Midlothian Council

Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2022

28 September 2022

Building a better working world

Contents

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Council (the Council) for financial years 2016/17 to 2021/22. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

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

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary: Key Conclusions from our 2021/22 audit

We have issued an unqualified audit opinion on the Council and Group 2021/22 financial statements.

We continued to review and update our risk assessment throughout the audit, including the materiality level applied. Our materiality levels were reduced and valuation of property, plant and equipment elevated to a significant risk.

Financial Statements

We have concluded our audit of the Council's financial statements for the year ended 31 March 2022. Nine adjustments were made to the financial statements since the publication of the unaudited financial statements in June 2022. We did not identify any unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were provided on time and were of a good quality however we did identify an increased number of adjustments and control observations. We worked with management to make enhancements to the Management Commentary and notes to the financial statements, in particular to ensure the financial statements reflected recent good practice guidance from Audit Scotland around the disclosures of related parties.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were generally satisfied that the Annual Governance Statement reflects the requirements of the *Delivering Good Governance Framework*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

Going Concern

In accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

Under a revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The Council has concluded that there are no material uncertainties around its going concern status, however it has continued to include enhanced disclosures around its future financial position in the financial statements to reflect the impact of Covid-19 and inflationary pressures. We have no matters to report in respect of our work around going concern or the conclusions reached by the Council.

Wider Scope and Best Value

We summarise the conclusions we reached in response to our work on the wider scope dimensions below.

Financial Sustainability

Initial forecasts for the updated Medium Term Financial Strategy set out an increasing projected budget gap reaching £27.1 million by 2027/28. In order to deliver a balanced budget, challenging decisions on service priorities and expenditure commitments, careful evaluation of new spending commitments and the delivery of challenging levels of savings are urgently required. However, we continue to report that as a matter of urgency, officers and elected members need to work together to agree the medium-term financial strategy and progress the Council's transformation plans with measures to address the 2023/24 budget requiring urgent agreement. Our assessment of red also recognises the ongoing challenge facing local authorities and the level of risk and uncertainty outside the Council's control, all of which has been exacerbated by the impact of the pandemic and the cost of living crisis.

Financial Management

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid and other financial pressures. The importance of good financial control is clearly understood across the Council but we have noted an increase in the volume and value of audit adjustments, alongside an increase in control observations. The finance team is moving into a transition phase with the departure of the Section 95 officer and it is important that transition arrangements are implemented to ensure appropriate skills and capacity remain within the finance team. It is a combination of these factors which have resulted in the amber rating in respect of financial management.

Governance & Transparency

The key features of good governance remain in place at the Council.

The Council's Audit Committee assessed itself as having a medium to high degree of performance and effectiveness during the year. A review should be undertaken to ensure that revised governance arrangements following the elections meet the changing scrutiny needs of the Council.

The Council opted out of the shared internal audit service in 2022 but there is not yet a permanent replacement in place. Monitoring of the internal audit team's capacity should be a priority.

Value for Money

The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. We note reports to both committees and available to the public, continue to be heavily narrative based resulting in performance being harder to readily interpret. Dashboard reporting is being used within some areas and should be expanded. We note that performance as reported through the annual balanced scorecard has improved this year. While there remains further scope for improvement, the Council has demonstrated continuous improvement after challenging years.

Best Value Conclusion

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. Good progress continues to be made against the Best Value improvement plan but key themes from the report will remain relevant, particularly as work progresses on setting the medium term financial strategy.

Introduction

> As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the Council to 2021/22.

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Council ("the Council"). Our appointment term was extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is intended to summarise the key findings and conclusions from our audit work. It is addressed to both members of the Council and the Controller of Audit, and presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Council. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our Annual Audit Plan.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as external auditor. Further information is available in Appendix B.

Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Council's Audit Committee in March 2022.

Our review and reassessment of materiality

We updated our assessment of materiality based on the 2021/22 financial performance. Planning materiality was reduced from £7.7 million to £7 million.

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £7.7 million. We considered whether any change to our materiality was required in light of Covid-19 and the Council's 2021/22 financial performance. As a result of reduced expenditure in year, our materiality was revised to £7 million. A further amendment was made during audit fieldwork to reduce our tolerable threshold due to the level of adjustments identified through our audit work.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Overall Materiality	Tolerable Error	Nominal amount
£7 million	£3.5 million	£250,000
2% of the Council's net expenditure	Materiality at an individual account level	Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

Financial statement audit

We are responsible for conducting an audit of the Council's financial statements. We provide an opinion as to:

- whether they give a true and fair view of the financial position of the Group and Council as at 31 March 2022 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money.

Our findings are summarised in Section 3 of this report.

Best Value

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council’s achievement of Best Value. We outline our findings and assessment for 2021/22 on page 40.

Financial Statements audit

Introduction

The annual financial statements provide the Council with an opportunity to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- the risk of fraud in revenue and expenditure recognition (significant risk); and
- misstatements due to fraud or error (fraud risk).

Compliance with Regulation

The draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. Despite the ongoing impact of the pandemic and recovery, the Council complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 29 June 2022.

The inspection notice was published by the Council in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

Preparation of the Financial Statements

The unaudited financial statements prepared by management were to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, we worked with management and the finance team to make amendments and enhancements to the presentation. Our focus included consideration of the appropriateness of the disclosures related to the ongoing impact of Covid-19 and recovery activities, including in the management commentary, governance statement and financial statements notes.

The financial statements continue to be prepared with a robust internal process, including quality assurance checks prior to being submitted for audit.

This year we worked with management to consider guidance from Audit Scotland issued to local government bodies, following a review of the related parties disclosed within the 2020/21 financial statements of 30 Scottish councils. The disclosures of related parties were chosen for a good practice review because of potential impact of the relationships in understanding the financial statements, along with indications that the quality of disclosures were variable. Following our review and discussions with management, a number of enhancements were made to further align them with identified areas of good practice.

Group financial statements

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

- Pacific Shelf 826 Ltd;
- Trusts, Bequests, Common Good and Community Funds;
- Lothian Valuation Joint Board;
- Midlothian Energy Limited; and
- Midlothian Integration Joint Board.

Midlothian Energy Limited is a joint venture with Vattenfall, a Swedish state-owned energy company. The venture will support the delivery of low carbon energy projects across the Midlothian area.

No matters were identified as a result of our review of the group consolidation arrangements within the financial statements. Midlothian Integration Joint Board is the only entity in scope for our group audit arrangements. All required audit work was provided by the IJB audit team to the Council audit team in line with timeframes agreed and with no exceptions or reportable matters noted.

Audit Outcomes

We identified nine audit difference arising from the audit, which have been summarised in the relevant sections of this report. These adjustments have been adjusted by management in the finalised financial statements. No unadjusted differences were identified. Our overall audit opinion is summarised on the following page.

Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
Financial statements • Truth and fairness of the state of affairs of the Group and Council at 31 March 2022 and its expenditure and income for the year then ended • Financial statements in accordance with the relevant financial reporting framework	We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement. We are satisfied that accounting policies are appropriate and estimates are reasonable We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.	We issued an unqualified audit opinion on the 2021/22 financial statements for the Council and its Group.
Going concern • We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting	We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis. Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.	In accordance with the work reported on page 22, our audit opinion is unqualified in this respect.
Other information • We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit	We conduct a range of substantive procedures on the financial statements. We conduct a range of substantive procedures on the financial statements and our conclusion draws upon Review of committee and board minutes and papers, regular discussions with management, our understanding of the Council and the wider sector.	We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.
Matters prescribed by the Accounts Commission • Audited part of Remuneration Report has been properly prepared. • Management Commentary / Annual Governance Statement are consistent with the financial statements and have been properly prepared.	Our procedures include: • Reviewing the content of narrative disclosures to information known to us. • Our assessment of the Annual Governance Statement against the *Delivering Good Governance* Code.	We issued an unqualified opinion.
Matters on which we are required to report by exception	We are required to report on whether: • there has been a failure to achieve a prescribed financial objective, • adequate accounting records have been kept, • financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or • we have not received the information we require.	We have no matters to report.

