



South Ayrshire Council

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

Issued on 16 September for the meeting on 29 September 2021

Contents

01 Final report

Introduction	3
<i>Annual Accounts audit</i>	
Quality indicators	7
Our audit explained	8
Significant risks	9
Other areas of audit focus	14
Other significant findings	17
Our audit report	19
Your Annual Report	20
<i>Audit dimensions and Best Value</i>	
Overview and conclusions	22
Purpose of our report and responsibility statement	25

02 Appendices

Audit adjustments	27
Action plan	30
Our other responsibilities explained	32
Independence and fees	33

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 Audit and Governance Panel (“the Panel”) of South 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 Panel in March 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

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The Management Commentary and Annual Governance Statement comply with the statutory guidance and proper practice and are consistent with the Annual Accounts and our knowledge of the Council.

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 9.

We have identified four misstatements that have been corrected by management, up to the date of this report, that are above our reporting threshold. The most significant relate to the treatment of amounts held on behalf of the Integration Joint Board (IJB), the treatment of grant income and a pension disclosure adjustments, which are included on pages 27 and 28.

Status of the Annual Accounts audit

Our audit work is complete.

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 Panel at the same time as this report 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 pages 21 to 24. Key highlights include:

Financial Management – The Council continues to have effective financial planning and management arrangements in place with the General Fund and HRA reporting underspends in comparison with the budget, with the projected outturn clearly reported throughout the year. The impact of COVID-19 on the financial position has been clearly reported

Introduction (continued)

The key messages in this report (continued)

Financial sustainability - the Council has set a balanced budget for 2021/22. The current uncommitted reserves held are at an acceptable level with an increase in the unearmarked general fund. While the reserves balance is projected to increase, the majority is earmarked for specific purposes including managing the impact of COVID-19. It is important that the Council closely monitor the use of these reserves in future years.

Limited progress has been made during 2020/21 in developing the Council's approach to medium-to-long term financial planning, with some progress being made in gaining approval for the strategic change programme, however, significant work is still required. As the Council's financial sustainability, transformational change and approach to workforce planning are key areas of focus in the BVAR, we have not replicated the conclusions here and instead refer members to the BVAR when published.

Governance and transparency - The Council continues to have robust governance and scrutiny arrangements in place. Appropriate arrangements were put in place in response to the COVID-19 pandemic with normal governance arrangements having now returned through video conferencing.

Value for money - The Council has continued to report on its performance throughout the year. The Council has appropriate arrangements in place to comply with the SPI Direction including its public performance reporting requirements.

Best value - As this will be covered in detail as part of the BVAR due to be published in October 2021, we have not replicated the conclusions here and instead refer members to the BVAR when published.

Next steps

A separate wider scope report is included within the Agenda for this Audit and Governance Panel, which includes a follow up of the previous year's recommendations. Additional actions arising from the Annual Accounts audit are included in an agreed Action Plan included on pages 30 - 31 of this report, including a follow-up of progress against prior year actions. 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.

In addition, we included our "sector developments" in the separate wider scope report, 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		Key accounting judgements, such as property, plant and equipment (PPE) valuations and net defined benefit pension asset support was provided on time and were of good quality. Management demonstrated a clear understanding of these areas, were able to explain them clearly and provide sufficient and appropriate evidence to support these judgements at an early stage in the audit.
Adherence to deliverables timetable		Most key deliverables were provided on time ahead of our final fieldwork on 6 July 2021, however, as noted below, there has been some delay in receiving some working papers during the audit. We recognise that this is largely due to the additional complexities in the accounts and audit process this year due to the impact of COVID-19 income and expenditure during the year. Despite these delays, we still remain on track to complete the audit in line with original timescale.
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 were some delays in receiving some of the working papers, which is reflected in the fact that working papers were provided on time 27% of the time. As noted above, there have been added complexities as a result of COVID-19. We have recommended that management consider finance teams workload to help improve the timeliness in future years audits.
Quality and accuracy of management accounting papers		Documentation provided has been of a high standard, which enabled an efficient audit. This included improvements made in response to the prior year recommendations to improve the quality of workings papers for debtors, creditors, and transaction listings. This is borne out by the resubmission rate on requests for the audit being low, at 8%.
Quality of draft Annual Accounts		A full draft of the Annual Accounts was received for audit on 29 June 2021. We identified a number of minor changes which were required.
Response to control deficiencies identified		We did not identify any control deficiencies during our audit.
Volume and magnitude of identified errors		We have identified four financial adjustments during our audit which are detailed on pages 27-28. The IJB adjustment was unique this year due to the underspends achieved.



