

East Renfrewshire Council

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of East Renfrewshire Council and the Controller of Audit

October 2022

Contents

Key messages	4
Introduction	6
1. Audit of 2021/22 annual accounts	9
2. Financial management	18
3. Financial sustainability	23
4. Governance and transparency	27
5. Best Value	30
Appendix 1. Action plan 2021/22	36
Appendix 2. Summary of uncorrected misstatements	44
Appendix 3. Summary of 2021/22 national performance reports and briefing papers	47

Key messages

2021/22 annual accounts

- 1 We have issued unmodified opinions on the annual accounts of the council, its group, and the seven section 106 charities administered by the council.

Financial management and sustainability

- 2 The council has appropriate and effective financial management. An underspend of £3.852 million was reported against budget in 2021/22 after a decision to restrict non-essential expenditure. Covid-19 pressures were met through Scottish Government funding.
- 3 Systems of internal control operated effectively in 2021/22 with some scope for improvement noted.
- 4 The financial consequences of Covid-19 are continuing to be uncertain. Further financial challenges are emerging around inflationary pressures. The council will need to continue to refine the medium-term financial plan as more clarity on the impacts of these pressures becomes evident.

Governance and transparency

- 5 The council has appropriate governance arrangements in place and these operated effectively. Following the local council elections in May, a new Administration was formed between Labour and Independent Members. In addition, there was a significant turnover in members. Officers have implemented induction and support arrangements for new and returning Members.
- 6 The council demonstrates its commitment to conducting its business in an open and transparent manner through the recording of committee meetings and availability of information through the council website.

Best Value

- 7 The council has an appropriate and effective best value framework in place.
- 8 Best value work on partnership working and collaboration has concluded that strong partnership working arrangements are in place with shared visions around recovery and renewal.

- 9** The council continue to perform strongly in comparison to other councils. However, service performance levels in 2021/22 were impacted by Covid-19.

Introduction

1. This report summarises the findings arising from the 2021/22 audit of East Renfrewshire Council (the council) and its group. The group consists of: the Common Good and Charitable Trusts; East Renfrewshire Culture and Leisure Trust; Strathclyde Partnership for Transport; Strathclyde Concessionary Travel Scheme Joint Committee; Renfrewshire Joint Valuation Board; and, East Renfrewshire Integration Joint Board.
2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the 7 April 2022 meeting of the Audit and Scrutiny Committee. This report comprises the findings from:
 - an audit of the annual accounts; and,
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) namely, financial management, financial sustainability, governance and transparency and value for money.
3. The main elements of our audit work in 2021/22 have been:
 - an audit of the annual accounts of the council and its group including the statement of accounts of the seven section 106 charities administered by the council and the issue of independent auditor's reports setting out our opinions;
 - audit work covering the council's arrangements for securing best value relating to partnership and collaborative working; and,
 - consideration of the four audit dimensions.

Adding value through the audit

4. We add value to the council through the audit by:
 - Regularly meeting with management to discuss current issues and share knowledge and insights from the wider public sector;
 - identifying and providing insight on significant risks, and making clear and relevant recommendations;
 - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides;
 - providing training to members on the role of external audit on 11 August; and,

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

5. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are prepared in accordance with proper accounting practices.

6. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements;
- the suitability and effectiveness of corporate governance arrangements, and financial position;
- the arrangements for securing financial sustainability; and,
- Best Value arrangements.

9. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

10. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

Auditor Independence

12. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the

professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £241,420 for the council and £1,075 for the charitable trusts as set out in our Annual Audit Plan remains unchanged. John Boyd was appointed as engagement lead part way through the year. Following his appointment, a retrospective review of the audit planning and audit approach were undertaken. As the audit progress, key areas of audit focus, areas of risk of material misstatement and audit work undertaken to obtain the relevant assurances were reviewed by the engagement lead. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Audit appointment from 2022/23

14. The Accounts Commission is responsible for the appointment of external auditors to local government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

15. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Ernst & Young LLP will be the appointed auditor for East Renfrewshire Council. We are working closely with the new auditors to ensure a well-managed transition.

16. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

17. There are several significant changes introduced by the new Code, namely the integration of Best Value work into wider scope audit work and the audit of Best Value across the Integration Joint Boards.

18. We would like to thank Council members, Audit and Scrutiny Committee members, Directors, and other staff, particularly those in finance for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

We have issued unmodified opinions on the annual accounts of the council, its group and the seven section 106 charities administered by the council are unmodified.

Our audit opinions on the annual accounts are unmodified

19. The accounts for East Renfrewshire Council and its group for the year ended 31 March 2022 were approved by the Audit and Scrutiny Committee on 26 October 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework; and,
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance

The annual audit report and accounts were submitted in line with our agreed audit timetable

20. Submission dates for the audited annual accounts and the annual audit report for 2019/20 and 2020/21 were deferred in line with the later dates for producing the annual accounts because of the impact of Covid-19. Audit Scotland set target dates for 2021/22 which transition to more regular timescales. For 2021/22, the target date for the audited annual report and accounts is 31 October 2022.

21. The unaudited annual report and accounts and working papers were received in line with our agreed audit timetable on 17 June 2022. Finance staff provided good support to the audit team and all working papers were provided electronically. Working arrangements with officers continued to be reviewed and in-person meetings with officers were re-introduced when social distancing restrictions were lifted. This supported the delivery of an efficient and effective audit that meets our quality standards.

Our audit opinions on Section 106 charities were unmodified

22. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of East Renfrewshire Council are sole trustees, irrespective of the size of the charity.

23. We noted that there are two charitable trusts that did not disburse any funds in 2021/22 or on the preceding seven years – The Lieutenants Duff Memorial Institute and The Endowment for Talented Children and Young People.

24. The Lieutenants Duff Memorial Institute was set up for the provision of a building to house the Busby School District library and fund repairs to the building as required. Last year we were advised that planned expenditure from this trust fund had been delayed due to covid. Work has recently been undertaken at the Duff Memorial Hall. However, no request for grant funding from this trust fund has been received.

25. The Endowment for Talented Children and Young People was established for the benefit of exceptionally talented children and young people in the fields of the arts, culture and sport who have attended an East Renfrewshire Council school. There are limited funds within this charitable trust and the council are investigating whether the principal funds can be authorised for spend prior to any decisions being taken around the future use of this fund.

26. Our audit opinions on the Section 106 charities are unmodified and confirm that the 2021/22 financial statements present a true and fair view of the financial activities of the Section 106 charities.

27. We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's report that:

- the financial statements give a true and fair view of the section 106 charity's financial position and are properly prepared in accordance with charities legislation; and,
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

28. These were approved by the Council on 26 October and subsequently signed. This is before the statutory deadline of 30 November and a month earlier than in the prior year.

There were no objections raised to the annual accounts

29. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations. There were no objections to the 2021/22 accounts.

The assurance statement on the Whole of Government Accounts has been submitted and no issues raised

30. Whole of Government Accounts (WGA) is the consolidated financial statements for all components of government in the UK. Most public bodies are required to submit returns for the preparation of WGA. The returns are consolidated into WGA by HM Treasury. WGA is audited at a UK level by the National Audit Office (NAO), who issue Group Audit Instructions.