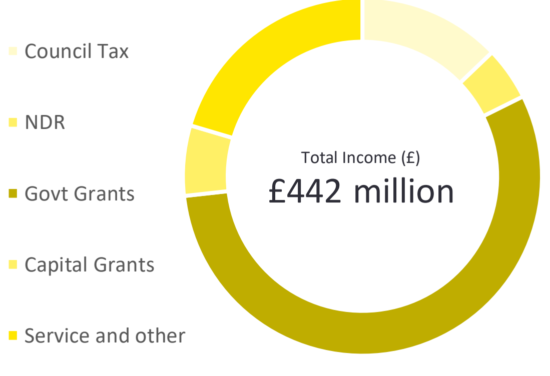
Significant and fraud audit risks

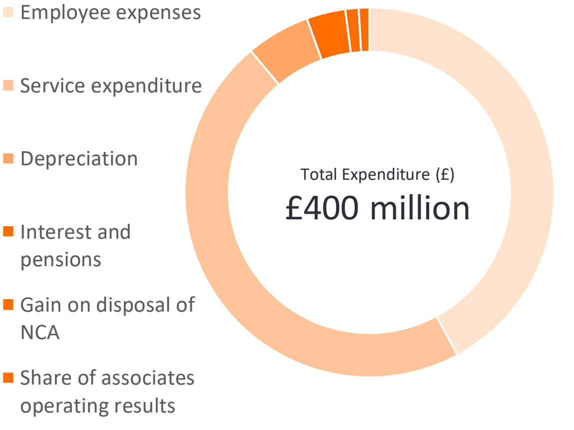
What is the Risk of Fraud in income and expenditure recognition

As outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

In our audit planning, we rebutted the risk of improper recognition of core grant funding income from the Scottish Government, as well as in respect of council tax and non-domestic rate income because there is no judgement in respect of these income streams. We also rebut the risk around payroll expenditure recognition. We have outlined below how our assessment impacts our testing strategy on the Council's financial statements.

Exhibit 1: Key components of the Council's income and expenditure as accounted for within the 2021/22 financial statements





Source: 2021/22 Financial Statements: Note 12 Expenditure and Income analysed by nature

Exhibit 1 sets out the financial position of Group and Council as per the Group Comprehensive Income and Expenditure Statement which reported a surplus on provision of services of £42 million. After taking account of adjustments between accounting basis and funding basis under regulations there is a net reduction in Useable Reserves for the Council of £19.7 million in the year.

For both income and expenditure we focus on the risk in relation to the occurrence, completeness and measurement of income and expenditure recognised around the financial yearend through the process of yearend accruals. For income we also focus on the recognition of grant income where there are conditions attached to the recognition, and on the treatment of capital grant income to ensure it is not accounted for as revenue.

Our work included:

- Review and challenge management's accounting estimates on revenue or expenditure recognition for evidence of bias.
- Focusing our testing on income and expenditure recognised around the financial yearend through manual journals and accruals raised by management.
- Search for material payments and receipts received after year end and ensured these had been accounted for in the correct period

Our Audit of Other Income and Expenditure

We undertook walkthroughs in respect of the processes management established to account for material income and expenditure streams. We obtained data downloads from the Council's financial ledger to allow us to trace key transactions from initiation to recording in the financial statements.

Other audit procedures: non-significant risk areas:

Council tax income: We established detailed expectations of income based on properties and rates and compared to actual income in the year. We audited the reconciliation between the financial statements and the relevant feeder system.

Non Domestic Rates: We established expectations of income to be collected by the billing authority and agreed the reconciliation between the general ledger and the feeder system. We also audit the Council's NDR grant return to the Scottish Government to ensure that reliefs have been applied appropriately.

Non ring-fenced grant income: We substantively tested these balances to grant confirmation letters from third parties.

Interest income: We agreed balances to bank statements and other third party reports.

Employee expenses: We established expectations of payroll costs in the year based on staff numbers and salary movements, and compared our expectations to actual results and investigated variances. Our bespoke data analysers provided analysis of all payroll transactions in the year, from which we investigated and corroborated material and unusual transactions.

Depreciation, amortisation & impairment: We undertook testing of these balances in conjunction with our work on property, plant and equipment. We considered the appropriateness of useful lives of assets and recalculated depreciation charged in the year.

Pension costs: We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on page 20. In respect of all pension transactions impacting the CIES we agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.

Audit of Covid-19 grant income and expenditure

2020/21 was the first year where income and expenditure transactions were materially impacted by Covid-19. This material impact continued albeit to a lesser extent, in 2021/22 with the Council receiving £9 million from the Scottish Government related to Covid-19 to support the Council in meeting its additional costs, local businesses and the wider public. The material nature of the additional funds created a new income stream for audit consideration in the prior year.

Covid grant income and expenditure continues to be an area of focus. Our audit work focused on:

- Reviewing the arrangements the Council had implemented to manage the processing, monitoring and reporting of the new income, including addressing the risk of misappropriation and fraudulent claims. Our work and conclusions here are outlined in more detail in the financial management section of our wider scope reporting.
- Assessing management's accounting treatment of the income and expenditure against the requirements of IFRS, the CIPFA Code and the specific LASAAC guidance issued in the year. We particularly focused on whether income and related expenditure had been correctly categorised as the Council being a "principal" or "agent" in the transaction.
- Selecting a risk based sample of grants to agree to supporting evidence, in the form of bank receipts, grant awards and other notifications, including the details of the grant award conditions, where relevant.
- Review of the disclosures made by the Council in the financial statements to ensure they met both accounting requirements and more generally were sufficient to allow readers to understand the nature of the activity in the year given the significance to the Council.

Our conclusions

- Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- We identified no matters to report in relation to the Council's accounting for Covid-19 grant income and related expenditure in the year.

Risk of Misstatement due to Fraud or Error

Our Annual Audit Plan recognised that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

Risk of Fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

Testing on Journal Entries

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions. In particular we considered:

- Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- Journals transferring funds between useable reserves and restricted or separated accounts such as HRA accounts; and
- Journals adjusting between income and expenditure accounts and capital accounts.

We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

Our conclusions

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

Judgements and Estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and was applicable to the 2020/21 audit for the first time with a continuing focus in 2021/22. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes (outlined on page 19 of this report); and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment, outlined on page 16 of this report).

Our procedures included:

- Testing management's process method, key assumptions, data;
- Testing management's process-estimation uncertainty;
- Considering evidence from events up to the report date; and
- Developing our own point estimate of the appropriate valuation.

We reviewed each significant accounting estimate for evidence of management bias as outlined above, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements. We worked with management to enhance these, as outlined earlier in this report.

Accounting Policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Council to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under the Code.

Our conclusions

- We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- There were no significant accounting practices which materially depart from what is acceptable under the Code.