Lagging



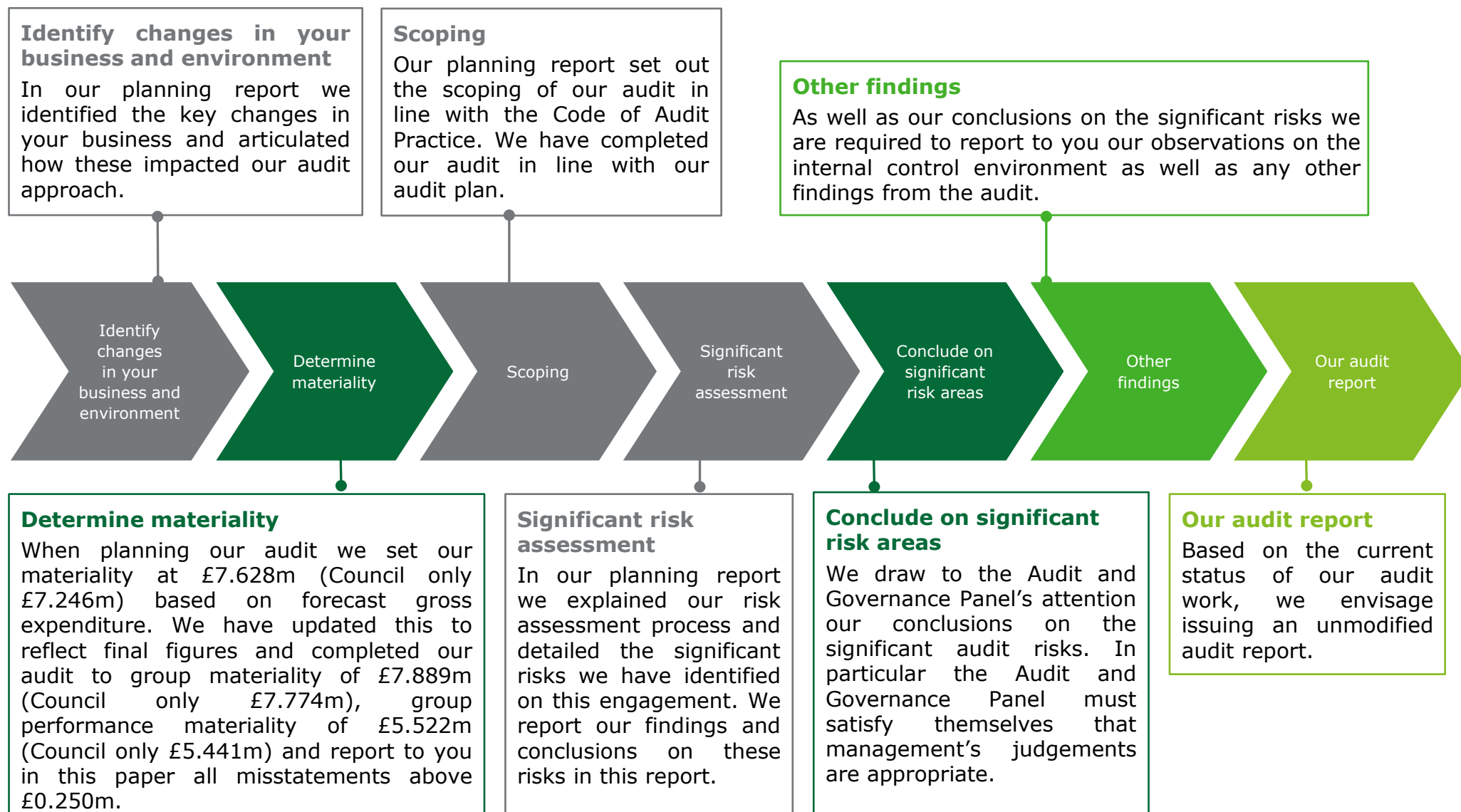
Developing



Mature







Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Recognition of COVID-19 related income			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	11