31. Appointed auditors in Audit Scotland are required by the Code of Audit Practice, as part of their audit appointment, to examine and report on WGA returns prepared by Scottish audited bodies. Auditors are required to report the results of their examination in an Assurance Statement. The examination and reporting process performed by auditors is therefore described as auditor assurance.

32. The process for 2020/21 is running significantly late. HM Treasury issued its guidance for preparers on 27 April 2022 and the NAO issued its Group Audit Instructions on 14 July. The OSCAR II system has been open for 2020/21 submissions since April.

33. Treasury and the NAO set a date for certified returns of 31 August 2022 which the Scottish Government agreed to for Scottish bodies. The deadline was then subsequently moved to 30 September.

34. Treasury has set an increased threshold for auditor assurance for bodies in England (£2 billion). Professional Support has agreed the same threshold for Scottish bodies. In accordance with the Whole of Government Accounts (WGA) guidance, the council submitted a consolidation pack for the WGA audit on 30 August 2022. We completed the required assurance statement and submitted to the National Audit Office (NAO) by the 30 September 2022 deadline.

Overall materiality is £6.4 million for the council and £6.7 million for the group

35. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

36. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

37. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Council	Group
Overall materiality	£6.4 million	£6.7 million
Performance materiality	£3.8 million	£4.0 million
Reporting threshold	£250 thousand	£250 thousand

Source: Audit Scotland

We have significant findings to report on the audited annual accounts

38. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have reported several issues from the work done. These relate to the detail and documentation included within the valuers report and the underlying records and processes around identifying related parties for disclosure within the annual accounts. These are included in the action plan at Appendix 1.

39. The significant findings from the audit are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Property, plant and equipment valuations</p> <p>The Code of Practice on Local Authority Accounting requires authorities to revalue property, plant and equipment with sufficient regularity to ensure the carrying amount does not differ materially from current value, being the value that would have been obtained if revalued. Property, plant and equipment valuations within the annual accounts is supported by workings from valuers, using a rolling programme of revaluations. The valuation process could be enhanced through greater documentation of the annual valuation report and management scrutiny over the report including:</p> <ul style="list-style-type: none"> • The assets revalued in year and the 	<p>We recommend that a valuation report is prepared by the council's valuer on an annual basis outlining the details of the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme. There should be clear evidence of how officers have challenged and scrutinised the valuation to ensure the accounts are free from material misstatement.</p> <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan point 1)</p>

Issue	Resolution
<p>methodology applied in the valuation exercise;</p> <ul style="list-style-type: none"> • Key assumptions and estimates made in the valuation; • The total valuation amount reflected within the annual accounts; and • Details of compliance with industry standards • In addition, there should be clear assurances around how those assets not subject to revaluation would not be materially understated. 	
<p>2. Related parties</p> <p>As part of our audit work in relation to related parties we inspected the record of Officers interests. We identified instances where information recorded could have been enhanced to support officers in identifying any relevant transactions.</p> <p>While we are satisfied there are no undisclosed material related party transactions, we also noted that processes to consider and identify relevant relationships and transactions that require to be disclosed within the annual accounts could be enhanced.</p>	<p>We recommend that a review of controls and processes around related parties is undertaken. This will include the documentation of member and officer interests as well as the processes in place to identify the relevant disclosures for inclusion in the financial statements.</p> <p>Recommendation 2</p> <p>(Refer Appendix 1, action plan point 2)</p>

Source: Audit Scotland

40. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the financial statements identified in the annual audit plan

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial</p>	<p>Results & Significant Judgements:</p> <p>We assessed the design and implementation of controls over journal entry processing</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</p> <p>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p>and did not identify any issues.</p> <p>Inquiries were made of individuals involved in the financial reporting process around inappropriate or unusual activity relating to journal entries and no issues were identified.</p> <p>Substantive testing of journal entries, where we considered increased risk of fraud, including those material transactions at the year-end, and did not identify any issues.</p> <p>A review of related party transactions and the controls around identifying and disclosing related party transactions in the financial statements was undertaken. We have recommended strengthening of the controls around documenting related parties and the subsequent review of disclosures for the financial statements.</p> <p>A review of the accounting estimates and judgements within the annual accounts was undertaken and no issues were identified.</p> <p>We tested a sample of transactions taken from both pre and post year end to confirm expenditure and income and been accounted for in the correct financial year. No issues were identified from this testing.</p> <p>We tested a sample of accruals and prepayments and evaluated significant transactions that were outside the normal course of business. No issues were</p>

Audit risk	Assurance procedure	Results and conclusions
		<p>identified through this testing.</p> <p>Conclusion: Our testing did not identify any evidence of management manipulating accounting records or overriding controls. We did however, identify some strengthening of controls and documentation around the recording and reporting of related parties.</p>

41. We continue to assess the potential risk of material misstatement throughout our audit. We reviewed our audit approach prior to the financial statements audit identifying a further significant risk around the valuation of property, plant and equipment. We considered the movements in market and construction price indices and the impact this could have on those assets valued at depreciated replacement cost that had not been subject to the revaluation exercise in year. On this basis we re-assessed the risk of material misstatement on the valuation and measurement of buildings not revalued in year to a significant risk of material misstatement. In [Exhibit 4](#) below we have outlined the planned audit procedures and the outcome of these.

Exhibit 4

Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>2. Risk of material misstatement on the valuation and measurement of assets valued at depreciated replacement cost not revalued in year</p> <p>Market and construction price indices have been rising due to current market conditions including rising inflation. The carrying value of assets valued at depreciated replacement cost which have not been revalued in year could be materially misstated.</p>	<p>Make inquiries of management around how they are satisfied that assets not subject to revaluation in year are free from material misstatement;</p> <p>Review Management / valuer's assessment of assets not subject to revaluation to determine if this is consistent with auditor knowledge or other similar property valuation movements.</p> <p>Consider the sufficiency of Management's assessment of assets not subject to</p>	<p>Results & Significant Judgements: The Council has concluded that assets not subject to valuation in year are not materially misstated in the accounts. Following audit challenge in this area, the Council's valuer undertook an exercise to evidence the conclusion reached that assets not subject to valuation in year are held at a value that would not be materially different to current value.</p> <p>Conclusion: Subject to conclusion of audit</p>

Audit risk	Assurance procedure	Results and conclusions
	revaluation in year and the extent to which this has considered independent valuation advice and market movements.	procedures, we are satisfied that property, plant and equipment has been valued in accordance with the code and is free from material misstatement.

42. We will conclude on the results of our audit procedures relating to the significant risk of material misstatement for the valuation and measurement of assets valued at depreciated replacement cost not valued in year when the information is provided by the professional valuer and management and when we have concluded our audit procedures.

East Renfrewshire Council revaluation programme has been amended to ensure coverage of each class of assets annually

43. Following a prior year audit recommendation the non-current asset revaluation programme has been refined to ensure that a minimum of 20% of assets in each class of assets has been included. As referenced in [Exhibit 4](#) price and construction indices have been rising significantly and thus impact on the valuation of assets valued at depreciated replacement cost and this led to a significant risk of material misstatement. Management have provided assurances around the carrying value of buildings valued at depreciated replacement cost which were not revalued in year.

Statutory override adopted for the disclosure of infrastructure assets

44. Across the UK, a technical accounting issue has been identified covering infrastructure assets, which we have considered as part of our audit this year.

