



# East Ayrshire Council

Report to the Governance and Scrutiny Committee, Members of the Council and the Controller of Audit on the 2021/22 audit

Issued on 27 October for the meeting on 3 November 2022

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# 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 the East Ayrshire Council (“the Council”) for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Committee in April 2022.

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 for both the Council and charitable trusts.

Following updates made as agreed during the audit, 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 10.

We have identified five adjustments above our reporting threshold, which are included on page 31. This includes one material adjustment in relation to the valuation of a specific group of assets that were not subject to a full valuation due to the 5-year rolling valuation process applied by the Council. This arose as a result of increasing build costs linked to the significant rises in inflation over the last year. No uncorrected misstatements have been reported.

### 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 Committee in June 2022 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 27-28. Key highlights include:

**Financial Management** - The Council continues to have strong financial management, budget setting and monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

**Financial sustainability** - The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, in line with other public sector bodies, it continues to be faced with significant financial challenges over the medium and longer-term.

We reported in our June report that it was positive to see that plans were in place to update the Medium Term Financial Plan and the Strategic Plan, and the creation of a Programme Management Office (PMO). We also highlighted that it was critical that this work was progressed at pace and scale, with detailed plans and robust tools developed to ensure that the planned benefits (both financial and environmental) are realised. We recognise that an updated Council Strategic Framework for 2022-2027 was approved at the Council meeting on 27 October, which included a Strategic Plan Action Plan 2022, Medium Term Financial Strategy 2022-2027, Workforce Strategy 2022-2027 and Digital Strategy. These have not been reviewed as part of the 2021/22 audit.

# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions and best value (continued)

**Governance and transparency** – The Council continues to have strong leadership, and we are pleased to note the conclusion of the senior management structure review and the agreement to the creation of a PMO. The governance arrangements also continue to be robust, with an effective Governance and Scrutiny Committee. The Council continues to be open and transparent and demonstrates a culture of continuous improvement, with the introduction of recordings of all meetings to allow members of the public to view.

**Value for money** — The Council continues to have a clear and robust performance management framework in place, with an updated Local Outcome Improvement Plan (LOIP) agreed during the year reflecting on the challenging context of the impact of the pandemic and the recovery and renewal. It has continued to report its performance against the priorities within the LOIP and also against the Local Government Benchmarking Framework, with clear actions in place to address indicators that are adrift of target.

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

### Next steps

An agreed Action Plan was included in the separate wider scope report that was presented to Governance and Scrutiny Committee in June 2022. Additional actions arising from the annual accounts audit are included in an agreed Action Plan included on pages 32-33 of this report, including a follow-up of progress against prior year actions.

### 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 that was presented to Governance and Scrutiny Committee in June 2022 which covers our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council.

During the year, we have also provided support as part of the induction programme for elected members.

### Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Council, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Elected Members, management and staff for the good working relationship over the period of our appointment.

**Pat Kenny**  
Associate Partner
















# 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
	FY22	FY21	FY20	
Timing of key accounting judgements				Support for key accounting judgements such as property, plant and equipment (“PPE”) valuations, provisions and net defined benefit pensions assets was provided on time. As discussed on page 18, a significant improvement in the estimates and judgements in relation to heritage assets was noted in 2021/22.
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. More detailed management papers could have been provided setting out some of management’s judgements, particularly on provisions and property valuations. These issues are discussed further on pages 13 and 14.
Quality of draft Annual Accounts				A full draft of the Annual Accounts was received for audit on 30 June 2022. 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 Annual Accounts throughout.

