund ended the year in a breakeven position and the Council did not have to use the financial flexibilities available to address the impact of COVID-19 in 2020/21. The financial position and variances were transparently reported to the members throughout the year via East Ayrshire Performs. These reports could be enhanced further by including an overall summary table setting out the high level financial position of the Council.

The Council continues to have a sufficiently qualified and experienced finance team to support the financial management of the Council. The leadership of this team has changed during the year, with the interim arrangements working well. We will continue to monitor this progress with the service review of the Finance and ICT team and any further impact of COVID-19 on workload as part of our 2021/22 audit.

The arrangements for prevention and detection of fraud also remain robust. We are particularly pleased to note that in response to the increased risks as a result of COVID-19 funding, Internal Audit have been embedded in all stages of the COVID-19 grant control environment.

Financial sustainability

The Council has achieved financial balance in 2020/21 and has set a balanced budget for 2021/22. The current reserves held are at an acceptable level.

While the overall reserves level remains significant, the majority is earmarked for specific purposes. It is important that the plans for these funds are actively monitored to ensure that they are invested to support sustainable investment.

It is positive to note that the Council has re-assessed the Long Term Financial Outlook. Further work is required to fully develop a medium term position, clearly incorporating the potential impact of the COVID-19 pandemic on future years financial position, as well as any medium-to-long-term expected impacts as a result of the exit from the EU. This needs to be closely aligned with the work around recovery and renewal. We recognise that management have plans to address this in late 2021. The cumulative funding gap of £90m over the next 10 years remains a significant risk to the Council. It is also recognised that the long-term impact of COVID-19 is not yet known. Detailed plans need to be developed to identify how the Council plan to bridge this gap. The level of HRA reserves has continued to increase year on year, although the Council does have various plans in place for their use.

The Council has made good progress during 2020/21 with transformation, particularly the development of the “Dynamic Renewal and Recovery Action Plan” in response to the COVID-19 pandemic, which has incorporated workforce considerations. Regular reporting is provided to elected member on the savings achieved from the transformation work through East Ayrshire performs. The Action Plans also report progress on each activity. However it currently does not require the level of detail we would expect to monitor this effectively. A comprehensive benefits tracker therefore should be considered to capture all the data required to demonstrate whether the intended outcomes of each project have been achieved, beyond the financial savings.

Audit dimensions and best value (continued)

Overview and conclusions (continued)

Governance and transparency

While there have been a number of changes in the leadership team during the year, it has benefited from the successful candidates previously holding senior leadership positions within the Council. There has therefore been continued strong leadership in place and a positive culture. The review of the management structure was approved by Council on 24 June 2021 and ensures capacity is sufficient to lead the Council through the changes planned. We will monitor progress during our 2021/22 audit.

The Council continues to have robust governance and scrutiny arrangements in place including the interim arrangements put in place during the early stages of the COVID-19 pandemic. It also continues to be open and transparent. In the interest of continuous improvement and as highlighted in our 2019/20 report, the Council should consider if there are any lessons learned from other public bodies or other ways of engaging with wider stakeholders, for example by webcasting Council and Committee meetings to reach a wider audience. It is positive to see that the Council has recently introduced recording of committee meetings to reach a wider audience. This is particular relevant now that all meetings can take place virtually .

The Council has continued to exercise sufficient oversight and scrutiny of the HSCPs activities. The IJB has made some good progress during the year, continuing to achieve financial balance and drive forward transformational change. The risks of COVID-19 on both the financial position and financial sustainability of the services will remain ongoing. It is therefore critical that the planned comprehensive review of the IJBs MTFP to align with the Strategic Plan is progressed.

Value for money

The Council continues to a have a clear and robust performance management framework in place through the LOIP and in line with best practice, reports clearly and links its performance measures to the National Performance Framework. It also has robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery. The Council continues to have a clear focus on improving equality outcomes.

Best value

It is the duty of the Council to secure Best Value as prescribed in Part 1 of the Local Government in Scotland Act 2003. We have a statutory duty to be satisfied that the local government bodies have made proper arrangements for securing BV.

Based on our audit work performed on the four audit dimensions, we are satisfied that the Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

Our observations are developed in the context of our audit of the Annual Accounts.

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

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

Use of this report

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

P. Kenny

Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 23 September 2021

Appendices

Audit adjustments

Corrected adjustments

The following adjustments have been updated by management. We communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/(Credit) Comprehensive Income and Expenditure Statement £m	Debit/(Credit) in Net Assets £m	Debit/(Credit) Reserves £m	Debit/(Credit) prior year Reserves £m	If applicable, control deficiency identified
Valuation of Property, Plant and Equipment	[1]					Yes – page 21
Decrease valuation of property assets		0.554	(8.932)	8.378		
Classification of Provisions	[2]					Yes – page 21
Decrease 'Creditors – Other Entities & Individuals'			6.507			
Increase 'Provisions'			(6.507)			
Recognition of 'Thank You' payment	[3]					None identified
Decrease 'Debtors – Central Government'			(2.479)			
Decrease 'Creditors – Central Government'			2.479			
Valuation of Heritage Assets	[4]					Yes – page 21
Increase valuation of heritage assets			0.747	(0.747)		
Personal Protective Equipment and Testing Kits	[5]					
Increase expenditure on 'Social Work Provision of Services'		1.879				None
Increase income from 'Social Work Provision of Services'		(1.879)				
Total		**0.554**	**(8.185)**	**7.631**		

Audit adjustments (continued)

Corrected adjustments (continued)

[1] Property assets subject to revaluation in the year are valued 'as at' the year-end date, inclusive of any additions or disposals made in the year. The Council incorrectly added the value of additions to the valuation provided by the valuer. As these additions were capitalised before the date of the valuation they were already included in the revalued amount. The adjustment made is to reduce the value of property assets by the additions made in the year, which were already factored into the valuer's report.