45. Infrastructure assets typically include highways, footpaths, bridges and culverts and are included at historical cost in the accounts (£45.510 million at East Renfrewshire Council). A replaced component of an asset has to be de-recognised and at some councils the records of additions were not detailed enough to comply with accounting code requirements. A failure to de-recognise assets correctly would have resulted in double-counting and an overstatement of the gross book value; accumulated depreciation and potentially the net book value of the assets.

46. CIPFA/LASAAC considered the matter and proposed amendments to the 2021/22 accounting code to allow a reasonable assumption that the net book value of replaced parts of infrastructure assets are £nil and a temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government has issued Finance Circular 9/2022 to implement these changes.

47. At East Renfrewshire Council, management considered the detailed records available to support infrastructure additions since 2010 and concluded that the

above statutory overrides were required and have amended the infrastructure disclosures in the audited accounts, this is explained at Note 15.

Other areas of audit focus

48. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- Measurement and judgements applied to the valuation of pension liabilities: East Renfrewshire Council recognised a net liability of £119.443 million relating to its share of Strathclyde Pensions Fund at 31 March 2021. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates, and changes in these can result in material changes to the valuation.

Identified misstatements were adjusted in the annual audited accounts

49. Total misstatements identified in the accounts are outlined at [Appendix 2](#) of the report. These mainly related to non-current asset adjustments:

- Capital expenditure on common good asset recognised through non-current asset additions and revaluations in unaudited accounts but accounting treatment corrected to a capital grant to the common good and the asset being reflected through the common good account;
- technical accounting change was required to the capital adjustment account to recognise the historic element of depreciation only.
- Correction of accounting treatments for Alternative Certification Funding income and HSCP £500 bonus payment from principal to agency in line with guidance.

50. Adjustments have been made within the accounts for all of these. These did not impact on the net expenditure in the Comprehensive Income and Expenditure Statement or the net asset position in the Statement of Financial Position. Details of these adjustments are shown in Appendix 2.

51. Within [Appendix 2](#) we have also outlined presentational and misclassification adjustments made to the accounts and disclosure amendments we recommended.

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

The council has appropriate and effective financial management. An underspend of £3.852 million was reported against budget was reported in 2021/22 after a decision to restrict non-essential expenditure. Covid-19 pressures were met through Scottish Government funding.

Systems of internal control operated effectively in 2021/22 with some scope for improvement noted.

The council reported a surplus but the Covid-19 pandemic had a significant impact on the 2021/22 financial year

52. The council approved its 2021/22 budget alongside the financial planning 2021-27 report in March 2021. The budget was set to provide for net expenditure of £258.808 million including £5.054 million of unidentified savings and the utilisation of £3.465 million of reserves in year.

53. There were additional cost pressures in-year as a consequence of the Covid-19 pandemic. The council spent £14.47 million during the year on Covid-19 related costs. These included staff costs and other measures to address the Covid-19 pandemic which were funded by the Scottish Government.

54. At the year-end there was an underspend of £3.852 million. This position was achieved through managing staff vacancies, improved income generation, additional Scottish Government grants including unutilised covid funding and underspends on supplies and services as Directors avoided all non-essential expenditure.

55. In addition, the council administered the distribution of £11.1 million of Covid-19 support grants to local businesses and residents. These included business support grants, self-isolation support and low-income pandemic payments. There was an agency arrangement between the council and Scottish Government in the administration of these grants.

Usable reserves decreased slightly but remained relatively stable

56. One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the body decreased slightly from £60.3 million in 2020/21 to £58.9 million in 2021/22.

57. The level of usable reserves held by the council was relatively stable between 2018/19 and 2019/20 with a slight increase of £0.5 million. The usable reserve position increased significantly in 2020/21 from £44.2 million to £60.5 million. This was largely due to the impact of the Covid-19 pandemic and the receipt of £12.815 million of covid grants that were unspent at the year end.

58. Exhibit 5 shows usable year end reserve balances from 2018/19 to 2021/22. This illustrates the movement of reserves over the past four years and shows the significant increase in reserve totals during 2020/21.

Exhibit 5 Movements in useable reserves 2018/19 to 2021/22

	31 MARCH 2019 £m	31 March 2020 £m	31 March 2021 £m	31 March 2022 £m
General Fund (Non-earmarked)	(10.554)	(9.643)	(11.670)	(11.772)
General Fund (Earmarked)	(19.049)	(21.818)	(35.594)	(34.417)
General Fund (Total)	(29.603)	(31.461)	(47.264)	(46.189)
Housing Revenue Account	(1.718)	(2.316)	(2.221)	(1.867)
Capital Reserve	(3.835)	(2.656)	(2.668)	(2.671)
Capital Grants and Receipts Unapplied Account	-	-	(1.920)	(2.628)
Repairs and Renewal Fund	(6.581)	(5.829)	(4.236)	(3.647)
Insurance Fund	(1.950)	(1.960)	(1.969)	(1.903)
Total	(43.687)	(44.222)	(60.278)	(58.905)

Source: Audited Accounts 2020/21

59. As shown in Exhibit 5, the general fund reserve is the largest reserve, with a balance of £46.189 million. Although the general fund has no restrictions on its use, £34.417 million of the balance is earmarked for future expenditure plans. From review of the earmarked reserves at 31 March 2022 it is noted that £14.085 million of the total general fund earmarked reserve balance relates to unspent covid-19 grants.

60. The council's reserve strategy considers the level of non-earmarked general fund reserves as a percentage of the annual budgeted net revenue expenditure. At 31 March 2022, the balance of £11.772 million of reserves is 4.4% of the annual budgeted net revenue expenditure. This is broadly in line with the council's target of 4%.

61. In previous audit reports we have recommended improvements to budgeting and forecast reporting arrangements within the council due to consistent underspends against budget. An underspend was achieved in 2021/22 and planned utilisation of reserves was not required due to the impact of decisions made to constrain expenditure levels as outlined at paragraph 54. This was reported through budget monitoring arrangements.

Recommendation 3

As part of the budget process the council should continue to assess the reasonableness of service budgets and ensure that these reflect planned expenditure as these inform the level of planned spend and required council tax rates to support this expenditure. The adequacy of reserve levels should also be assessed and members should be given adequate information to make choices around the utilisation of monies including previously unused balances.

Housing revenue account reported a deficit in year

62. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set a level which will at least cover the costs of its social housing provision.

63. In February 2021, council agreed to raise rent by 1% from April 2021. Members were advised that there has been increased void rent losses and rent arrears over the period of the Covid-19 pandemic and that there was a projected deficit of £0.606 million for 2021/22.

64. Income and expenditure reported in the HRA was in line with these projections and a budget deficit of £0.354 million was recorded in year. We have not identified any issues with our audit testing over HRA.

Capital expenditure was lower than planned in 2021/22 and plans were re-phased during the year

65. General fund and housing capital expenditure were approved by the council as part of the budget setting process in March 2021. These outlined a general fund capital budget of £41.286 million and a housing capital budget of £18.499 million for 2021/22.

66. A report recommending cost variations and re-phasing of the 2021/22 capital programme was approved by Cabinet on 25 November 2021. The report provided an update on a number of projects and the impact of Covid-19, increased energy and fuel prices and the emerging impact of the crisis in

Ukraine. These factors have had a significant impact on the market and have resulted in shortages of labour and material as well as associated cost pressures. The increased prices and longer lead times are expected to continue to be experienced across construction projects.