Valuation of Property, Plant and Equipment

The Council's property, plant and equipment (PPE) portfolio totals over £1.12 billion of assets (2021: £0.96 billion). The valuation of these assets requires expertise and significant estimation. To meet the requirements of the CIPFA Code of Practice, the Council values its property, plant and equipment on at least a 5 yearly cycle. Due to the timing of the Council's valuation cycle a significant amount of the Council's estate was subject to revaluation in 2021/22 (£0.99 billion). This included the Council's social housing assets (£0.5 billion) and its schools (£0.43 billion).

The valuation of property, plant and equipment was originally assigned an inherent audit risk within our audit plan. Following our initial review of the valuations and materiality of values associated with adjustments identified, we increased valuation of property, plant and equipment to a significant audit risk.

To address the significant risk, our work focused on the following key areas:

- Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample testing key asset information used by the valuers in performing their valuation based on both size of asset value and our consideration of risk assigned to each valuation (e.g. floor plans to support valuations based on price per square metre).
- Auditing management's assessment of assets not subject to valuation in the year to confirm that there were no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.
- Completion of procedures designed to address the requirements of the revised ISA 540, as outlined earlier.
- Engaging our internal valuation specialists to assess the reasonableness of asset valuations including the significant assumptions and inputs applied by the Council's internal valuers.

Our procedures noted the following:

- We identified one £8.2 million valuation audit difference through the course of our work around the valuation of the Council's social housing assets, outlined in Appendix E. A further £1.4 million adjustment was identified in respect of social housing asset additions.
- We identified no assets which had not been revalued which demonstrated indicators they should be revalued in the year. Management brought forward the valuation of schools following their own review.
- We identified three audit differences in relation to the valuation of schools in 2021/22, outlined in Appendix E. Valuations adjustments included the omission of a school campus from the valuation and the omission of retentions in respect of a new school addition.

Valuation of Property, Plant and Equipment (continued)

Recommendation 1: The valuation methodology adopted by the Council's internal valuers should be subject to review to ensure it remains in line with best practice. This should include a review of the quality assurance review arrangements to reduce the level and nature errors in valuations.

We noted in previous years that the Council's overarching process for valuation of its property, plant and equipment was showing improvements. However, in 2021/22 we noted a number of areas for improvement:

- A formula error led to a material adjustment within the social housing valuations;
- A community hub was erroneously omitted from the valuation exercise;
- Retentions had not been accounted for correctly and there were some minor immaterial adjustments in the disposal of assets;
- Evidence to support valuations was not readily available (for example, evidence to support the housing valuations was not complete and did not demonstrate appropriate coverage of the Midlothian area);
- Some valuation reports had not been updated from the prior year to reflect assets age, useful life remaining and in some cases, the valuation method was incorrectly recorded.
- Conditions surveys have not been routinely performed resulting in up-to-date condition information not being readily available for all asset valuations; and
- There was a lack of documentation within the valuation reports to support the judgements made, particularly in respect of assets nearing the end of their useful lives.

We additionally noted that the methodology adopted by the internal valuers has not been subject to review in a number of years and we believe could benefit from this to ensure it remains up-to-date with best practice. We do, however, note that management has taken on board previous feedback and recommendations in respect of reviewing the frequency of the valuation cycle with social housing and schools both being revalued in a more timely manner.

Our conclusions

- We identified six audit adjustments related to the Council's valuation of assets in 2021/22.
- We concluded that management has undertaken sufficient procedures to identify any further assets which should be revalued before their cycle valuation date.
- We observed a decline in the quality of information provided in respect of valuations and therefore recommend that the valuation arrangements are reviewed with a focus on quality review arrangements and the methodology applied by the internal valuers.

Recommendation 2: The statutory override is intended to be a short-term solution to issues in respect of accounting for infrastructure assets. The Council should ensure that greater detail on infrastructure assets is retained moving forward and appropriate consideration is given to disposals and replacements of infrastructure assets.

Infrastructure Assets

The CIPFA/LASAAC Code of Practice for Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost. Due to these assets being difficult to componentise and there often not being a clear linkage between spend and an identifiable asset, councils often capitalise schemes of expenditure and depreciate over an estimated economic life. Assets are removed from the financial statements ("derecognised") when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore significantly vary from their estimated life.

Local government auditors raised concerns that Code requirements were not being adhered to particularly in respect of subsequent expenditure on infrastructure assets. The Code requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component shall be derecognised to avoid double counting and the new component shall be reflected in the carrying amount of the infrastructure asset. However, largely due to data limitations, it is believed that most local authorities have been unable to comply with the requirement. Due to the information deficits in respect of infrastructure assets, further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date.

CIPFA LASAAC has been unable to find a solution that will both satisfy audit concerns and the requirement for high quality financial reporting. The Scottish Government however agreed to provide a temporary statutory override whilst a permanent solution is developed within the Code. This temporary solution has been issued with the expectation that local authorities will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a permanent solution is agreed.

The override was issued on 29 August 2022 and has two areas:

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent amendment shall be made to the carrying amount with respect to that part.

Local authorities can choose to adopt either or both of the statutory overrides.

Infrastructure Assets continued

The Council holds infrastructure assets of £31 million (2020/21: £29.5 million) and therefore this is a material balance within the financial balances. The Council elected to adopt both statutory overrides resulting in changes to disclosures in the financial statements in respect of infrastructure assets. The Council additionally undertook an extensive exercise to determine the records available dating back to 2010. From 2016/17, the Council has been maintaining more granular information within the fixed asset register and supporting workings.

In response to this emerging risk area, we performed the following procedures:

- Enhanced our understanding of the Council's processes for accounting for infrastructure assets, including how information is recorded on the fixed asset register and the process the Council has for identifying replacement assets.
- Performed additions testing over new infrastructure assets in year.
- Analysed the entries in the fixed asset register and reviewed supporting documentation including an analysis of spend back to 1 April 2010.
- Evaluated the continued existence of infrastructure assets at the balance sheet date through detailed testing.
- Assessed the accuracy and completeness of disclosures in respect of infrastructure assets including overrides applied.

Our conclusions

- Our work in respect of the existence and valuation of infrastructure assets was completed with no issues identified.
- We are satisfied that management's disclosures in respect of infrastructure assets are in line with the statutory guidance.
- We note that while management has undertaken significant work to support the existence of infrastructure assets, further information is likely to be required to support any permanent solutions and therefore management should look to build on work performed during the audit fieldwork.

Other inherent audit risks

Our Annual Audit Plan highlighted additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

Valuation of pension liabilities

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Lothian Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2022 the net liability totalled £54 million (2021: £141 million). The pension figures included in the financial statements are those that are prepared annually for accounting purposes as required by IAS 19. The funding of the scheme and the determination of employer contributions is determined with reference to the triennial valuations carried out by the scheme actuary. The last triennial actuarial valuation, in 2020, assessed the overall funding position to be 104% (2017: 99%)

Accounting for this scheme involves significant estimation and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by its actuary. We have outlined on the previous page our requirement to consider this estimate in line with the requirements of ISA 540. In particular, for the valuation of pension assets and liabilities we are required to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the Council's share of scheme assets and liabilities at the year end.

Our audit work focused on the following areas of judgement within these balances included:

- Auditing the reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent developments in relation to the various ongoing equalisation case judgements such as the GMP, McCloud and Goodwin rulings.
- Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that our own estimate of the valuation based on those inputs was materially consistent with the actuarial reports.
- Considering the findings of the appointed auditor of the Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2022.
- Auditing the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

Our conclusions

- The assumptions used by the actuary were reviewed by our EY actuarial team who concluded that the assumptions and methodology used are considered to be within a range which is appropriate.
- The auditor of the Lothian Pension Fund reported no material differences in the valuation of assets held by the Fund.