[2] In line with previous years, the Council has included provisions within the creditors balance on the Balance Sheet. The Council is required to separately identify these on the face of the Balance Sheet and the adjustment has been made.

[3] The Scottish Government communicated that it would provide a £500 'Thank You' payment to social care staff, funded through local authorities. The receipt of this funding and its subsequent payment to staff and third-party social care providers occurred in 2021/22 and it should therefore not be recorded in the 2020/21 figures. The adjustment made is to remove the amount from both debtors and creditors.

[4] As set out on page 14, the Council initially determined that for the ~170,000 uninsured heritage assets it held, the valuation was £nil on the basis that no economic benefit could be gained from them. Following the confirmation of the number of assets, it was determined that these assets had an aggregate value of £0.747m and the Annual Accounts have been adjusted.

[5] During the audit, and after the draft Annual Accounts were completed, the Scottish Government and Audit Scotland finalised the guidance in relation to the accounting for Personal Protective Equipment and COVID-19 testing kit usage by Councils and Health and Social Care Partnerships, including the determination of principal and agency transactions. As a result an adjustment was required to recognise donated stocks of £1.879m with the full amount having been utilised in year. The adjustment arose as a result of late guidance from the Scottish Government. This is therefore not indicative of the quality of the draft Annual Accounts. This has an overall nil impact on the Comprehensive Income and Expenditure Statement. It has an identical impact on the notes to the Accounts for Expenditure and Income Analysis by Nature, and Inventories.

Audit adjustments (continued)

Disclosures

Disclosure adjustments

The following disclosure adjustments have been identified up to the date of this report which management have corrected as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Remuneration Report Through our testing of the Remuneration Report we highlighted a number of adjustments: - Transposition errors; - Errors in amounts recorded for remuneration and pension contributions for certain individuals; - A split disclosure for a senior employee of the Council; and - The exclusion of 'leavers' in the 'higher paid employees' disclosure.	Local Authority Accounts (Scotland) Regulations 2014	Qualitatively material – Relates to the Remuneration Report, which is a key area of public interest.
Note 3 – Agency Services The £500 'Thank You' payments received from the Scottish Government have been incorrectly recognised in the 2020/21 accounts when all income and expenditure for this amount has occurred in 2021/22. An adjustment to reduce agency income and expenditure by £2.479m has been made to correct this.	LASAAC Guidance on Accounting for Coronavirus (COVID-19) Grants/Funding Streams	Qualitatively material – Relates to an audit significant risk area.
Note 5 – Grant income Grants received in advance have not been separately disclosed as a note in relation to grants income, which is required where grants received in advance are material. An adjustment to separately disclose these in the notes to the Accounts was made, totalling £9.726m.	Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (2.3.4.1)	Quantitatively material

Audit adjustments (continued)

Disclosures (continued)

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Note 5 – Grant Income The Council receives funding in the form of a resource transfer from the NHS Ayrshire & Arran, which should be recognised as a 'Grant Credited to Services'. The amount of this resource transfer in 2020/21 was £21.596m and an adjustment has been raised to include appropriate disclosure of this within this note.	Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (2.3.4.1)	Quantitatively material
Note 8 – Pensions In Note 8 there is a line for "reversal of net charges made to the surplus/deficit for the provision of services for post-employment benefits in line with the Code" which was incorrectly disclosed by the Council. An adjustment of £35.085m was made to correct the calculation.	Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (6.4.3.45)	Quantitatively material
Note 16 – Heritage Assets The Council is required to disclose information on the nature and scale of heritage assets held by the Council and a description of the records maintained by the Council of its collection. Accurate information on this could not be provided by the Council in the draft Annual Accounts as the Council did not at that time have sufficient accounting records to provide the required information. This information was compiled during the audit and an adjustment was raised to appropriately disclose this information in the notes to the Accounts.	Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (4.10.4.1)	Qualitatively material – Relates to an audit significant risk area.
Note 18 – Creditors There has been a misclassification of the amounts owing to the IJB at the year end as 'Other Entities and Individuals' within Creditors, when they should be classified as 'Other Local Authorities'. The value of the adjustment is £9.316m.	Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (3.4.2.64)	Quantitatively material

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	*Annual Accounts supporting working papers*	Management should further enhance their review of supporting working papers, management papers and the judgements of internal experts for the Annual Accounts, prior to their submission to audit.	Management have accepted this recommendation and will implement it in line with the agreed timeline.	Interim Corporate Accounting Manager	30/6/22	Medium
2	*Heritage Assets*	Management should undertake a review of heritage assets in conjunction with East Ayrshire Leisure Trust to ensure the ongoing management of record keeping, the overall insurance arrangements and requirements for the collection and review the effectiveness of the existing disposal policy particularly for low value/multiple similar items.	Management have accepted this recommendation and will implement it in line with the agreed timeline.	Chief Financial Officer and Head of Finance & ICT	31/3/22	Medium

Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

As auditor, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

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

Audit work performed:

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

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

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

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the ILF and and our objectivity is not compromised.
Fees	The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £292,090, as analysed below:

	£
Auditor remuneration	180,050
Audit Scotland fixed charges:	
Pooled costs	17,120
Contribution to PABV	85,020
Audit support costs	9,900
Total fee	**292,090**

In addition to the above, the audit fee for the charitable trusts audit is £1,200.

The significant issues identified in relation to heritage assets, the audit adjustments identified, the revision of performance materiality and the impact of COVID-19 have all impacted on the level of audit work required. We have yet to fully assess this impact. Once completed, we will discuss any impact on the fee with management.

No non-audit services fees have been charged for the period.

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.