 Lagging     Developing     Mature

# Quality Indicators (continued)

## Impact on the execution of our audit (continued)

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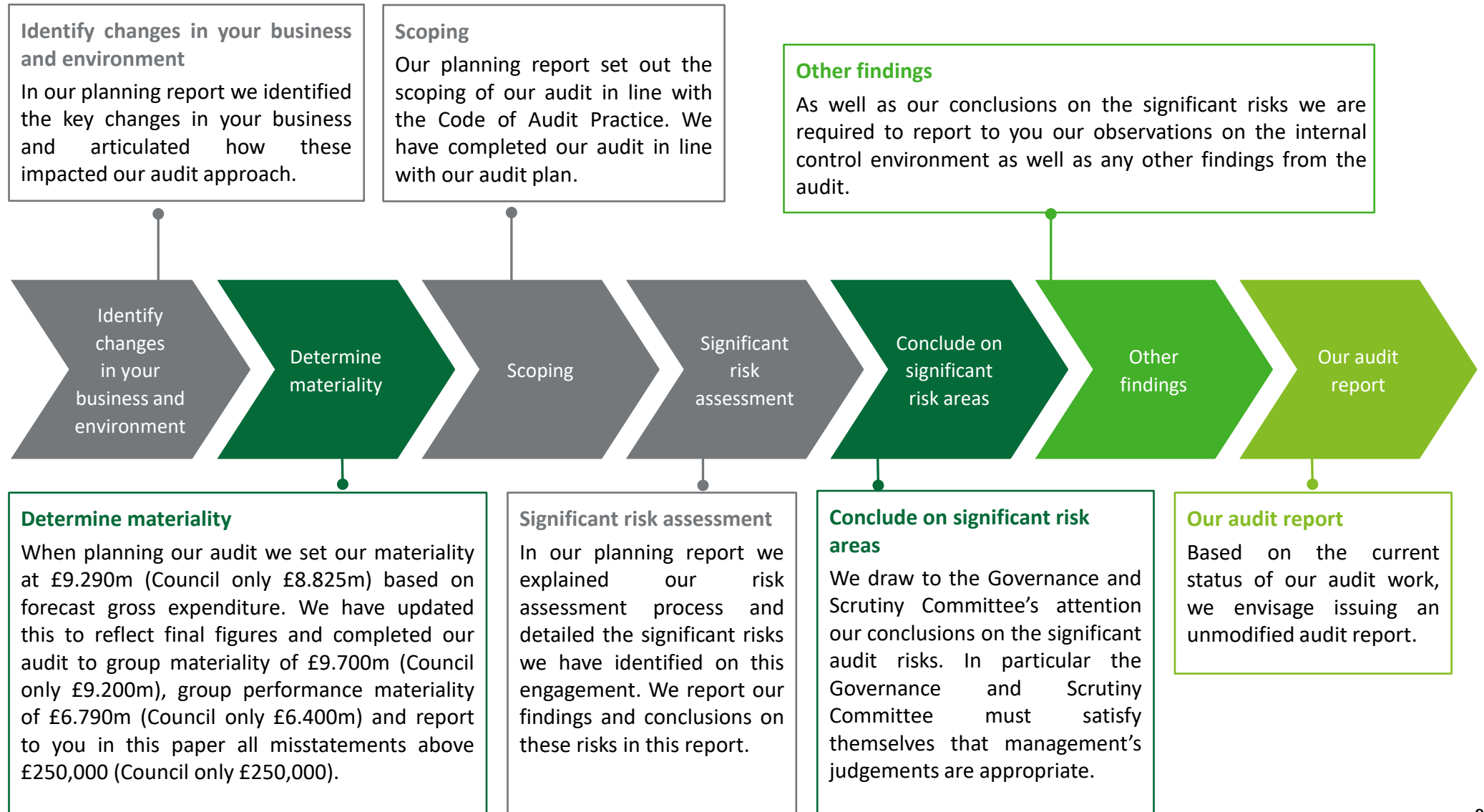
Area	Grading			Reason
	FY22	FY21	FY20	
Response to control deficiencies identified				Two internal control findings have been made on page 22. Management has responded promptly to both of these.
Volume and magnitude of identified errors				We have identified five adjustments from our audit work to date, including one material adjustment in relation to asset valuations, discussed further on page 14.

 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	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

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 2021/22 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2021/22, the Council has received additional funding of £12.815m 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 (£17.720m).

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 2022 in respect of cash collected or expenditure incurred on behalf of the principal; and
  - The net cash position at 31 March 2022 is included in the financing activities in the Cash Flow Statement.

#### Deloitte view

We have 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.

# 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 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 COVID-19 related income (page 11). While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (pages 16-17), heritage assets (page 18) and the recognition of expenditure (page 20). In the table below, we set out our challenge of the assumptions used in the determination of provisions, property valuations and Public Private Partnership (PPP) projects.