67. The total capital expenditure in 2021/22 was £35.901 million of which £22.851 million related to general services and £13.050 million to the housing revenue account.

68. Council revised the capital plan in September 2022 to more accurately reflected planned activity. The capital group have decided that no new in-year projects will be added to the plan and that no further borrowing will be made to meet new emerging inflationary costs. Instead, capital projects will either be re-profiled or reduced specification/activity will be planned on existing projects.

69. Whilst the council have taken positive action to re-phase the capital plan to reflect planned activity it will be important for the Council to continue to monitor the impact of the revised plan and consider any revenue implications of deferring capital investment.

Financial systems of internal control operated effectively

70. Our management letter presented to the Audit Committee on 29 September 2022 concluded our findings from the review of systems of internal controls. We concluded that the controls tested were operating effectively.

71. Whilst our audit testing did not identify any significant control weaknesses, we did identify and report some less significant issues. In response to these findings, the audit team undertook additional substantive testing to gain the required assurances for the financial statements audit.

Internal audit

72. Each year we review the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. We have taken cognisance of the findings of internal audit's work, but we did not place direct reliance.

73. The council's internal audit function regularly report progress to the Audit and Scrutiny Committee. Throughout 2021/22 these reports outlined continuing capacity and resourcing challenges and difficulties in auditing remotely. This led to eight audits being deleted from the plan in quarter four of the year, resulting in a reduction of audit days from 661 days to 518 days. Internal audit completed the revised planned work. They were able to undertake sufficient work to provide assurances however, the chief auditor recognises that further work is required to ensure planned internal audit activity is deliverable.

Arrangements for the prevention and detection of fraud and error were appropriate

74. East Renfrewshire Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

75. The risk profile of public bodies during 2021/22 has been significantly affected by the Covid19 pandemic. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner. We have concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

Arrangements for preventing fraud and corruption in the procurement function are appropriate.

76. The consideration of financial management includes evaluating the arrangements in place for fraud and corruption. Instances of fraud and corruption are particularly prevalent in the procurement function. We carried out an assessment of the arrangements in place at the council to prevent fraud and corruption in the procurement function.

77. We reported in our 2019/20 Annual Audit Report that "instances of fraud and corruption can be particularly prevalent in the procurement function. As reported in the Annual Audit Plan, we used the work of Internal Audit in this area. Their report, Procurement Red Flags, provides coverage of many aspects of Audit Scotland's *Red Flags in Procurement*. Further audit work was undertaken by external audit by 2021/22 to ensure full coverage of the controls identified within this report". This included reviewing staff training arrangements and the recording of gifts and hospitality.

78. Our review confirmed that each department is responsible for managing and maintaining their own register for gifts and hospitality. The procurement team maintain a central contract register. This is going to be held online going forward to make visibility easier across the council. The procurement team also undertake an annual creditor spend review.

79. Training is not mandatory but is available on request. The council's procurement intranet page holds key information including videos such as 'Which Procurement route to take', 'Community Benefits', 'Contract and Supplier Management', 'Fair Work Practices', 'Sustainability', 'Quick Quote', 'Tenders', 'Important Documents - Spec Writing etc' and Standard Operating Procedures.

80. We have concluded that the council have arrangements in place to prevent fraud and corruption within the procurement function.

3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether the council is planning effectively to continue to deliver its services or the way in which they should be delivered

Main judgements

The financial consequences of Covid-19 are continuing to emerge. Further financial challenges are emerging around inflationary pressures. The council will need to continue to refine the medium-term financial plan as more clarity on the impacts of these pressures becomes evident.

We have obtained audit assurances over the wider audit dimension risks relating to Financial Sustainability identified in our 2021/22 Annual Audit Plan

81. [Exhibit 6](#) sets out the significant risks of material misstatement we identified in our 2021/22 audit plan, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 6

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>Financial sustainability</p> <p>Councils continue to face significant financial pressures on funding and increasing demand on services. East Renfrewshire Council approved a one-year 2022/23 budget in March 2022. The budget shortfall was calculated at £9.5 million. The council plan to balance this through a savings target of £2.2 million, by using £5.2 million from reserves and through increasing council tax</p>	<ul style="list-style-type: none"> Assessment of the adequacy of the council's longer term financial management arrangement and plans reported to members. Review of the council's financial position through budget monitoring reports presented to members. 	<p>Results & Significant Judgements:</p> <p>From review of the monitoring reports and year end outturn position we noted that the council reported an underspend in 2021/22. This was achieved through a combination of Director's actions to avoid non-essential spend, along with improved income generation and additional Scottish Government grants which resulted in a contribution of</p>

Audit risk	Assurance procedure	Results and conclusions
<p>by 3.5%. In the short to medium term the council will continue to face a number of uncertainties and pressures that may have a financial impact on the council. As a result, there is a risk to financial sustainability.</p>		<p>£0.107 million being made to non-earmarked reserves. This represents an improvement of £3,857 million on the budget set on 15 March 2021.</p> <p>Conclusion: The council demonstrates a clear focus of prudent financial management. However, the council should review budgets and savings plans to ensure these accurately reflect planned activity.</p> <p>If relevant, cross refer to an action in Appendix 1 Action Plan Point 3</p>

The council face increasing financial pressures

82. The financial impact of the pandemic on the council is likely to extend across several years and could include a reduction in income from business rates and council tax non-payments as well as a reduction in fees and charges. Bodies may also face increased costs such as higher staff costs to cover the delivery of services.

83. The council have started to experience financial pressures from increasing utility cost and rising inflation. The impact of these wider financial factors on local residents may increase demand for some council services including, entitlement to free school meals or uniform clothing grants as well as reduced council tax collection rates.

84. The 2022/23 revenue budget was approved by Council on 3 March 2022. The budget outlined departmental non-Covid spending plans of £275.181 million, including contributions to the Integration Joint Board and East Renfrewshire Culture and Leisure Trust. The council plan to drawdown reserves during the year of £5.253 million. Saving requirements of £2.176 million across council directors have been set and sufficient savings options to address this gap have been identified.

85. A cross party Budget Strategy Group for the 2023/24 – 2025/26 budget has been established. The group has been presented with financial information and forecasts and have been given an early indication of the 2022/23 year-end reserve position.

86. Local government finances are under increasing pressures from inflationary pressures across pay and non-pay expenditure to pressures on services as the council continues to support covid-19 recovery. COSLA are exploring various

financial flexibilities with the Scottish Government to support authorities. At a local level, the Budget Strategy Group are considering temporary flexibilities, including reviewing the repayment profile on service concession arrangement debt.

Medium and longer-term financial plans are updated annually to reflect the changing environment the council are operating within

87. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's operational strategies. The council has various long term financial planning documents including the Capital Investment Strategy, General Fund and Housing Capital Plans and Financial Planning report.

88. The council adopted a multi-year budget approach in March 2018 when the 2018/19 budget and indicative budgets for 2019/20 and 2020/21 were approved. Due to the impact of Covid-19 and the late confirmation of UK and Scottish budgets, single year budgets have been set in 2021/22 and 2022/23. However, departmental modelling of the council's financial position will continue internally for the three years 2022/23 to 2024/25 in support of the council's Outcome Delivery Plan.

89. Multi-year budget setting will resume from 2023/24 after the Scottish Spending Review in May 2022 when multi-year settlement information should be provided by the Scottish Government.