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

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 (CIES);
 - 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

From our testing, errors relating to the incorrect inclusion of £500 thank you payments within the CIES (£1.277m) and within the agency disclosure (£0.547m) were identified. Both errors have been corrected by management in the updated accounts. We have therefore concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting and the "Guidance on Accounting for Coronavirus (COVID-19) Grants/ Funding Streams" issued by LASSAC. Given the significance and 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 Annual Accounts 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 not identified any significant bias in the key judgements made by management.

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

Significant risks (continued)

Management override of controls (continued)

Key judgements The key judgement in the Annual Accounts are those which we have selected to be the significant audit risks around the recognition of grant income (page 10). While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (page 14), and the recognition of expenditure (page 15). In the table below, we set out our challenge of the assumptions used in the determination of property valuations, PPP projects and provisions.

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property valuations	<p>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.</p> <p>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.</p> <p>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 £25.001m.</p>	<p>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.</p> <p>We have challenged management assessment and consulted with our internal property experts. 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 (BCIS) 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.</p> <p>We have reviewed the valuers report, specifically in relation to the impact of COVID-19. The valuer has confirmed that the valuation is not reported as being subject to 'material valuation uncertainty'. This is in line with our expectation and in line with the RICS guidance at 31 March 2021.</p>

Significant risks (continued)

Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
<p>Public Private Partnerships (PPPs) and similar contracts</p>	<p>The Council currently has three PPP contracts</p> <ul style="list-style-type: none"> • Education for Ayrshire (two secondary schools and three primary schools); • New Ayr Academy and New Queen Margaret Academy) Academy; and • Queen Margaret Academy. <p>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.</p>	<p>We obtained and assessed the initial PFI agreements in place and reconciled to the payment schedules 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 assessed the value of the underlying buildings through our Valuations work.</p> <p>We are satisfied that the PFI liability recognised in the accounts is in line with the models and there is no indication of management bias.</p>
<p>Provisions</p>	<p>The total provisions held within the Council's balance is immaterial, at £4.024m, based on the draft accounts. This comprises a number of individually immaterial provisions, including:</p> <ul style="list-style-type: none"> • £3.100m short term provisions relating to economic development and communities commitments under the Place and People directorates; and • £0.924m long term provisions, relating to equal pay provisions and other ongoing legal cases. <p>As a result of the audit adjustment, the total provision in the audited accounts has reduced to £1.524m.</p>	<p>We examined the rationale for each provision, including a retrospective review of amounts provided in 2019/20. We have consulted with the Council's legal experts to confirm completeness of the provisions. From this work, we identified that a provision of £2.5m has been incorrectly recognised in relation to grants due to be paid from the Strategic Framework fund. As the Council is acting as Agent, these liabilities should be offset against the balances due to the Scottish Government. This has been corrected by management in the updated Annual Accounts.</p> <p>In relation to the provision for equal pay, we have challenged the completeness of the provisions made through review and discussion with the Council's legal officers. No issues identified.</p> <p>Subject the adjustment noted above, we concluded that the provisions made were reasonable.</p>

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 £94.090m in 2019/20 to £117.523m in 2020/21. The increase is a combination of an increase of £170.181m in the fair value of the assets and an increase of £193.614m in the liabilities as a result of demographic changes and financial assumptions.

- **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 and 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 the 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 Annual Accounts;
- 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	Reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.9	Reasonable
Salary increase (% p.a.)	3.6	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/ female pensioner from age 65 (currently aged 65)	19.8/ 22.6	Reasonable
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	21.2/ 24.7	Reasonable

Deloitte view

No issues identified from our audit work, therefore satisfied that the net pension liability has been accounted for appropriately.