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Provisions	<p>The total provisions held within the Council's balance in the draft Annual Accounts increased from £6.507m in 2020/21 to £15.112m in 2021/22. The main reason for the significant increase is as a result of the following:</p> <ul style="list-style-type: none"> <li>• A £6m provision in relation to a job and training programme committed by the Council in February 2022.</li> <li>• A £2.6m provision set aside to offset future contributions from East Ayrshire to the redress scheme established following The Redress for Survivors (Historical Child Abuse on Care) (Scotland) Bill, which received Royal Assent on 23 April 2021.</li> </ul>	<p>We examined the rationale for each provision, including a retrospective review of amounts provided in 2020/21. We have consulted with the Council's legal experts to confirm completeness of the provisions.</p> <p>In relation to the provision for the job and training programme, we challenged managements assessment of whether there was a constructive obligation at 31 March 2022 and whether a reliable estimate could be made. We have reviewed the further evidence provided by management on 15 September 2022 to support its judgement and have concluded that there is evidence of a constructive obligation in place, the payment is probable and it can be estimated reliably, therefore satisfied that this meets the definition of a provision and accounted for correctly.</p> <p>In relation to the provision for the redress scheme, we engaged with Audit Scotland's technical team, who in turn are engaging with the Scottish Government audit team. Based on the evidence available, including a paper prepared by COSLA, we are of the opinion that this does not represent a liability for the Council as it is proposed to be treated as a "top slice" from the Council's annual Scottish Government settlement to avoid the financial liability materialising at an individual Council level. Following detailed discussions with management, it was accepted that the provision should be reversed and is included as an adjustment on page 31.</p> <p>Based on the above, we can conclude that the provisions made were reasonable.</p>

# Significant Risks (continued)

## Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
<p>Property valuations</p>	<p>The Council is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with its modern equivalent asset.</p> <p>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 2022 by its external valuers to include valuation of approximately 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 net downward valuation to property values of £3.826m.</p>	<p>We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Asset Advisory, reviewed the methodology and assumptions applied by the Council's valuer in previous years and concluded it was reasonable. We have confirmed that the valuer and the methodology applied has not changed in the year.</p> <p>We have tested a sample of revaluations in the year, by agreeing the revaluations recorded in the Annual Accounts to the independent valuers reports. As part of this testing, we have confirmed that the movements have been accounted for in accordance with the Code.</p> <p>We have also tested a sample of the inputs used by the valuer, e.g. site sizes, back to supporting evidence, with no issues arising.</p> <p>We have challenged management's assessment for those assets not subject to valuation in the year and consulted with our internal property experts.</p> <ul style="list-style-type: none"> <li>• For those valued on Existing Use Value on a market comparable basis, our property experts have confirmed that minimal market value movement would be expected in 2021/22.</li> <li>• 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 identified a potential increase which may suggest that a full valuation should be performed. Management has subsequently engaged with its estates team who have performed an impairment review of those assets not subject to full valuation in the year. This has resulted in an upward impairment adjustment of £18.613m, which has been adjusted in the final annual accounts, as disclosed on page 31. We have also recommended that the valuer incorporates this as part of the annual valuations to document their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.</li> </ul>

# Significant Risks (continued)

## Management override of controls (continued)

Estimate / judgements	Details of management's position	Deloitte Challenge and conclusions
Public Private Partnership (PPP) and similar contracts	The Council currently has one PPP contract covering a number of schools and educational facilities and a Non-Profit Distributing (NDP) project relating to the William McIlvanney campus. Each PPP/ NDP 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>We obtained and assessed the initial PPP/ NDP 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 PPP/ NDP liability recognised in the accounts is in line with the models and there is no indication of management bias.</p>

# Other Areas of Audit Focus

## 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 decreased from £183.017m in 2020/21 to £65.618m in 2021/22. The decrease is combination of an increase of £86m in the fair value of the assets and a reduction of £31m in the liabilities as a result of demographic changes and financial assumptions.



### 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 against nine leading actuarial firms that we consider appropriate as shown the table below;
- We have obtained 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.)	2.7	Within reasonable Range
RPI Inflation (% p.a.)	3.65	
CPI Inflation (% p.a.)	3.2	
Pension increase in payment (% p.a.)	3.2	In line with funding valuation
Salary increase (% p.a.)	3.9	
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65)	19.6/ 22.4	Within reasonable range
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	21/ 24.5	



# Other Areas of Audit Focus (continued)

## Defined benefits pension scheme (continued)

The Council's pension liability, along with other public sector bodies, continues to be impacted by the ongoing legal cases – known as McCloud and Goodwin, as well as the Guaranteed Minimum Pensions (GMP) indexation. Our pension specialists have considered the impact and concluded as follows:

- **Goodwin** – this is a legal challenge made against the Government in respect of unequitable benefits for male 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). Given the lack of relative data available, we have concluded that the actuary's calculation approach is reasonable.
- **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. We have concluded that the allowance made and approach taken is reasonable. 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.
- **GMP indexation** – in order to ensure smooth transition to the single tier State pension and equalisation of GMP benefits between males and females, the Government introduced an interim solution in March 2016 in respect of people who are in public service pension schemes and who have a State Pension Age (SPA) between 6 April 2016 and 5 December 2018, whereby full inflationary increases will be provided by the LGPS. An announcement on 23 March 2021 confirmed that all public service pension schemes, including the LGPS, will need to provide full indexation to members with a SPA beyond 5 April 2021. This is a permanent extension of the previous interim solution. We have confirmed that the 31 March 2020 funding valuation for the whole Fund included an allowance for the additional liability arising as a result of GMP indexation.

As this valuation was used as the starting point for the 31 March 2022 valuation, this has also been included in the current year liability. We have concluded that the approach taken is reasonable.

From review of the draft actuary report, our pension specialists identified the following issues:

- In questioning the rationale for the accrued and paid pension amounts being identical, the actuary advised that part of the enhancement pension had been incorrectly coded to East Ayrshire Council. As a result, the actuary re-ran the figures, which resulted in a £569,000 increase in the liability.
- The actuary relies on data provided to them in relation to early retirements to calculate past service costs. In our 2020/21 audit, we noted that 23 early retirements were processed, however, only 15 were accounted for in the past service costs. The additional 8 have not subsequently been included in the 2021/22 costs, therefore there is a potential understatement of £400,000.
- The actuary has calculated an "experience loss" of £3.471m. Based on the data provided during the audit, we have estimated that this should be circa. £2.204m. In the absence of further information to justify the quantum of the experience loss, there is a potential misstatement of £1.267m.

### Deloitte view

Management have agreed to adjust the annual accounts for the above issues. We have therefore concluded that the pension liability in relation to the defined benefits pension scheme is fairly stated. We have recommended that the Council and actuary, in conjunction with Strathclyde Pension Fund managed by Glasgow City Council, review its process for sharing information to ensure that the all early retirements on enhanced/ unreduced terms are passed to the actuary and included in relevant year-end reports.

# Other Areas of Audit Focus (continued)

## Heritage Assets



### Risk identified

As reported in our 2020/21 audit report, we identified a number of issues regarding the completeness and existence of heritage assets during our 2020/21 audit and in particular:

- Incomplete records in relation to the number of assets held by the Council;
- An over-reliance by management and internal audit on the opinion of internal experts, with inadequate challenge of this basis for the opinion and the input of data; and
- Weaknesses in the objectivity of experts relied upon by the Council.

Management agreed to 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 of the effectiveness of the existing disposal policy particularly for low value/ multiple similar items. Internal Audit are supporting management and the Leisure Trust in implementing the recommendations made.

This therefore remained an area of risk and a key area of focus for our audit.



### Deloitte response and challenge

We performed the following procedures to address the risk:

- Reviewed the output from the work performed by internal audit, which included reviewing the collection procedures manual and sample testing the recording and physical existence of the assets;
- Considered the objectivity, competence and capability of the experts used by the Council;
- 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; and
- Challenged the assessment of the valuation of heritage assets provided by the internal expert.

### Deloitte view

No issues have been identified from our testing, therefore we are satisfied that the Council has carried out a review of its procedures, with the support of internal audit and from our testing, we have concluded that the heritage assets held on the Balance Sheet are not materially misstated. The valuation is based on the most recent insurance valuation, and therefore in accordance with the CIPFA Code requirements. The insurance valuation is based on a valuation report from Sotheby's which was last revalued in 2017/18, however, we understand that the Council is in the process of arranging the next cyclical valuation exercise. We would therefore expect this to be reflected in future insurance valuations.

# Other Areas of Audit Focus (continued)

## Infrastructure Assets

### Background

Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured in the accounting code at historical cost.

The CIPFA Code requires that where a component of an asset is replaced:

- the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and
- the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting.

Auditors have identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS in 2010/11 due to information deficits. This is particularly the case in relation to roads, where the engineering records used for maintenance have not been created to map against identifiable components.