Financial fiscal flexibilities

In October 2020 the Cabinet Secretary wrote to COSLA to confirm three financial flexibilities for local government with further details to be brought forward in statutory guidance:

- Use of capital receipts to fund revenue Covid-19 expenditure in 2020/21 and 2021/22.
- Loans fund repayment holiday in either 2020/21 or 2021/22.
- Extension of PPP and other similar contract debt repayment periods to reflect asset lives.

The capital receipts and loans repayment holiday were originally only to be used for the purposes of addressing Covid-19 related costs, whereas the change to PPP accounting may provide a wider flexibility however greater flexibility was later provided. Local authority Directors of Finance and COSLA have been liaising with the Scottish Government to clarify the practicalities of the flexibilities. The revised legislation for capital receipts and loans repayments was considered by the Local Government and Communities Committee in February 2021 where there was committee support.

Council delegated authority to the Chief Officer Corporate Solutions, in consultation with the Group Leaders approval, to apply flexibilities as required, based on the outcome of the ongoing discussion with the Scottish Government, on the actual outturn position at the year end and an assessment of continued Covid-19 financial pressures for 2021/22. In accordance with the delegated authority approved in February 2022 by Council the use of the repayment flexibility in 2022/23 was approved. In May 2022, the Scottish Government agreed to extend the loans fund repayment deferral flexibility for a further year.

The options in respect of flexibilities have been reported to Council throughout the year, as guidance has developed. The latest position on flexibilities was reported to Council in August 2022 which noted that they would utilise the loans fund repayment holiday in 2021/22 and 2022/23. In respect of the service contract concessions, the Council is reviewing the latest statutory guidance in place to fully evaluate the accounting treatment and any associated financial provisions.

We worked with the Council to ensure appropriate financial statement disclosures were in place with respect of planned and actual use of financial flexibilities.

Going concern

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the CIPFA Code of Practice on Local Government Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, the ongoing cost of living crisis and inflationary pressures, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to October 2023. We note that the going concern period extends beyond the period for which an agreed financial plan is in place and therefore, we have focused on the assumptions made by management in the period between April 2023 and October 2023.

Management's going concern assessment reported that the Council shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. It reported significant access to cash to support the cost of delivering services, with balances more than sufficient to cover a plausible downturn in Council income from variable sources, and access to other useable reserves in committed funds which could be reallocated as necessary. On this basis the Council concluded that there are no material uncertainties around its going concern status.

Our conclusions

- We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key Council reports and treasury management forecasts of future cash balances. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council, or of the wider Group where they are material to the consolidated financial statements.
- We worked with management to enhance the disclosures in the financial statements in relation to the Council's future financial performance and ongoing work in respect of the revised medium term financial plan.

Looking ahead

The implementation of IFRS 16 has been delayed until 1 April 2024 however early adoption is permitted.

The Council finance team has previously performed an initial assessment of the impact of the change on the Council's financial statements which will be revisited once an adoption date is agreed.

CIPFA/LAASAC Code for 2022/23

Local authorities are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The most significant change to the Code for 2022/23 relates to IFRS 16.

We have reported in previous years that IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 has been delayed on a number of occasions in local government financial statements for various reasons. Most recently, CIPFA/LASAAC conducted an emergency consultation on the Code for both 2021/22 and 2022/23 in March 2022. This resulted in a further deferral to the implementation of IFRS 16 until 1 April 2024. However early adoption will be permitted from either 1 April 2022 or 1 April 2023.

While implementation has been further delayed, the Code strongly encourages early adoption and therefore all finance teams are encouraged to continue their preparations for implementation and to ensure that they are ready to adopt the standard in the next three years.

We have outlined previously that full compliance with the revised standard is likely to require a detailed review of existing leases and other contract documentation prior to the implementation date in order to identify:

- all leases which need to be accounted for;
- the costs and lease term which apply to the lease;
- the value of the asset and liability to be recognised as at 1 April; and
- where a lease has previously been accounted for as an operating lease.

Work is therefore necessary to prepare information required to enable the Council to fully assess their leasing position and ensure compliance with the standard.

We have discussed progress in preparing for the implementation of *IFRS 16 Leases* standard with the finance team over the course of the past few audits and are satisfied robust arrangements were being established to assess the impact of the changes for inclusion in the financial statements.

3 Best Value and Wider Scope dimensions

> Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value.

Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the Council's arrangements for the four wider scope audit dimensions. We also draw upon these assessments and other work to form conclusions on the Council's ability to demonstrate Best Value in its activities. In undertaking our work in respect of the wider scope audit dimensions, we also integrate our assessment of the Accounts Commission's five Strategic Audit Priorities.

We apply our professional judgement to risk assess and focus our work on each of the wider scope dimensions. In doing so, we draw upon conclusions expressed by other bodies including the Council's internal auditors, and the other scrutiny bodies that we work with on the Local Area Network including Education Scotland and the Care Inspectorate, along with national reports and guidance from regulators and Audit Scotland. As the appointed auditor, we are the LAN Lead. The LAN has determined, in agreement with the Council, that no separate scrutiny plan was required for 2021/22.

For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

- **Financial Sustainability:** Considers the medium and longer term outlook to determine if planning is effective to support service delivery.
- **Financial Management:** Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and Transparency:** Considers the effectiveness of scrutiny and governance arrangements and the transparent reporting of financial and performance information.
- **Value for Money:** Considers whether value for money can be demonstrated in the use of resources and the focus on continuous improvement.

Financial Sustainability

Our overall assess
Red

The Council's existing Medium Term Financial Strategy ('MTFS') runs until March 2023. Work on a revised strategy is underway but initial forecasts for the updated strategy set out an increasing projected budget gap of £27.1 million by 2027/28. Recurring expenditure exceeds recurring funding by £13 million with one off funding sources required to balance the budget in the current year with the gap increasing across the term of the MTFS. The parameters in respect of Scottish Government grant support, as set out in Government's Resource Spending Review published on 31 May 2022 indicates cash flat grant settlements at a time when costs continue to rise. The assumptions underpinning all forecasts will require regular review as inflationary forecasts are updated and pay award settlements finalised. These factors are likely to increase existing budget gaps identified and increase the requirement for robust saving plans.

In order members to fulfil their statutory duty to deliver a balanced budget, challenging decisions on service priorities and associated expenditure commitments, careful evaluation of new spending commitments and the delivery of challenging levels of savings will be required. As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the council's transformation plans. The immediate priority is to ensure that measures to balance the 2023/24 budget are agreed as part of the development of the MTFS. Our assessment of red also recognises the ongoing challenge facing local authorities and the level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, all of which has been exacerbated by the impact of the pandemic and the cost of living crisis.

Context for Local Government Financial sustainability

The Scottish Government's 'Resource Spending Review' was published on 31 May 2022 and sets out the high level parameters for resource spend within future Scottish budgets up to 2026-27. The plan is focused on how the Scottish Government will allocate funding to achieve their strategic outcomes and priorities:

- Tackling child poverty;
- Addressing the climate crisis;
- Securing a stronger, fairer, greener economy; and
- Delivering excellent public services.