90. As part of the annual budget setting process, the council present their long-term financial plan, covering the period 2022 - 2028. The financial plan demonstrates the council's awareness of the long-term pressures they face, including demand pressures and changes to legislation of government priorities. The plan reflects changing demands on council services and provides commentary on wider political, societal and economic changes including Covid-19, the independent review of adult social care and the impact of the UK's withdrawal from the European Union.

91. Due to the additional challenges presented by Covid-19, rising inflation and increased utility costs and the medium to longer term impact this may have on planned public sector spending across the UK and Scotland, the council's existing financial outlook plan is subject to significantly greater uncertainty.

92. It is likely that further decisions and announcements by the UK and Scottish Government will impact and influence the council's financial outlook in the short, medium and longer term.

Recommendation 4

The council should develop a revised financial strategy incorporating new or temporary financial flexibilities and assess how the total balances available are

best utilised to support the financial sustainability of the council over the medium term.

The council will need to actively engage with local and national partners to deliver the required level of efficiencies and savings.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

The council's governance arrangements operated effectively during the year. Following the local council elections in May, a new Administration was formed between Labour and Independent Members. In addition, there was a significant turnover in members. Officers have implemented induction and support arrangements for new and returning Members.

The council demonstrates its commitment to conducting its business in an open and transparent through the recording of committee meetings and availability of information through the council website.

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

93. The council introduced emergency measures in response to the Covid-19 pandemic in March 2020. These included the suspension of delegations to committees, with the exception of the Emergencies committee and delegated authority granted to the Chief Executive, all directors and heads of service and the Chief Officer – Legal and Procurement. Following the 2020 summer recess, committee meetings reconvened and emergency measures were lifted.

94. All meetings continued to be held virtually until June 2022. Full council meetings are now being held in-person and standing committees are either in person or using hybrid arrangements. The council records all its main Council and committee meetings and this is available on the council's YouTube Channel.

95. Most items on committee agendas are covered in open session at meetings rather than in private. The council's website allows members of the public to access a wide range of information including the committee minutes and papers, the register of members' interests, how to make a complaint and various performance and strategic reports.

New administration

96. In May 2022 the Scottish Local Authority elections were held. Eighteen councillors were elected and a new administration was formed between Labour and the Independent members. There was a significant turnover in members.

97. One of the recommendations from the Best Value Assurance Report in 2017 was for councillors to take a more transparent and active role in scrutiny and to have greater oversight of the transformation of the council. In response to this recommendation, a new programme of essential scrutiny skills training for elected members was developed and delivered.

98. Following the elections in May an induction programme for new elected members was established. This covered Leadership and Decision Making, Standards in Public Life and the Councillors Role, Introduction to Council Departments & Partner Organisations, Budgets, Finance and Funding, Strategies for the Future and Introduction to Our Community Planning Partners. The new administration and committee membership is still new and evolving and it is too early to comment on the effectiveness of arrangements.

Audit and Scrutiny Committee

99. Audit committees provide independent assurance to those charged with governance on the adequacy of the risk management framework, the internal control environment and the financial reporting and governance processes.

100. CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2018 outline how committees can effectively discharge its responsibilities by:

- Meeting regularly and having a clear policy around what items are taken in public and private
- Being able to meet privately and separately with the external auditor and with the head of internal audit
- Including, as regular attendees the chief finance officers, chief executive, head of internal audit and the appointed external auditor. These officers should be able to access the committee, or the chair as required
- Having the right to call any other officer as required
- Reporting regularly on its work to those charged with governance, and at least annually reporting an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

101. The audit and scrutiny committee reported in April 2022 the outcome of their self-assessment review which reflected on the committee over the five-year period of the last administration. The review was undertaken using tools made available by the Chartered Institute of Public Finance and Accountancy (CIPFA).

102. The audit and scrutiny committee has subsequently been formed and has a new membership following the local government elections. While there were no significant issues raised within the self-assessment, the audit and scrutiny committee should consider the conclusions and recommendations from the self-assessment exercise and draw on the good practice and lessons learned. Good practice would be to annually self-assess the committee. This will support the development of the committee. The review should focus on how effective the committee perceives itself to be in delivering its business and not on the activities it undertakes.

Recommendation 5

Establish an annual self-assessment of the audit and scrutiny committee to assess and challenge the effectiveness of the committee and to identify areas for development.

Risk Management

103. The audit and scrutiny committee have oversight of the risk register and risk management strategy. This is appropriate given their oversight and scrutiny function and the role they have in directing and approving internal audit plans. However, the scheme of administration states that the committee make recommendations to Cabinet on the introduction and development of appropriate risk management arrangements across the Council. Furthermore, from attendance at the committee further clarity is required around the committee's responsibilities with regard to risks management.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

The council has an appropriate and effective best value framework in place.

Best value work on partnership working and collaboration has concluded that strong partnership working arrangements are in place with shared visions around recovery and renewal.

The council continue to perform strongly in comparison to other councils. However, service performance levels in 2021/22 were impacted by Covid-19.

The council is making good progress in securing Best Value

104. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council has been considered by the Accounts Commission at least once in this period. The BVAR report for the council was published in November 2017.

105. The BVAR concluded that the council has a clear vision and strategic direction which reflects its understanding of the local area and is supported by Councillors, officers and the council's partners. A framework of strategic priorities underpins this vision.

106. We also highlighted key areas where the council should focus its improvement activities going forward. The report made five recommendations for further development including:

- councillors having a more transparent and active role in scrutiny
- a more strategic and co-ordinated approach to planning and managing corporate resources and the transformation programme
- identify why revenue budgets are consistently underspent and introducing realising budgeting policies
- enhanced engagement with communities and partners
- use of a wider variety of option appraisals as part of transformation and service review.

107. The council prepared an action plan to address the recommendations and progress was reported annually to Cabinet until the action plan was completed. As part of the best value work undertaken in 2022/23, an updated position was

provided on the activities undertaken within the council in each of the areas noted above. The council continue to make positive progress in implementing the recommendations from the 2017 Best Value and Assurance Report.

Best value

108. The best value audit work carried out this year focussed on the council's arrangements for demonstrating best value in partnership and collaborative working. The findings of this work are reported below. The effectiveness of the council's best value arrangements in other areas has been assessed and reported throughout our audit appointment in annual audit reports and the best value assurance report.

109. The council have long-standing established positive working relationships with partner organisations and are involved in a wide range of partnership projects and initiatives. In responding to the challenges and impact of the Covid-19 pandemic the relationships with some partner bodies, particularly those within the voluntary section strengthened.

110. In September 2018 terms of reference and governance arrangements were agreed with community planning partners. The Community Planning Partnership (CPP) meet annually to set priorities and direct progress, and a Performance and Accountability Review (PAR) group to meet biannually to monitor progress and agree improvement actions. Prior to the pandemic three Information and Consultation Sessions were held each year for elected members to scrutinise and influence community planning activity. These resumed in October 2022.

111. A virtual Community Planning Partnership Meeting was held in March 2021 where governance arrangements were explored and it was agreed to have a more thematic and action-planning approach to Community Planning, with Locality Planning being embedded over time. This would allow more focus on the three recovery and renewal themes of:

- Community Wellbeing
- Community Connectivity and
- Community Wealth Building.