CIPFA/ LASAAC attempted to resolve the issues and undertook an urgent consultation on temporary changes to the accounting code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial reporting. The Scottish Government has therefore provided temporary statutory overrides while a permanent solution is developed.

#### Statutory override 1

For accounting periods commencing from 1 April 2021 until 31 March 2024, a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.

#### Statutory override 2

For accounting periods commencing from 1 April 2010 until 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.

### Deloitte response

- We have considered the statutory overrides issued by the Scottish Government and confirmed that the Council has opted to adopt both, as summarised above, due to not readily having the information to evidence the derecognition of replaced components of infrastructure assets.
- We have reviewed the updated Annual Accounts and revised disclosures and confirmed that it is compliant with the statutory overrides.
- We have assessed the reasonableness of the Useful Economic Lives (UEL's) applied by the Council in its depreciation calculation and concluded that the UEL's are reasonable, in line with other similar Councils and the risk of a material misstatement on the depreciation charge is remote.

#### Deloitte view

We have assessed the impact of the adoption of the statutory overrides and confirmed the updated Annual Accounts correctly reflect the required disclosure. We are also satisfied that the depreciation charge for the year, based on UEL's set out within the Council's accounting policy, is not materially misstated.

The Scottish Government expects that Councils will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a more permanent solution is delivered. Management has confirmed that officers from the Council's finance team were part of the short life working group convened by CIPFA/ LASAAC to identify options to resolve the issue. These officers continue to work with CIPFA/ LASAAC to seek a permanent resolution.

# 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 11, 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 52,592 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 11,400 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.
- Detailed testing of a sample of accruals.

	Invoice Analysis
Median invoice amount	£167.81
Average number of invoices processed per month	11,290
Number of invoices that would need to be unrecorded to cause a material misstatement	52,592
Total invoices processed in April 2022 (one month after year-end)	11,400 (total value £42.468m)

### 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. East Ayrshire Council administers three 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.

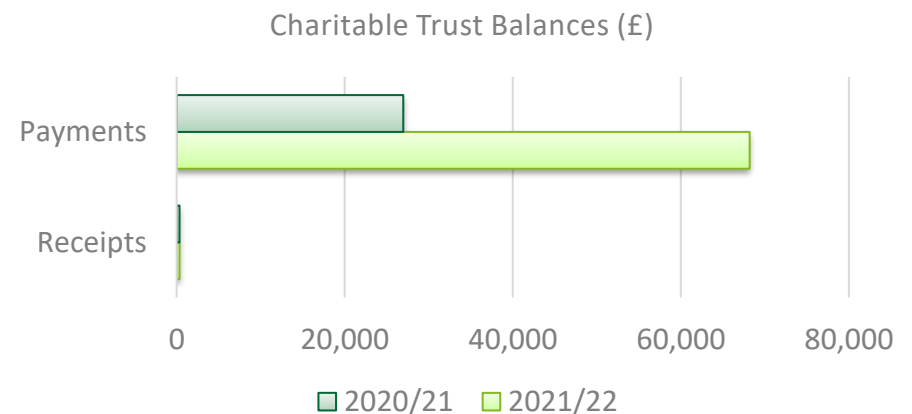


### Deloitte response

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 increased from £26,964 in 2020/21 to £68,192 in 2021/22. This is largely due to the impact of the COVID-19 pandemic on the prior year activities of the trusts.





### Deloitte view

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

# Other Significant Findings

## Internal control and risk management

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

Area	Observation	Priority
<p><b>PPE Valuations</b></p>	<p>The CIPFA Code requires that, where assets are revalued (i.e. the carrying amount is based on current value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. A class of asset may be revalued on a rolling basis provided revaluation of the class of asset is completed within a short period of the revaluations. The code defines a “short period” as “once every 5 years”.</p> <p>In line with other Council’s, East Ayrshire Council operate a rolling programme of revaluations over a 5 year period. Given the increase in build costs as a result of inflation, property valued based on a depreciated replacement cost could significantly increase in value during this five year period and following additional work performed by the Council’s estates team, the assets have increased in value by £18.613m. We therefore recommend that the property valuer should introduce a more detailed process as part of the annual valuations, similar to the exercise carried out as part of the audit, to documentation their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.</p>	
<p><b>Pensions</b></p>	<p>Given the adjustments arising as a result of our review of the actuary reports, discussed further on page 17, we recommend that the Council and actuary review its process for sharing information, particularly in relation to early retirements on enhanced/unreduced terms to ensure that this information is passed to the actuary on a timely manner to help ensure that the liability disclosed in the accounts is as accurate as possible.</p>	

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 in line with the Code of Practice on Local Authority Accounting. We are satisfied that the Council's accounting practices are appropriate.