The review sets out that there will be no increases to core local government funding for the next 3 years with the local government budget estimated to decline in real terms by 7% between 2022/23 and 2026/27. While the spending review is not a finalised budget, it provides the sector with an indication of likely funding allocations. In August 2022, the Council's Section 95 officer set out to Council, the extremely challenging parameters for local government which are exacerbated for Midlothian by the financial pressures associated with population growth.

While the Council has managed its finances well to respond to the pressure on services and communities caused by the pandemic, the underlying gap between recurring expenditure and recurring income reliance on one-off savings and solutions is not sustainable in the medium term to balance budgets.

The Scottish Parliament's Finance and Public Administration Committee, as part of its pre-budget setting scrutiny for 2023/24, launched a call for views on Scotland's public finances and the impact of both the cost of living crisis and public service reform in August 2022. This consultation has included seeking views on the priorities within the Resource Spending Review and how the Scottish Government should respond to inflationary pressures and the cost of living crisis within its 2023-23 budget.

This decline in funding for 2022-23 onwards in real terms occurs at a time when the UK is facing an unprecedented cost of living crisis and local authorities across Scotland are working to agree new medium-term financial plans.

2022/23 Performance to date

Like all councils in Scotland, the impact of the Covid-19 pandemic and inflationary pressures continue to create significant financial pressure in 2022/23. The Council's most recent financial update report, prepared in August 2022, forecasts a small overspend of £0.225 million for the financial year. The budget for 2022/23 does however have significant risks and uncertainties:

- Inflationary pressures – to date, £1.4 million of unbudgeted costs have been identified to date in respect of inflation, largely relating to energy prices and contractual inflation embedded in contracts such as the Public Private Partnership contracts.
- Pay pressures – 2022/23 pay claims for all of the local government bargaining groups have yet to be concluded at the time of writing. While the Scottish Government has committed to providing some additional funding, it is not anticipated that this would fully meet the cost of the current pay offers, creating a further uncommitted budget gap.
- Cost reductions – there remains £1.3 million of cost reductions to be finalised within the budget however the plans are all now at implementation stage.

While the current forecast general reserve of £4 million is above the minimum set by the Council's Reserves Strategy, the risks and uncertainties highlighted above could result in an adverse movement to this balance and therefore will require extensive close monitoring.

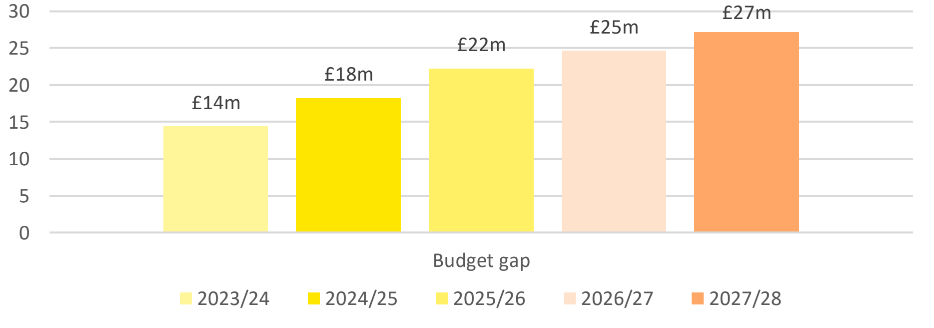
Development of the revised MTFS to 2027/28

Following the local government election in May 2022, work has accelerated in respect of the Medium Term Financial Strategy ('MTFS') covering the budgets to be determined during this term of Council for financial years 2023/24 to 2027/28. The aim of the MTFS is to provide a multi-year strategy aligned to the development and approval of the Midlothian Council Strategic Plan 2022-2027.

In line with the previous MTFS, the cross-party Business Transformational Steering Group is tasked with assessing and approving further proposals to deliver a sustainable financial plan, drawing upon consultation with communities. An update on the development of the MTFS was presented to Council in August 2022 setting out the current budget gap across the next 5 years alongside the proposed timetable for:

- Presentation, consultation and finalisation of the proposed strategic plan.
- Presentation, consultation and finalisation of the MTFS, savings plans and associated savings measures.

Exhibit 2: The Council's draft medium term financial strategy illustrates a growing budget gap



Source: Midlothian Council - Medium Term Financial Strategy – 2023/23 to 2027/28

Recommendation 3: As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council's transformation plans. The key priority is to ensure measures to balance the 2023/24 budget are agreed as part of the development of the MTFS.

Exhibit 2 highlights the scale of the challenge facing the Council over the next five years with the funding gap, the extent to which recurring expenditure exceeds projected recurring income, likely to grow as the projections are updated to take into account the latest inflation projections and forecast demographic growth. In the current year, recurring expenditure exceeds recurring funding by £13 million with one off funding sources required to balance the budget. This gap grows across the term of the MTFS. To date, there has been no agreement on plans to address the budget gaps but work in this area is ongoing.

Over recent years, largely due to the impact of the Covid-19 pandemic, the Council has relied on one-off non-recurring measures in order to deliver a balanced budget. We continue to emphasis that this approach is not sustainable in the medium to long term and the Council does not currently have sufficient one-off measures to address the gaps identified for 2023/24. In order to deliver a balanced budget, challenging decisions on service priorities and associated expenditure commitments, careful evaluation of new spending commitments and the delivery of challenging levels of savings will be required. As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council's transformation plans. Identifying recurring measures to address budget gaps will be crucial in ensuring the Council's longer term sustainability and enable the Council to respond proactively to the ever changing external environment.

The immediate priority will be to ensure that measures to balance the 2023/24 budget are agreed as part of the development of the MTFS.

We are also aware of the ongoing National Care Service review which is likely to result in significant changes to the service delivery model which is anticipated to impact local government services and funding thus impact the Council's current financial and future planning assumptions.

Financial Management

Our overall assessment: Amber

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid and other financial pressures.

The importance of good financial control is clearly understood across the Council but we have noted an increase in the volume and value of audit adjustments, alongside an increase in control observations.

The finance team is moving into a transition phase with the departure of the Section 95 officer and it is important that transition arrangements are implemented to ensure appropriate skills and capacity remain within the finance team. It is a combination of these factors which have resulted in the amber rating in respect of financial management.

Recommendation 4: Management should undertake a review of the errors and control observations identified during the audit and ensure that appropriate actions are taken to both improve processes and to reduce the number and value of audit adjustments.

Financial control environment

While our financial statement audit work is not designed to express an opinion on the effectiveness of internal control, we consider the financial control environment through the course of our interactions and observations through the audit.

During the course of our audit fieldwork, we noted an increase in the number of adjustments and control issues encountered during the audit including:

- Adjustments within the bank reconciliations relating to reconciling items.
- Errors in formulas within working papers for provisions and housing valuations.
- Inability to reproduce original BACS files for requested dates.
- Cut-off adjustments in respect of assets under construction.
- Inability to produce a council tax listing from the Civica Open Revenues system which reconciled to the financial statements.
- PPE valuations improvements have been noted on page 17.

As illustrated in Appendix E, the adjustments identified relate to the balance sheet accounts. Based on work undertaken, we have not noted any material deficiencies in internal control however we have noted a number of areas for improvement. We understand management has already commenced investigations into the areas for improvement identified in order to improve processes.

Financial Regulations

The Council's financial regulations were subject to review during the year with approval by Council in June 2022. The financial directives have also been subject to review with a progress update made to the Audit Committee in June 2022. This initial exercise identified a number of directives requiring a more detailed review to ensure they are both up-to-date and user friendly. This exercise is currently ongoing.

Recommendation 5: Management should ensure appropriate handover arrangements are in place for the section 95 officer and ensure the finance team continues to have sufficient skills, capacity and capability.