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 10, 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 53,437 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 7,772 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. We are satisfied that the amount recorded is reasonable.

	Invoice Analysis
Median invoice amount	£123.51
Average number of invoices processed per month	6,166
Number of invoices that would need to be unrecorded to cause a material misstatement	53,437
Total invoices processed in April 2020 (one month after year-end)	7,772 (total value £17.283m)

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.

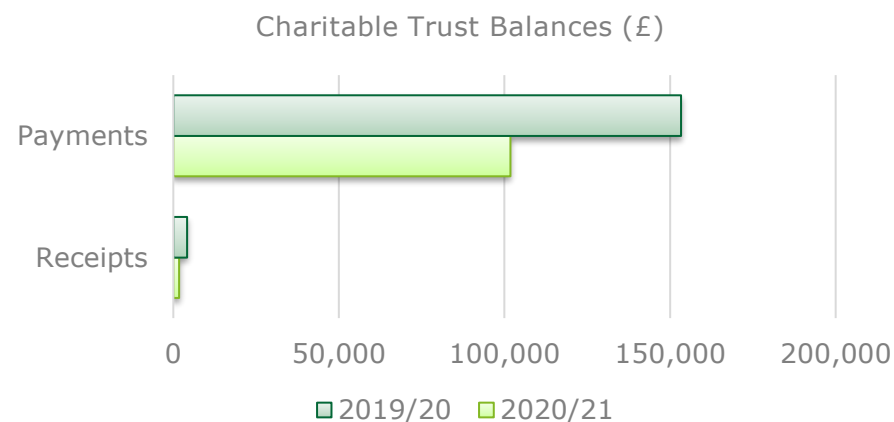


Deloitte response

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.

We are pleased to note that the Council has utilised the "Connected charities" regulation to combine the charitable trust accounts into one document reducing the admin burden.

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 £153k in 2019/20 to £102k in 2020/21. This is largely due to the impact of the COVID-19 pandemic.




Deloitte view

Our testing of the charitable trusts is complete with no issues identified. We anticipate issuing an unmodified opinion.

Other significant findings

Internal control and risk management

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

Area	Observation	Priority
Timely provision of working papers	Management should consider the capacity within the finance team and allocation of responsibilities during the year-end Annual Accounts and audit process to help improve the timeliness of the provision of working papers.	

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.

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.

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 and that the majority of the donated equipment was passed to third parties and has therefore been accounted for on an agency basis.

We also discussed the treatment of IJB reserves within the Council accounts and concluded that in line with other Council's this should be included as a Creditor, given the funding is due to the IJB.

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 Annual Accounts

Based on our audit work completed to date, we expect to issue 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

There are no matters we judge to be of fundamental importance in the Annual Accounts that we consider it necessary to draw attention to in an emphasis of matter paragraph.

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 20.

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.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Following minor amendments made during the course of the audit, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the Council.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and, with the exception of a few minor amendments, we can 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 Annual Accounts and has been prepared in accordance with the Delivering Good Governance in Local Government Framework. The current format of the Annual Governance Statement is very detailed and could benefit from being reviewed and restructured in future years to ensure that the key messages are not lost. Following minor amendments made during the course of the audit, we have concluded that the Annual Governance Statement is consistent with the Annual Accounts, our knowledge and the accounts regulations.