### Significant matters discussed with management:

Significant matters discussed with management related primarily to the accounting treatment for infrastructure assets (discussed on page 19), the judgements in relation to the provisions (discussed on page 13), and the judgements in relation to the property valuations (discussed on page 14).

### Regulatory Change:

IFRS 16, Leases, was due to come into effect on 1 April 2022, however, has been deferred to be effective from 1 April 2024 and will be included in the 2024/25 Code. Local authorities may adopt it in preceding financial periods if deemed appropriate.

As the Council does not currently plan to implement this early in 2022/23, in accordance with the Code, this has not been disclosed as a standard issued but not yet adopted within the 2021/22 annual accounts.

### 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 will be 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 performed and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit is discussed further on page 25.

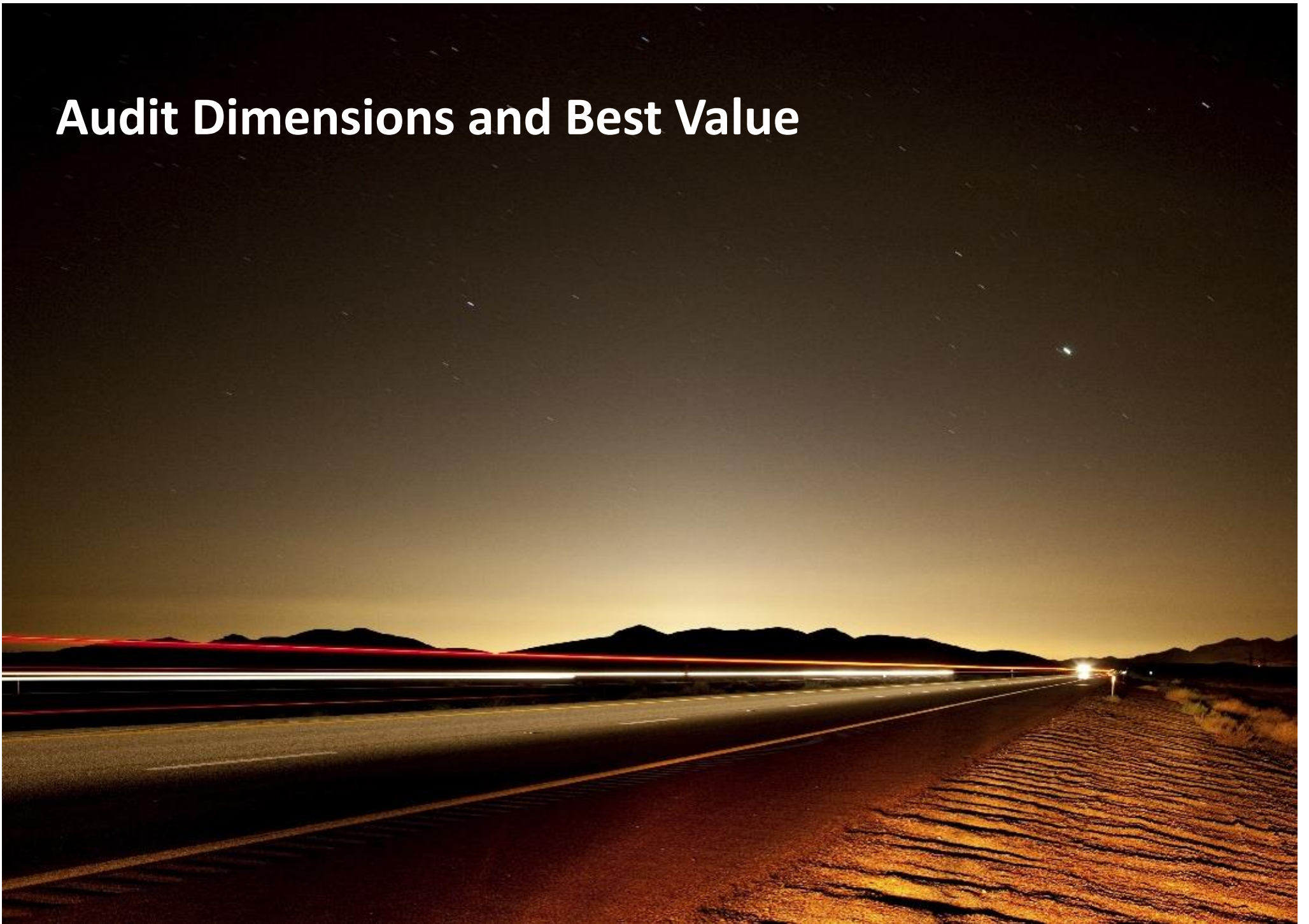


# Your Annual Report

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 updates made as agreed during the audit, including ensuring appropriate disclosure of the make up of the earmarked reserves, 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 we can confirm that they have 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. Following updates made as agreed during the audit for minor improvements we can conclude 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 Committee in June 2022, public audit in Scotland is wider in scope than financial audits. Our separate report sets out our findings and conclusions on our audit work covering the areas set out below. In accordance with the Code of Audit Practice, our overall conclusions on each audit dimension and best value are summarised on the following page.

### Financial management

The Council continues to have strong financial management, budget setting and monitoring arrangements in place. This is supported by an experienced finance team as well as appropriate arrangements for the prevention and detection of fraud and error.

We are pleased to note the progress made with the service review of the finance team, with the permanent appointment of the Chief Finance Officer and Head of Finance and ICT, the creation of new posts at Depute Head of Service, and the wider service redesign expected to be completed during 2022.

### Financial sustainability

The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, in line with other bodies, it continues to be faced with significant financial challenges over the medium and longer-term, projecting a funding gap of £39m over the next five years, and a gap of £83m over a ten year period, based on the October 2022 Medium Term Financial Strategy, which has decreased in comparison with previous estimates as a result of revised economic information. Additionally, the long term projection will be heavily impacted by the creation of the National Care Service and the financial implications for the Council that follow.