112. In August 2021 the CPP Board and PAR met together for an annual meeting where progress on the Community and Fairer East Ren plans were reviewed. The three recovery and renewal themes were revisited with a commitment to use these as a framework to further develop the Fairer East Ren plan. We have reviewed these documents as part of our work and conclude that they are high level documents containing key information.

113. The council have a joint venture arrangement with NHS Greater Glasgow and Clyde for the East Renfrewshire Integration Joint Board (the IJB). The IJB was legally established in 2015, however, partnership working arrangements were already well established. A positive working relationship with the health board continues and within the day-to-day operation of the IJB teams of health

and social care staff are integrated into teams and managed by one manager from either a health, social work or social care background.

114. The council have strong partnerships working arrangements in place with partner organisations. Through the Community Planning Partnership the council have a shared vision with partners which is currently focussing on recovery and renewal.

Transformation

115. In the past year the council have established the Business Operations and Partnership Directorate replacing Corporate and Community Services. This directorate is responsible for the Council's digital transformation programmes, which focus on 3 main programmes of work:

- Business Systems and Processes
- Customer Experience
- Workforce Productivity.

116. A new system of governance has been established with quarterly oversight by the Corporate Management Team and three programme boards with representation from the Council, HSCP and Culture and Leisure Trust. Each operates to a standard agenda, with online project and programme reporting dashboards.

117. Common staff roles have been established on projects, for example, project managers and business system developers. This includes responsibility for some of the Council's key ICT systems (e.g. Finance/Procurement; HR/Payroll; GOSS and ICON) and allows for co-ordination and management of skills across the organisation, enabling the identification of skills gaps. Recruitment for skill gaps will be managed centrally along with the co-ordination of skilled staff to projects to ensure all projects have an appropriate skill mix.

118. An increased focus on benefit realisation and budget savings from transformational activities is starting to take place. The council have developed a draft benefit framework. Digital and data technology is being used within the council to improve internal reporting capabilities, including through use of interactive online dashboards, which is enabling the council to report a more up to date position of activity and reducing workload in rekeying updates for different audiences.

119. The council are using 'Engage Process Modeller' to compare differences in processing times between old and new processes. It can be difficult to quantify the exact benefit of a new system, however the council recognise that this is an important step in demonstrating the impact of transformational activity and developing plans for improvement. An example of this would be the council tax and benefit system which was introduced to replace an end-of-life system last year. The council are able to measure an increase in the number of customers registered and using the system online and while exact efficiencies cannot be quantified, operationally the council has managed increased case volumes within existing resource.

Performance management arrangements provide a sound base for improvement

120. The council has established arrangements in place for measuring and reporting its performance. The council website contains a range of performance reports, including annual performance reports, strategic performance reports and statutory performance indicator reports.

121. The Outcome Delivery Plan is a rolling three-year plan which is revised annually. This demonstrates how the council's services will contribute towards the outcome deliveries in the Community Plan and Fairer EastRen. The council developed a transitional plan for 2021/22 to reflect the impact of Covid-19 and to outline how the community plan can still be delivered.

122. The Annual Strategic Performance report was presented in Council in June 2022. This presents the council's performance against the Outcome Delivery Plan. This year the report reflected on key areas of the council's response to supporting residents and communities during the pandemic.

123. Within the council's Outcome Delivery Plan (2021-2024) there are 48 indicators in the plan and new data was available for 40 of these indicators at the year-end 2021/22. Performance against 25 of the indicators was met or on track within set thresholds. Five indicators were off target. Targets were not set for ten indicators. Nine of these relate to education indicators where data was not available as a result of covid-19. However, work is ongoing to re-baseline these measures for the current academic year. The remaining indicator is the gender pay gap indicator which is reported and monitored annually through the Local Government Benchmarking Framework.

124. The council are taking appropriate action to re-base their performance targets to enable realistic and meaningful targets to be established and taken forward.

Statutory performance indicators (SPIs) are being met

125. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

126. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve

these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities

127. We have evaluated East Renfrewshire Council's arrangements for fulfilling the above requirements and concluded that appropriate arrangements are in place.

East Renfrewshire Council continues to perform well in the key service area of education in comparison to other councils

128. The council participates in the Local Government Benchmarking Framework (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

129. The annual update on performance within the Local Government Benchmarking Framework was presented to Cabinet on 3 June 2022. This provided Cabinet and the public with a full assessment of all 101 indicators in the Local Government Benchmarking Framework (LGBF) for 2020/21, split across ten key service areas. The LGBF report highlights those indicators in the top and bottom quartile, provides trend data and ranked position over a three-year period. It shows the Scottish average, and the family group range for all indicators.

130. The council continues to perform well in comparison to other councils with 36 indicators in the top quartile (ranked 1st to 8th). However, 14 indicators are in the bottom quartile (ranked 25th to 32nd). Strong performance has been reported in a number of areas including educational attainment of children where the council has maintained their position as the top performing council and in economic development and planning where they were ranked as the best performing council for investment in economic development and tourism per 1,000 of population and claimant count as percentage of 16-24 aged population.

131. Areas where the council ranked poorly in comparison to other local authorities were:

- Percentage of procurement spent on local, small and medium enterprises
- Cost of maintenance per kilometre of road
- Cost per dwelling of council tax collection

132. From reviewing East Renfrewshire's LGBF performance for 2020/21 it can be noted that performance has improved in some areas, stayed consistent in some and declined in other areas. There are some changes in performance year-on-year which have been impacted by the pandemic. The council have also noted a few issues with the underlying data for some of the measures for example, library virtual visits not being included in the numbers or issues with the sickness absence data around how staff movements in year are considered in relation to the calculation.

National performance audit reports

133. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 4](#).