The Council's section 95 officer is the Chief Officer - Corporate Solutions. We are satisfied that the Council adheres to the principles laid out within CIPFA's Statement on the role of the Chief Financial Officer in Local Government. In our view there is evidence that the Council continues to have sufficient financial skills, capacity and capability.

The section 95 officer is due to leave his role in October 2022 and the Council is currently establishing handover arrangements with an interim arrangement being implemented while a permanent appointment is made. The loss of an experienced and knowledgeable officer, at a time of significant pressures on the finance team, means that it is crucial that appropriate arrangements are in place to allow for a smooth transition and ensure that there is sufficient financial skills, capacity, capability and knowledge within the finance team.

Financial monitoring and outturn

The Council's financial monitoring arrangements have been broadly consistent with previous years. The Council's financial governance arrangements provide for budgets to be carried forward from one year to the next. These resources, together with funds allocated by Scottish Government late in 2021/22 (to deliver services in 2022/23) contributed to the General fund balance including budgets carried forward and earmarked for use in 2022/23 of £19.923 million (31 March 2021: £22.063 million), In addition the application of fiscal flexibilities to support balancing the 2022/23 budget resulted in reserves being set aside at 31 March 2022 of £5.576 million (31 March 2021: £2 million) . The outturn for the general reserve, that being the element which is not committed, was reported as £5.597 million as at 31 March 2022 compared with a quarter 3 projection of £5.303 million.

The Council's forecast general fund balance increased significantly from initially forecasts as part of the year end outturn. This increase is attributable to late funding, the Council should ensure that the forecast position is closely monitored to prevent future significant changes in forecasts.

Exhibit 3: The Council has updated its forecast yearend position through the financial year

Reporting period	Aug-21	Nov-21	Feb-22	Outturn
Forecast surplus / (deficit)	£0.32m	£2.75m	£2.6m	£3.091m
Forecast General Fund balance	£6.299m	£8.313m	£11.719m	£32.432m
Of which earmarked	£2.157m	£2.952m	£6.416m	£26.835m
Forecast General Reserve (Uncommitted)	£4.142m	£5.361m	£5.303m	£5.597m

Source: Midlothian Council 2021/22 financial monitoring reporting

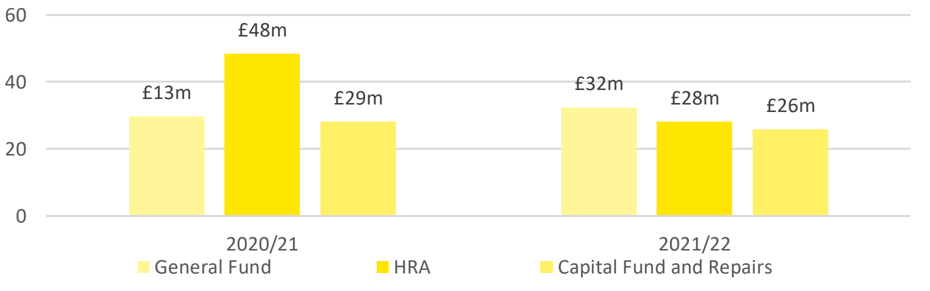
Council reserve levels and strategy

As illustrated in Exhibit 3, the Council's forecast general reserve element of the general fund balance increased over the year principally reflecting the increase in the forecast surplus. The increase in the earmarked element of the reserve reflects the Council's utilisation of fiscal flexibilities and reserves to support the 2022/23 budget was determined late in the year and accounted for £5.6 million with £20 million attributable to in year budgets carried forward for use in 2022/23. Amounts carried forward specifically include Covid funding, LACER funds and other Scottish Government funding for designated use and education recovery funding for specific use.

As part of the annual revenue budget setting process, the Council approves the minimum reserves to be held as uncommitted general funds. For 2021/22 it concluded that the uncommitted balance should be maintained at a minimum of 2% of net expenditure (excluding the IJB allocation) which equates to £3.65 million. At 31 March 2022 the Council's uncommitted general fund balance was £5.6 million, representing an increase from the 2021 balance of £3.63 million.

The Council's cash backed reserves decreased during the year largely due to the use of £25 million from the HRA reserve to fund capital expenditure.

Exhibit 4: The Council's cash backed reserves decreased by approximately £19.7 million in 2021/22



Source: Midlothian Council 2021/22 Financial Statements

Capital programme

The Council spent £62.6 million on capital expenditure in 2021/22 (2020/21: £ 41.2 million), an overspend of £0.1 million against its original budget. In line with prior year, this demonstrates a reversal of the historic trend of slippage against the capital budget. We do, however, note that rephasing during the year was required for a number of capital projects primarily due to the impact of Covid-19, Brexit and the Ukraine conflict on availability of materials and equipment and social distancing onsite. Inflationary pressures on materials costs and equipment continue and this will have an impact on the capital programme in future years.

The capital programme plays a crucial role in the Council's route map to respond to the pandemic. However, it is clear that ongoing supply chain issues may impact the Council's ability to deliver this significant capital programme and will require careful monitoring to ensure that the programme remains affordable within the context of the Council's MTFS.

In order to ensure the Council has the appropriate skills and capacity to deliver the ambitious capital programme, the Council has continued to progress with making improvements to monitoring and reporting processes through the Capital Plan and Asset Management Planning Board. Work continues to ensure this framework is being applied consistently across all large capital projects.

Progress has been made in addressing actions identified from the self-assessment against the CIPFA Financial Management Code.

CIPFA financial management code

The CIPFA Financial Management Code comes into effect for all councils in 2021/22. It is intended to support good practice in financial management, assist in demonstrating a local authority's financial sustainability, and set out standards of financial management. A short-life working group was established in March 2021 to perform the self-assessment and review compliance against each of the 17 standards. The final assessment of compliance was presented to the Audit Committee in November 2021 with compliance being demonstrated against 11 standards and 6 standards being identified as having minor to moderate areas for improvement.

Areas for improvement identified from the self assessment include:

- Ensuring governance actions as set out within the Annual Governance Statement are addressed including update of the Financial regulations and directives as well taking action to strengthen the procurement function.
- Developing an engagement plan for the next iteration of the Medium Term Financial Strategy.
- Performing a review of recent capital projects to identify learnings.
- Reviewing and refreshing the Risk Management Framework.

Progress has been made in respect of the areas for improvement with the Financial regulations being approved in June 2022 and an updated risk management strategy subject to Council approval in August 2022. The Council will continue to perform self-assessments against the Code moving forward and monitor any actions identified.

Treasury Management

During 2020/21 treasury management was an area of audit focus with a separate report provided to the Audit Committee in June 2021. No significant findings were identified with only minor areas for improvement noted. One finding remained outstanding at the time of conclusion of our 2020/21 audit which was dependent on the finalisation of the revised CIPFA Treasury Management Code and Prudential Code.

CIPFA published revised Treasury Management and Prudential Codes in December 2021 following consultation periods, with both Codes becoming applicable with immediate effect. An update on the main changes to both Codes was presented to Audit Committee in January 2022 and Council in February 2022. Management has performed an assessment of the impact of the Code changes to their own Treasury Management and Annual Investment Strategy as well as the Treasury Management outturn report with no material changes required. We are satisfied that appropriate consideration has been given to the revised Codes and reporting of the impact of the changes was appropriate.