It is positive to see that the Council has recognised the importance of having the required resources in place to drive forward transformation change at pace and scale, with the creation of a PMO. This work has been informed by the Scottish Government’s Spending Review with the Council’s Financial Strategy presented to members. It is critical that this work is progressed, with detailed plans and robust tools developed to ensure that the planned benefits (both financial and environmental) are realised.

We recognise that an updated Council Strategic Framework for 2022-2027 was approved at the Council meeting on 27 October, which included a Strategic Plan Action Plan 2022, Medium Term Financial Strategy 2022-2027, Workforce Strategy 2022-2027 and Digital Strategy. These have not been reviewed as part of the 2021/22 audit.

### Governance and transparency

The Council continues to have strong leadership, and we are pleased to note the conclusion of the senior management structure review and the agreement to the creation of a PMO. The governance arrangements also continue to be robust, with an effective Governance and Scrutiny Committee. The Council continues to be open and transparent and demonstrates a culture of continuous improvement, with the introduction of recordings of all meetings to allow members of the public to view.

# Audit Dimensions and Best Value (continued)

## Overview and conclusions (continued)

### Value for money

The Council continues to have a clear and robust performance management framework in place, with an updated LOIP agreed during the year reflecting on the challenging context of the impact of the pandemic and the recovery and renewal. It has continued to report its performance against the priorities within the LOIP and also against the LGBF, with clear actions in place to address indicators that are adrift of target.

The Council also continues to have robust arrangements in place to comply with the SPI Direction, including its public performance reporting requirements.

#### Deloitte view – Best Value

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.

## 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.

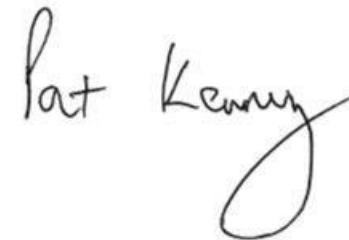
## What we don't report

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

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 | 28 October 2022

# Appendices



# Audit Adjustments

## Corrected adjustments

The following adjustments 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.