134. East Renfrewshire Council have arrangements in place to consider and review national reports. The Audit and Scrutiny committee considered a number of national reports during the past year including the Local Government in Scotland Financial Overview 2020/21; Local Government in Scotland Financial Overview 2022 and Impact of Covid-19 on Scottish Council's Benefits Services. The committee covering paper outlines key messages and articulates this from an East Renfrewshire Council perspective. The committee agree required actions arising from the report findings.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Property, plant and equipment valuations</p> <p>The Code of Practice on Local Authority Accounting requires authorities to revalue property, plant and equipment with sufficient regularity to ensure the carrying amount does not differ materially from current value, being the value that would have been obtained if revalued. Property, plant and equipment valuations within the annual accounts is supported by workings from valuers, using a rolling programme of revaluations. The valuation process could be enhanced through greater documentation of the annual valuation report and management scrutiny over the report including:</p> <ul style="list-style-type: none"> • The assets revalued in year and the methodology applied in the valuation exercise; • Key assumptions and estimates made in the valuation; • The total valuation amount reflected within the annual accounts; and 	<p>We recommend that a valuation report is prepared by the council's valuer on an annual basis outlining the details of the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme. There should be clear evidence of how officers have challenged and scrutinised the valuation to ensure the accounts are free from material misstatement.</p> <p>Exhibit 2, Recommendation 1</p>	<p>An annual report will be prepared for the Chief Financial Officer outlining the details of the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme.</p> <p>Responsible Officer: Head of Strategic Services (Environment)</p> <p>Agreed date: February 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<ul style="list-style-type: none"> • Details of compliance with industry standards <p>In addition, there should be clear assurances around how those assets not subject to revaluation would not be materially understated.</p> <p>Risk: There is a risk that the documentation to support the valuation exercise lacks detail and results in additional audit work being required to ensure appropriate assurances are obtained to support the valuations within the annual accounts.</p>		
<p>2. Related party disclosures</p> <p>The information held relating to member and officer interests could be enhanced to ensure that all relevant information is recorded to support the governance and financial reporting requirements around the disclosure of related parties. Processes and controls to consider and identify relevant relationships and transactions that require to be disclosed within the annual accounts should be reviewed for appropriateness.</p> <p>Risk – There is a risk that the council fail to identify related parties due to underlying documentation lacking sufficient detail.</p>	<p>We recommend that a review of controls and processes around related parties is undertaken. This will include the documentation of member and officer interests as well as the processes in place to identify the relevant disclosures for inclusion in the financial statements.</p> <p>Exhibit 2 Recommendation 2</p>	<p>A joint review of paperwork and processes relating to staff and Member interests will be undertaken, culminating in new guidance and any necessary revisions to the registration process.</p> <p>Responsible Officer: Director of Business Operations & Partnerships and Chief Solicitor.</p> <p>Agreed date: June 2023</p>
<p>3. General Fund</p> <p>The council has a history of underspend against budget as previously reported through our annual audit reports. An underspend was</p>	<p>As part of the budget process the council should continue to assess the reasonableness of service budgets and ensure that these reflect planned expenditure as these inform</p>	<p>Agreed. The 2021/22 underspend was a result of planned prudent action in the latter months of the year, when the worsening outlook for the coming year became</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>reported in 2021/22 through a combination of restrictions placed on non-essential expenditure. While in-year it demonstrates good financial management to manage resources prudently it is important that annual budgets reflect true planned spend of cost services to maximise the use of resources.</p> <p>Risk: There is a risk that the council are not fully utilising available budget in year to support the delivery of front-line services.</p>	<p>the level of planned spend and required council tax rates to support this expenditure. The adequacy of reserve levels should also be assessed and members should be given adequate information to make choices around the utilisation of monies including previously unused balances.</p> <p>Paragraph 61</p>	<p>clear. This action took account of the forecast reserve levels. The Council will continue to report on current and forecast reserve levels as a key element of its financial planning and will also continue to be flexible during the year to take necessary action in response to the changing financial outlook.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: March 2023</p>
<p>4. Financial strategy to support financial sustainability</p> <p>The council face continuing financial challenges and significant uncertainty.</p> <p>It is anticipated that new financial flexibilities may become available and the impact of these should be assessed within the scope of the wider financial strategy.</p> <p>Risk: There is a risk that decisions around financial flexibilities, transformation and redesign of savings are made without detailed financial impacts being available to support the decision-making process.</p>	<p>The council should develop a revised financial strategy incorporating new or temporary financial flexibilities and assess how the total balances available are best utilised to support the financial sustainability of the council over the medium term.</p> <p>The council will need to actively engage with local and national partners to deliver the required level of efficiencies and savings.</p> <p>Paragraph 92</p>	<p>Agreed. The Council is currently reviewing the new service concession flexibility and will also assess any temporary financial flexibilities expected to be offered soon by the Scottish Government. We continue to update our long-term financial plans annually and to monitor and report on all available reserves as part of our financial planning and budgeting processes.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: March 2023</p>
<p>5. Audit and Scrutiny Committee effectiveness</p> <p>The audit and scrutiny committee review their effectiveness periodically. Good practice would be to</p>	<p>Establish an annual self-assessment of the audit and scrutiny committee to assess and challenge the effectiveness of the committee and to identify</p>	<p>In June 2022, the new Audit and Scrutiny Committee endorsed a significant range of observations and recommendations made by the outgoing Committee in April. The new Committee</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>complete an annual self-assessment and action areas for improvement.</p> <p>Risk: There is a risk that the committee do not identify improvement actions to support and strengthens the committees effectiveness.</p>	<p>areas for development.</p> <p>Paragraph 102</p>	<p>agreed that periodic self-evaluation is useful, but did not support an annual review, due to workload and resource implications. Instead, the Committee made a commitment to 2 reviews during the lifespan of the Administration, one mid-way through (c.2024/25) and one at the end of the term (2026/27).</p> <p>Responsible officer: Director of Business Change & Partnerships</p> <p>Agreed date: TBC</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>6. Valuation Report</p> <p>The annual valuation exercise could be further enhanced through the preparation of an annual valuation report outlining:</p> <ul style="list-style-type: none"> the assets revalued in year the methodology applied to the exercise the total valuation amount reflected within the annual accounts and details of compliance with industry standards. <p>Risk: There is a risk that the documentation to support the valuation exercise lacks detail and results in additional audit work being required to ensure appropriate assurances are obtained to support the valuations within the annual</p>	<p>The council's valuer prepares a valuation report on an annual basis outlining the details of the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme.</p>	<p>Outstanding – see Action Plan Point 1 above</p>