Governance and Transparency

Our overall assess
Green

The key features of good governance remain in place at the Council. The Council's Audit Committee assessed itself as having a medium to high degree of performance and effectiveness during the year. A review should be undertaken to ensure that governance arrangements following the local government elections meet the changing scrutiny needs of the Council.

The Council opted out of the shared internal audit service in 2022 with work underway to finalise a revised permanent arrangement. We note that internal audit has experienced capacity challenges in recent years with 82% of the original plan delivered in 2021/22. Finalisation of a permanent arrangement and ongoing monitoring of the internal audit team's capacity should be a priority.

Local Code of Corporate Governance

In 2020/21 the Council considered the effectiveness of its arrangements against the CIPFA framework for *Delivering Good Governance in Local Government.* The results of the review and updated Local Code of Governance were considered by the Council in March 2021.

The Council uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement. The Code review informed the annual assurance process including completion of the Annual Governance Statement.

The governance statement for 2021/22 concluded that *"reasonable assurance can be placed upon the adequacy and effectiveness of Midlothian Council's systems of internal control and governance. Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control."*

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. The statement continues to set out key areas for improvement in governance arrangements to enhance the Council's Local Code of Corporate Governance and to demonstrate best value. There continues to be an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge.

Recommendation 6: The Council should ensure a permanent solution to internal audit provision is agreed to ensure appropriate capacity is in place to ensure the timely delivery of the 2022/23 and future internal audit plans.

Internal audit activity

The internal audit work planned for the year 2021/22 was mostly completed in line with planned deadlines by 31 March 2022. The internal audit team continued to face capacity restraints due to part-time deployment of two internal auditors to assist with the administration of Covid support grant payments alongside other staff absences. This has resulted in the level of actual audit days being 82% of the original plan. However, the chief internal auditor has concluded that the work performed during the year has been sufficient to inform the internal audit assurance opinion.

In addition to its ongoing programme of new reviews, internal audit continues to monitor the progress against existing recommendations and report to the Audit Committee on outstanding recommendations from internal and external parties, with a focus on those recommendations which are graded as higher priority.

In January 2022, a report was presented to Audit Committee proposing a mutual opt out of the Shared Internal audit services with Scottish Borders Council effective from 2022/23. The Council agreed that a transitional period would continue for the first quarter of 2022/23 to ensure the continued provision of internal audit services. Work has progressed to move towards a permanent solution, however at the time of writing, a permanent arrangement is not in place. While we note that internal audit activity is continuing, there is a risk that there is not sufficient capacity within the team to deliver the 2022/23 plan.

Openness and transparency

The Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers in usual circumstances, and agendas and papers are available in advance of each meeting. The Council has continued to hold meetings remotely following the Covid-19 pandemic with minutes of meetings, including key decisions, publicly available via the Council website after the meetings. Key Council and committee meetings can be via livestream or video broadcasting.

We have continued to observe the Audit Committee throughout the year as part of our attendance at each meeting. We also monitor Council and other committee meetings through review of the agendas, supporting papers and minutes. We have observed that generally papers are sufficiently comprehensive to understand key matters, and there is evidence of scrutiny of management at these meetings.

The Audit Committee undertook its annual self-assessment of the effectiveness of its arrangements in January 2022. While the overall assessment was positive, the committee continued to note areas for improvement including the use of the CIPFA Skills and Knowledge Toolkit to support new and continuing members as well as continuing to obtain feedback on its performance from a range of officers and others who interact with the committee. The wider review against CIPFA guidance also noted that two of the current six elected members on the Audit Committee were in the Cabinet.

Prior year recommendation 6: The Council should review audit committee arrangements post-election to ensure that governance arrangements reflect the political and strategic environment.

Consistent with prior year's self-assessment, the Annual Report from the Audit Committee Chair recommends that consideration should be given to:

- Excluding the Audit Committee membership from the Scheme of Administration requirement; or
- Ensuring that the Membership of the Audit Committee should exclude members of the Cabinet.

In our view, the role of independent members on the committee, together with the benefit brought to the committee as a result of the wider roles and experience of the two Cabinet members, has outweighed any risk impacting independence. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value. We would note that the role and membership of the Audit Committee is being actively considered by the new Council, following the local government elections in May 2022 and recruitment is underway for new independent members.

Arrangements to prevent fraud and corruption

The consideration of financial management also includes evaluating the Council's arrangements for fraud and corruption. CIPFA's *Code of Practice on Fraud and Corruption* notes that leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations. The Council approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy on 25 August 2020.

The Integrity Group continues to operate with the purpose of the Group being to improve the Council's resilience to fraud, corruption, theft and crime. The Group has met bi-monthly during 2021/22.

Significant nominal savings have been identified from counter fraud activity in the year, including participation in the NFI exercise underlining the importance of such activity at the Council.

The Counter Fraud Annual report was presented to Audit Committee in June 2022 setting out the counter fraud work undertaken during the year in support of the Council's counter fraud policy and strategy. The report notes that as result of counter fraud activity, a total nominal savings value of £0.84 million has been identified during the year largely attributable to tenancy frauds with the nominal value assigned based on Audit Scotland guidance. In addition, the Council 's participation in the National Fraud Initiative 2020/21 identified £0.7 million of estimated savings mostly attributable to Council tax and housing tenants. The exercise has also considered Covid-19 support grants with 8 cases being identified as paid in error or fraudulent.

We are satisfied that the Council had appropriate arrangements in place to prevent fraud and corruption during 2021/22 with appropriate reporting of activity and associated outcomes. We note that counter fraud activity has historically been supervised in part by both the Principal Internal Auditor and the Chief Internal Auditor. Following the changes to the internal audit provision and capacity, the Council should ensure that appropriate capacity remains to undertake the appropriate level of counter fraud activity.

A comprehensive induction programme was developed to support members in undertaking their new roles.

Elected Member Induction Programme

Following the local government elections in May 2022, the Council established an elected member induction programme to ensure members had appropriate training and support to deliver their responsibilities. The programme was largely delivered virtually and covered key areas including standing orders and governance; local government finance and capital strategy and treasury management. The Council should continue to engage with members on ongoing training and development requirements.

Value for Money

Our overall assessment: Green

The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. While we observed improvements being piloted to the presentation of performance reports to members in the prior year, we note reports to both committees and available to the public, continue to be heavily narrative based resulting in performance being harder to readily interpret. Dashboard reporting is continuing to be used within some areas and should be expanded.

We note that performance as reported through the annual balanced scorecard has improved this year with 61% of indicators being on track for delivery compared to 52% in 2020/21. While there remains further scope for improvement, the Council has demonstrated continuous improvement after challenging years associated with the Covid-19 pandemic.

Prior year recommendation 7: The Council's performance reporting should continue to be reviewed to ensure performance can be readily assessed and scrutinised including through greater use of graphics where appropriate.

Performance Management framework

The Council monitors its performance against its plans and performance indicators throughout the year. Quarterly scorecards are provided by management to both Council's Cabinet and Performance, Review and Scrutiny Committee, and are made available for public information as part of the committee papers on the Council's website in addition to the Council's dedicated performance reporting website area. These reports outline the full set of performance indicators included by the Council in its corporate plan, and the current performance of each indicator against targets summarised through a 'RAG' rating system.

Performance reports available publicly, including quarterly updates, continue to be heavily narrative based. We do, however, note that elected members have direct access to more detailed performance data within the Pentana Browser. We note that some directorates have been trialling performance dashboards, showing a graphical representation of data. Following the local government elections, management should continue to review the presentation of performance reports, including seeking member feedback to ensure data is presented in the most accessible manner which supports members in performing their scrutiny role effectively.