Audit dimensions and best value



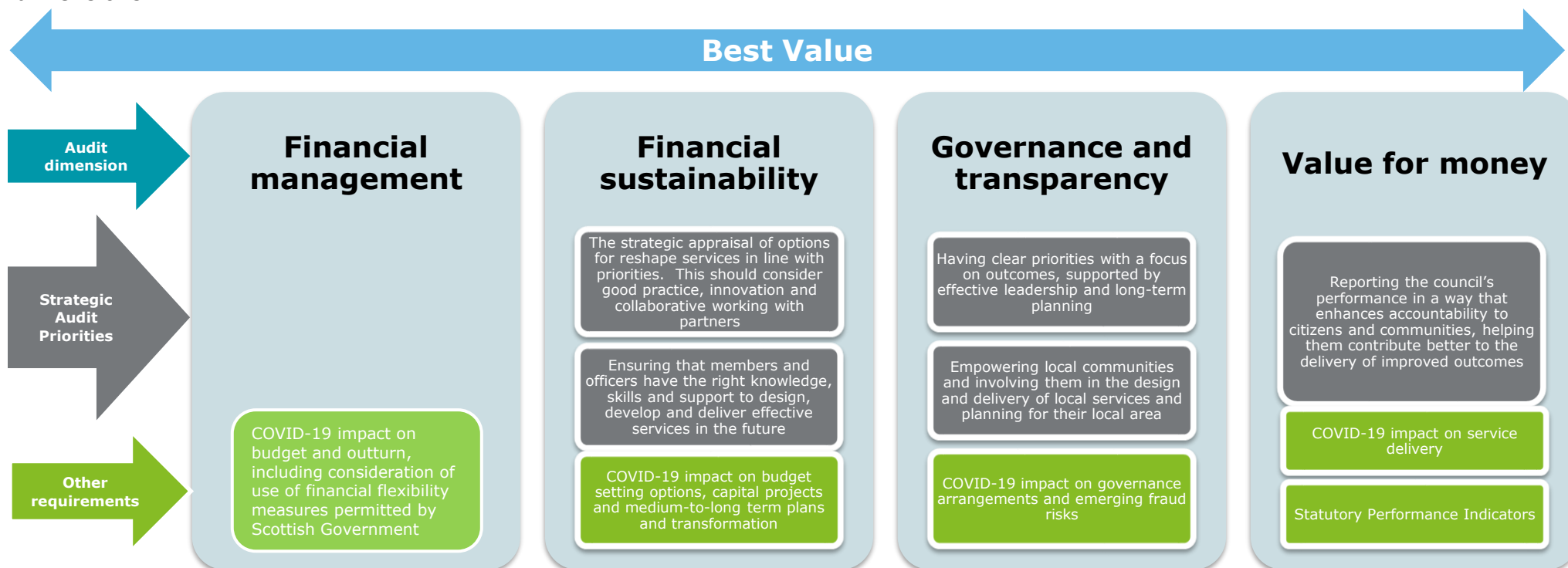
Audit dimensions and best value

Overview and conclusions

As set out in our audit plan and separate report on the “Audit Dimensions and Best Value” presented to the Panel alongside this report, 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 pages.

Audit dimensions and best value (continued)

Overview and conclusions (continued)

Financial management

The Council continues to have effective financial planning and management arrangements in place with the General Fund and HRA reporting underspends in comparison with the budget, with the projected outturn clearly reported throughout the year. The impact of COVID-19 on the financial position has been clearly reported. While the capital programmes have both seen significant variances from original budget, this was largely due to the impact of COVID-19 and therefore an improvement on previous years.

The level of savings achieved in 2020/21 has been impacted by COVID-19, but has been offset by non-recurring funding to meet the shortfall. It is important that robust plans are put in place to ensure savings plans are achieved in future years.

The Council continues to have a sufficiently qualified and experienced finance team to support the financial management of the Council. The internal audit programme has been impacted to a limited extent due to the COVID-19 pandemic. Of particular note is the additional work carried out in relation to COVID-19 funding to check for duplicate payments in response to the increased fraud risk in this area.

Financial sustainability

the Council has achieved an underspend in 2020/21 and has set a balanced budget for 2021/22. The current uncommitted reserves held are at an acceptable level with an increased in the unearmarked general fund. While the reserves balance has increased, the majority is earmarked for specific purposes including managing the impact of COVID-19. It is important that the Council closely monitor the use of these reserves in future years.

Limited progress has been made during 2020/21 in developing the Council's approach to medium-to-long term financial planning. A strategic change programme was approved in 2020/21. As the Council's financial sustainability, transformational change and approach to workforce planning are key areas of focus in the BVAR, we have not replicated the conclusions here and instead refer members to the BVAR when published.