	Debit/(Credit) Comprehensive Income and Expenditure Statement (CIES) £	Debit/(Credit) in Net Assets £	Debit/(Credit) Reserves £	Debit/(Credit) in Income £	If applicable, control deficiency identified
<b>Adjustments identified in current year</b>					
[1] PPE – Assets not valued in year		18,613,000	(18,613,000)		Page 22
Assets not valued in year (Common Good Fund)		394,000	(394,000)		
[2] Provision – HCA Redress Scheme	(2,600,000)	2,600,000			N/A
[3] Pensions – Pension liability (actuary error)	569,000	(569,000)			Page 22
[4] Pensions – Pension liability (past service costs)	400,000	(400,000)			Page 22
[5] Pensions – Pension liability (experience gain)	(1,267,000)	1,267,000			Page 22
<b>Total</b>	<b>(2,898,000)</b>	<b>21,905,000</b>	<b>(19,007,000)</b>	-	Page 22

[1] As discussed on page 14, an adjustment has been made to reflect the change in build costs for those assets not subject to full revaluation in the year.

[2] As discussed on page 13, the liability for the HCA Redress Scheme is to be treated as a “top slice” from the Council’s annual Scottish Government settlement, and therefore not a financial liability for the Council.

[3] As discussed on page 17, the actuary identified an error in its initial calculation resulting in revised IAS 19 report being produced.

[4] As discussed on page 17, we identified a potential understatement of past service costs as a result of the actuary omitting 8 individuals who were in receipt of enhanced early retirement.

[5] As discussed on page 17, In the absence of further information to justify the quantum of the experience loss, there is a potential misstatement of £1.287m.

## Unadjusted and disclosure adjustments

No unadjusted or disclosure adjustments have been identified.

# Action Plan

## Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>PPE Valuations</i>	The property valuer should introduce as part of the annual valuations, similar to the exercise carried out as part of the audit to documentation their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.	This will be incorporated in the Valuation Terms of Engagement sent to the Councils Estates team as part of the year end process.	Strategic Lead – Property and Estates	31 March 2023	Medium
2	<i>Pensions</i>	The Council and actuary, in conjunction with Strathclyde Pension Fund managed by Glasgow City Council, should review its process for sharing information, particularly in relation to early retirements on enhanced/ unreduced terms to ensure that this information is passed to the actuary in a timely manner to help ensure that the liability disclosed in the accounts is as accurate as possible.	This will be included as part of the year end information gathering process required as part of the Annual Accounts and officers will liaise with the Head of People and Culture to ensure that relevant exit packages are included in the report.	Interim Financial Strategy and Accounting Manager / Head of People and Culture	31 March 2023	Low



# Action Plan (continued)

## Follow-up on previous year recommendations

Recommendation	Management Response	Priority	2021/22 update
<p><b>1. Annual Accounts supporting working papers</b></p> <p>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.</p>	<p>Management have accepted this recommendation and will implement it in line with the agreed timeline.</p> <p><b>Responsible Person:</b> Corporate Accounting Manager</p> <p><b>Target Date:</b> June 2022</p>	Medium	<p>As discussed on page 7, support for key accounting judgements such as PPE valuations, provisions and net defined benefit pensions assets was provided on time. A significant improvement was noted in the estimates and judgements in relation to heritage assets. There was the opportunity to enhance specific working papers in relation to provisions and valuations. However, it is noted that the Councils qualified valuer felt that the Depreciated Replacement Cost valuations did not require adjustment and that the issue of adjusting DRC valuations to reflect the uplift in BCIS indices was identified as a national issue after the unaudited Annual Accounts were published.</p>
<p><b>2. Heritage Assets</b></p> <p>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.</p>	<p>Management have accepted this recommendation and will implement it in line with the agreed timeline.</p> <p><b>Responsible Person:</b> Chief Financial Officer and Head of Finance and ICT</p> <p><b>Target Date:</b> March 2022</p>	Medium	<p>As discussed on page 18 no issues have been identified from our testing in 2021/22, therefore we are satisfied that the Council has carried out a review of its procedures, with the support of internal audit.</p>

# 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 COVID-19 related 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.

### Deloitte view

No issues have been identified from our audit work.

# 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:

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## 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 Council and our objectivity is not compromised.

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## Fees

The audit fee for 2021/22, in line with the expected fee range provided by Audit Scotland, is £298,110, as analysed below:

	£
Auditor remuneration	183,890
Audit Scotland fixed charges:	
Pooled costs	19,170
Contribution to PABV	85,240
Audit support costs	9,810
<b>Total fee</b>	<b>298,110</b>

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

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

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## 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.

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## 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.

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