Issue/risk	Recommendation	Agreed management action/timing
accounts.		
<p>7. Annual Governance Statement</p> <p>The Annual Governance Statement provided as part of the unaudited accounts required additional disclosures to be incorporated and further refinement to reflect the activity within the council.</p> <p>Risk: The Annual Governance Statement does not include all relevant disclosures.</p>	<p>Review and refine the project plan for the delivery of the unaudited Annual Governance Statement to ensure the statement is delivered within agreed timescales and to the appropriate standard.</p>	<p>Complete</p>
<p>8. Annual Governance Statement</p> <p>The Directors' assurance statements varied in terms of the level of detail provided. We would expect additional narrative to be provided to support the disclosures within the annual governance statement.</p> <p>Risk: The Accountable Officer is not provided with the required assurances and the governance statement omits a significant issue.</p>	<p>Directors should ensure that their assurance statements and certificate are completed comprehensively, within the required timeframe and to appropriate quality standards for review and consideration prior to the drafting of the governance statement.</p>	<p>Complete</p>
<p>9. Capitalisation of staff costs</p> <p>Directly attributable staff costs are part of the cost of a capital asset. Staff costs are included within the Comprehensive Income and Expenditure Statement. This is a revenue statement and should not include capital costs.</p> <p>The council are able to identify the capital costs. The</p>	<p>Develop a process to support year-end reporting requirements for the allocation and recognition of capitalised staff costs within the financial statements.</p>	<p>Complete</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>council should incorporate a process to re-allocate capitalised costs for the purposes of the annual accounts.</p> <p>Risk: There is a risk that the income and expenditure shown within the Comprehensive Income and Expenditure Statement is overstated.</p>		
<p>10. Personal Protective Equipment</p> <p>The council received personal protective equipment (PPE) from Scottish Government during the pandemic to support front line services.</p> <p>The council are unable to account for how the PPE was used. The council procured its own PPE during 2020/21. It is not clear at what level the decision to distribute the PPE to local businesses was taken.</p> <p>Risk: There is a risk that resources were utilised unnecessarily on obtaining PPE stock.</p>	<p>Learn the lessons from the PPE experience to review and assess stock control/distribution processes and transparency of decision making with a view to improving control over provision of equipment and avoiding duplicate purchasing.</p>	<p>Complete</p>
<p>11. General Fund</p> <p>The council has a history of underspend against budget. An underspend was reported in 2020/21 through a combination of restrictions placed on non-essential expenditure and the impact of Covid-19 funding received. The general fund reserve position has increased significantly, however, a large proportion of the general fund balance is earmarked with a</p>	<p>The council should continue to assess the adequacy of reserve levels as it reviews its financial strategy; and to ensure that members are provided with adequate information to make choices around the utilisation of all monies including previously unused balances.</p>	<p>See action plan point 3 above.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>substantial element of the increase in the 2020/21 reserve position relating to Covid-19 unspent grants.</p> <p>Risk: There is a risk that the council are not fully utilising available budget in year to support the delivery of front-line services.</p>		
<p>12. Land and building valuations</p> <p>The council revalue elements of its fixed assets over a 5-year rolling programme, with different classes of asset being revalued each year.</p> <p>Risk: There is a risk of large valuation movements between each year's annual accounts.</p>	<p>Management should consider a valuation methodology whereby 20 per cent of each class of asset is revalued each year, with all assets still being revalued once over a 5-year period.</p>	<p>Complete</p>
<p>13. Financial strategy to support financial sustainability</p> <p>The Modern Ambitious Programme is continuing to progress. Alignment of transformation plans and the financial strategy will support decision making around service redesign.</p> <p>Risk: There is a risk that decisions around transformation and redesign of savings are made without detailed financial impacts being available to support the decision-making process.</p>	<p>Develop a revised financial strategy incorporating revised approaches to service delivery and new ways of working to ensure the total balances available are used to support the financial sustainability of the council over the medium term.</p> <p>To address the financial challenge the council will need to actively engage with local and national partners to deliver the required level of efficiencies and savings.</p>	<p>See action plan point 4 above.</p>
<p>14. Option Appraisal</p> <p>The 'Way we work' project will inform the property needs and configurations for the future. Accommodation will be reviewed in relevant groupings using pre-</p>	<p>The council should develop robust option appraisals to consider all relevant financial, legislative and environmental factors including cost, future need, configurations, investment requirements and</p>	<p>This is currently in progress. A report will be submitted to the Council or Cabinet in December 2022 at the latest outlining the future property needs on the Council, potential configurations for</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>determined criteria.</p> <p>Risk: There is a risk that the optimal decision is not reached if all information and options are not fully considered and scrutinised.</p>	<p>carbon footprint to enable informed asset management decisions to be made.</p>	<p>the Future, progress to date and advising that a full report including an options appraisal will be submitted by March 2023.</p> <p>Responsible officer: The Head of Strategic Services (Environment)</p> <p>Revised date: March 2023</p>
<p>15. Systems of internal control</p> <p>As a result of Covid-19 many staff have been working from home for all of 2020/21. This change in working arrangements will impact on how the internal controls operate.</p> <p>Risk: There is a risk that the internal controls do not operate as expected due to home working.</p>	<p>The council should review its framework of controls, including for the new systems, to ensure that the impact of home working is taken into account.</p>	<p>In Progress</p> <p>The Council's framework of controls is formalised on a yearly basis as part of the completion of the Certificate of Assurance by the individual members of the Corporate Management Team, where changes to the internal controls are documented.</p> <p>Responsible officer: All Directors</p> <p>Revised date: June 2023</p>
<p>16. Business Continuity/ Disaster Recovery</p> <p>We have previously reported on the need for the council to ensure disaster recovery and business continuity plans are up to date, realistic and are tested.</p> <p>Risk: Until the plans are fully implemented and tested, that the council suffers a loss of data and disruption to service.</p>	<p>The council should ensure that the business continuity arrangements are current and that disaster recovery arrangements are current and tested.</p>	<p>In Progress</p> <p>IT Disaster Recovery planning has progressed the documentation refresh action significantly. An organisation-wide Cyber Exercise was held in September. Documentation will now be updated accordingly, before undertaking a focussed IT Disaster Recovery desktop exercise to approve the final versions.</p> <p>Responsible officer: Head of Digital & Community Safety</p> <p>Revised date: 31 March 2023</p>

Appendix 2. Summary of corrected misstatements

We report all corrected misstatements in the annual accounts that are individually greater than our reporting threshold of £0.250 million and request they be corrected.

The table below summarises corrected misstatements that were identified during our audit testing and have been corrected by management.

	CIES Dr £000	CIES Cr £000	B/S Dr £000	B/S Cr £000	MIRS Dr £000	MIRS Cr £000
1. Charges for depreciation and impairment of non-current assets						(4,832)
Difference between fair value and historic cost depreciation					4,832	
2. PPE – Cost – Other land and buildings – Additions				(885)		
Common Good Fund B/S - PPE			885			
CIES - grant received to service income		(885)				
CIES - grant paid to service expenditure	885					
3. Education – Gross Expenditure		(305)				
Education – Gross Income	305					
4. Health and Social Care – Gross Expenditure		(2,040)				
Health and Social Care – Gross Income	2,040					
Total	3,230	(3,230)	885	(885)	4,832	(4,832)

Notes:

Entry 1: Correction to the accounting for the depreciation charged on the difference between

historic and revaluated PPE cost (movement from Capital Adjustment Account to the General Fund) for both the General Fund and HRA.

Entry 2: Correction to addition for Common Good Fund Asset (removing addition from the Council Fixed Asset Register to recognition in Common Good Fund Balance Sheet)

Entry 3: Correction to accounting for Alternative Certification Funding (moving from principal to agency accounting).

Entry 4: Correction of accounting for HSCP funding (moving from principal to agency accounting)

Misclassification and Presentational Adjustments

Disclosure	Auditor Recommendation	Adjusted?
<p>1. Depreciation on revalued asset</p> <p>There was a presentational amendment made within the note to the accounts for non-Property Plant and Equipment. This related to depreciation on revalued assets.</p>	Amend the presentation of depreciation on revalued assets within note 15 of the accounts.	Adjustment made within note 15.
<p>2. Demolitions revalued to nil net book value</p> <p>As part of our audit work on valuations we identified three non-current assets that were demolished in year. These assets were revalued to nil net book value instead of being treated as an asset disposal.</p>	The demolished assets should be accounted for as asset disposals.	The annual accounts have been adjusted and the assets have been correctly recorded as disposals. This has had no impact on the net asset position.

Disclosure adjustments

The table below sets out our more significant proposed disclosure amendments, noting those that have been updated and those that have not. We are comfortable those that are not updated do not have a material impact on the users of the accounts and their understanding of the Council.

Disclosure	Auditor Recommendation	Adjusted?
Management Commentary	We recommended some changes to the management commentary including a more detailed overview of the	Disclosures updated within the management commentary.

performance of the council during 2021/22.

Annual Governance Statement	We recommended that the annual governance statement be updated to reflect the Chief Auditors opinion, progress on internal audits work and some other minor disclosure changes.	Disclosures updated within the management commentary.
Critical Judgements	Within the unaudited accounts a critical judgement was included in relation to the accounting treatment for Covid-19 funding. We recommended the removal of this critical judgement as the council will apply accounting standards.	Disclosure updated and the critical judgement relating to accounting for Covid-19 funding has been removed.
Estimation uncertainty	We recommended some changes to note 7 of the accounts – Estimation Uncertainty. This included the inclusion of a disclosure around the risk of inflationary pressures on costs and prices over the next twelve months over valuations of land and buildings.	The council have updated their capital plan to rephase projects taking into account factors around inflationary pressures, slippage on projects and difficulties obtaining materials. However, they did not view the inclusion of a note around estimation uncertainty as necessary.

Appendix 3. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

East Renfrewshire Council

2021/22 Annual Audit Report

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