Governance and transparency

COVID-19 has significantly impacted the work of the Corporate Leadership Team of the Council with the workforce moving to remote working and additional pressure on services in responding to the pandemic. As the Council's leadership is a key area of focus in the BVAR as part of "*Does the council have a clear strategic direction?*", we have not replicated the conclusions here and instead refer members to the BVAR when published. We are, however, pleased to note the strengthening of the HSCP leadership team.

The Council continues to have robust governance and scrutiny arrangements in place. Appropriate arrangements were put in place in response to the COVID-19 pandemic with normal governance arrangements having now returned through video conferencing. This has been considered further as part of the BVAR therefore we have not replicated within this report. We are pleased to note that the Council has taken on board our recommendation with a self-evaluation of the Audit and Governance Panel. We are also pleased to note the significant improvements in the governance arrangements between the IJB, Council and NHS.

Audit dimensions and best value (continued)

Overview and conclusions (continued)

Governance and transparency(continued)

The Council has continued to exercise sufficient oversight and scrutiny of the HSCP's activities. The IJB has made some good progress during the year, continuing to achieve financial balance, starting to invest in transformational change and addressing some of the long standing performance issues. 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 review of the IJBs MTFP during 2021 is progressed.

Value for money

The Council has continued to report on its performance throughout the year. As the Council's performance management framework and its actual performance is a key area of focus in the BVAR as part of "*How well is the council performing?*", we have not replicated the conclusions here and instead refer members to the BVAR when published.

The Council has adequate arrangements in place to comply with the SPI Direction. Its approach to public performance reporting is considered as part of the BVAR.

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.

As this will be covered in detail as part of the BVAR due to be published In October 2021, we have not replicated the conclusions here and instead refer members to the BVAR when published.

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 Audit and Governance Panel 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 Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

The scope of our work

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

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

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.

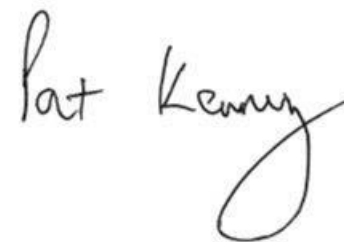
What we don't report

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

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

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

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



Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 16 September 2021

Appendices



Audit adjustments

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control. No uncorrected misstatements have been identified up to the date of this report.

		Debit/(Credit) Comprehensive Income and Expenditure Statement (CIES) £m	Debit/(Credit) in Net Assets £m	Debit/(Credit) Reserves £m	Debit/(Credit) prior year Reserves £m	If applicable, control deficiency identified
Misstatements identified in current year						
Gross income	[1]	1.277				
Gross expenditure		(1.277)				
Debtors			(1.824)			
Creditors			1.824			
Short-term investments	[2]		(5.000)			
Long-term investments			5.000			
Creditors	[3]		(9.270)			
Gross expenditure		9.270		9.270		
Provisions	[4]		2.587			
Creditors			(2.587)			
Total		9.270	(9.270)	9.270	-	

[1] This relates to the incorrect inclusion of £1.277m of £500 "thank you" payments to third-party social care providers in both income and expenditure. This also includes the removal of £500 thank you payments from debtors and creditors, given that the receipt of funding from the Scottish Government, and payment made to staff and third-party social care providers was received and made in 2021/22.

[2] This relates to the incorrect classification of a £5.000m investment, which has a maturity date after one year and therefore has been corrected to reflect as long-term investments.

[3] During the audit we identified that the amounts held by the Council on behalf of the IJB were recognised in reserves in both the IJB and Council accounts. An adjustment has therefore been made to recognise this as a Creditor within the Council accounts, on the basis that the amounts are due to the IJB. This has also resulted in an adjustment to the group accounts as the Council is required to recognise a 50% share of the IJB surplus, being £4.487m.

[4] A provision of £2.587m was incorrectly included in the draft accounts in relation to grants payable from the Strategic Framework Business Fund. As the Council is acting as an agent for the Scottish Government, this should be netted off against the amounts due to the Scottish Government.

Audit adjustments (continued)

Corrected disclosure misstatements

The following disclosure misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<i>Transactions relating to post-employment benefits</i> In Note 27 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 calculated by the Council. An adjustment of £8.353m 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
<i>Note 19 Agency Services</i> Incorrect inclusion of £0.547m thank you payment to the Council's HSCP staff. Given that the funding from the Scottish Government and the payments to staff were both made in 2021/22, no amounts for this should be shown as an agency payment within the 2020/21 Annual Accounts.	To remove 2021/22 transactions from the disclosure note	Qualitatively material – Relates to an audit significant risk area.
<i>Note 21 Grant Income</i> 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' (following clarification guidance received from Audit Scotland). The amount of this resource transfer in 2020/21 was £35.806m 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

Audit adjustments (continued)

Corrected disclosure misstatements

The following disclosure misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p><i>Note 21 Grant Income</i></p> <p>The disclosure for grant income credited to services has been understated by £0.364m, relating to the Education Maintenance Allowance grant.</p>	<p>Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (2.3.2.11)</p>	<p>Qualitatively material</p>
<p><i>Note 22 Related Parties</i></p> <p>The total amount disclosed as related party transactions in Note 22 as amounts commissioned from organisations in which Council Members have an interest was shown as £3.112m. However, during testing we found the actual amount to be £4.291m based on total accrued expenditure for the year. In addition we identified a further £21.166m of expenditure with Hub South West Scotland Ltd.</p>	<p>Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (3.9.1)</p>	<p>Qualitatively material</p>
<p><i>Note 7 Property Plant and Equipment</i></p> <p>Reclassification adjustment within Note 7 required as a result of errors identified from our audit testing follows:</p> <ul style="list-style-type: none">- CR Other Land and Buildings (Additions) – £4.150m- DR Assets Under Construction (Additions) – £4.150m- DR Other Land and Buildings (Other Reclassifications) – £4.150m- CR Assets Under Construction (Other Reclassifications) – £4.150m	<p>Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (4.1)</p>	<p>Qualitatively material</p>

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	Timely provision of working papers	Management should consider the capacity within the finance team and allocation of responsibilities during the year-end Annual Accounts and audit process to help improve the timeliness of the provision of working papers.	The 2020/21 annual accounts process has been one of the most challenging in recent times for the Finance teams, primarily due to the increased complexity in reporting and disclosure requirements relating to the Covid-19 grant allocations. These additional requirements severely stretched the teams capacity however the quality of output remained high throughout the process. Management are currently considering future Finance resourcing requirements as part of wider considerations relating to Support Service resourcing in general. It is anticipated that a report will be presented to Leadership Panel in due course.	Head of Finance & ICT	31 December 2021	Medium

Action plan (continued)

Follow-up 2019/20 action plan

We have followed up the recommendations made in our 2019/20 annual report and are pleased to note that this recommendations has been fully implemented.

Area	Recommendation	Responsible person	Target Date	Priority	2020/21 Update
<i>Annual Accounts</i>	<p>We identified errors above our reporting threshold of £250,000 in relation to the classification of debtors and creditors within Note 12 (Debtors) and Note 15 (Creditors). We recommended the following:</p> <ul style="list-style-type: none">• that a control be implemented, around the year-end financial reporting process, to perform an analytical review on all balances to understand the reason for the year-on-year changes. This analytical review should be performed at the level of the disclosure note classifications, and further disaggregated to account code if required (e.g. where the year-on-year movements are not immediately understood without further disaggregation of the balance); and• more specific to debtors and creditors, that more guidance be provided to individuals in the Service Areas who are involved in classifying the debtors and creditors, to set out when a balance should be classified as a 'trade' debtor/creditor and when it should be classified as 'other' to ensure consistent classification year-on-year.	Service Lead - Corporate Accounting	31 March 2021	Low	Fully implemented From our audit, we can confirm that both recommendations have been implemented.

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 Annual Accounts 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 Annual Accounts 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 our objectivity is not compromised.

Fees

The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £284,280, as analysed below:

	£
Auditor remuneration	176,350
Audit Scotland fixed charges:	
Pooled costs	16,770
Contribution to PABV	81,460
Audit support costs	9,700
Total fee	284,280

In addition to the above, the audit fee for the charitable trusts audit is £1,000.

We have still to assess any impact the additional testing as a result of COVID-19. 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.



Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.