2021/22 Performance Outcomes

The 2021/22 Annual Performance Report outlines a number of key achievements during the year, including the changes made to service delivery as a result of the ongoing impact of the pandemic which improved partnership working. The report recognises the significant challenges that services experienced and how teams responded to the challenges that the pandemic brought. This year, the report notes a particular focus on how to secure permanent change to the way services are delivered to build back better. The key corporate performance indicators for 2021/22, as established and reported by the Council, are in line with prior year with 5 of the Corporate Performance Indicators remaining classified in the red category (*2020/21: 5*).

The Council has demonstrated improvement across a range of indicators as reported through the Annual Balanced Scorecard. Improvements are also noted in the number of indicators where data is available in a more timely manner.

Accountability and delivery of improved outcomes

Key indicators within the Council's balanced scorecard provide an assessment of progress against the priorities within the Single Midlothian Plan alongside other services indicators. The final balanced scorecard for 2021/22 was presented to the Performance, Review and Scrutiny Committee in June 2022. This reports that, for those indicators where data is available in relation to the Single Midlothian Plan, 67% of indicators are on track for delivery (2020/21 – 52%), demonstrating a significant improvement. This trend also continued across all balanced scorecard indicators with 61% being on track for delivery, an improvement from 53% in 2020/21. While the Council has reduced the number of indicators reported against, we also noted a significant reduction in the number of indicators where no data was available.

As part of its response to the Best Value Assurance Report, the Council has implemented a digital dashboard performance management system to allow elected members to have access to up to date performance data, along with mitigating actions for all indicators.

Statutory Performance Indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. The Council has a responsibility, under the duty of Best Value, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which recognises the role and effectiveness of the LGBF, but continues to require councils to report:

- 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;
- 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.

The Council has been required to meet the requirements of the revised Statutory Performance Information Direction from 2019/20.

The Council continues to report a range of performance information to stakeholders and the public to demonstrate the relative value and effectiveness of Council services. Information reported covers the quality and effectiveness of local services and progress in outcomes, as well as efficiency information.

This includes reporting of the most recently available LGBF results to the relevant committees and to the public. The Council has made a link available to LGBF results for 2020/21 on their website however a change in approach has been agreed for the Council's own analysis of the data where by a more targeted improvement plan for identified indicators is being developed. At the time of drafting this report, the Council's analysis of the LGBF data for 2020/21 is yet to be finalised.

In line with observations in 2020/21, we note that while the Council continues to publish performance reports regularly on the Council website, the Public Performance report for 2021/22 is yet to be published at the time of writing.

Best Value

Our overall assessment: Amber

Forming our judgement

As appointed auditor, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities. In forming this judgement, we draw upon:

- The findings of Audit Scotland's Best Value Assurance Report (BVAR), which was published in July 2019;
- The results of the Best Value Follow Up review conducted by Audit Scotland in 2020/21; and
- The programme of work that we have conducted throughout our appointment to consider each area of Best Value. Our specific areas of focus in 2021/22 were in relation to the Council's approach to equalities and sustainability. We also take into account our wider scope responsibilities and reporting.

Our 2020/21 work included a focused review of the progress made against the Council's approved improvement plan in response to the Best Value Assurance Report. We noted good progress had been made with 7 out of 8 findings assessed as green. The outstanding recommendation related to Audit Scotland's finding that elected members need to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities.

As we note on page 35, the Council has developed a programme of induction training for elected members, including specific learning on Council services. In addition, the Council has recently introduced personal development plans for elected members. Following the elections in May 2022, we understand that individual members will take ownership for completing the plans and identifying areas where they wish to see more development opportunities.

While a number of actions have been superseded or completed, we recommend that the new administration considers the key themes from the report, particularly as work progresses on setting the medium term financial strategy.

Equalities

The Council's corporate management team and elected members drive the Council's equalities activities and oversee progress through the planning framework. The Single Midlothian Plan (SMP) sets out the shared vision for the Council and the Community Planning Partnership (CPP). This has a clear focus on equalities and fairness.

The Council and partners develop the vision each year through an inclusive process. This involves community groups and third sector bodies, and planning days to identify priorities. The Midlothian CPP has undertaken a local profile exercise using SIMD analysis of relative deprivation. This has allowed it to target its activities on three areas of deprivation: Dalkeith Central/Woodburn, Mayfield/Easthouses and Gorebridge.

The Council's Equality Plan 2021-25 sets the Council's commitment to tackling inequality and promoting inclusion.

Recommendation 7: The Council should develop more specific and measurable targets to demonstrate its progress with its equality and fairness agenda.

The Midlothian Equality Plan 2021-2025 includes six equality outcome themes along with success measures and supporting actions to monitor progress. Partners used the Equality and Human Rights Commission's (EHRC), 'Is Scotland Fairer 2018', as the basis for developing the framework.

The Equality Plan recognises that the Covid-19 pandemic has magnified the disadvantages faced by certain groups of people. It notes that equalities groups at higher risk of disadvantage are facing increased technology, language and literacy barriers. These factors have been considered within the Covid-19 recovery plan.

The Equality Act 2010 requires all public bodies to publish equality outcomes at least every four years. The Council's Equality Mainstreaming & Outcomes Progress Report for 2019-21 sets out a broad range of activity and strategies that have contributed to its equalities outcomes, but there is scope to develop more specific and measurable targets to fully reflect the Council's equality and fairness agenda. We understand that the Council intends to develop and refine targets along with its wider performance framework.

Since 2016, the Council has made use of an Integrated Impact Assessment (IIA) tool to consider equality and the impact of its decisions on those with protected characteristics. It has updated its IIA practice to take a wider perspective on socio-economic inequality, health inequalities, environmental and sustainability. This is an example of good practice, reflecting the 2018 Fairer Scotland Duty which requires local authorities to actively consider how they can reduce inequalities of outcome caused by socio-economic disadvantage. IIAs are quality-assured by the Equality and Diversity Officer and accompany committee reports for Elected Members' decisions.

The Council has a programme of equality, diversity and human rights awareness training, supported by a range of policies. This was put in place as part of its Equality Plan 2017-2021 and Equally Safe at Work Accreditation Process. The corporate management team and elected members are updated on Equality, Diversity and Human Rights Awareness and the Integrated Impact Assessment. We also note that officers involved in service planning and delivery are given detailed training in undertaking equalities impact assessments to ensure services consider local needs.

The Council has committed to work with Trade Unions and regularly review its pay and progression systems to ensure that they are fair and non-discriminatory. As at 31 March 2022, the gender pay gap for all Council employees between average hourly rates of pay for male and female narrowed to 2.52%, compared to 2.7% in 2020/21. The Council has also redesigned its terms and conditions to integrate the Living Wage to ensure that as many employees benefit from the Living Wage as possible, as such the minimum salary point paid to local government workers is above that defined as the Scottish Local government Living wage.

The Scottish Government has set a target to be net-zero by 2045; 5 years ahead of the UK target.

Midlothian Council is one of 9 councils who have committed to an ambitious target to achieve net zero on its buildings, energy and transport emissions by 2030.

Climate Change and Sustainability

In September 2022, the Accounts Commission issued a briefing paper on Scottish council's response to climate change. This recognised the critical role of councils in achieving the Scottish Government's legally binding target to achieve net zero by 2045.

The briefing notes that there are significant variations in the measures and timelines that councils have set to reach net zero. Midlothian Council is one of 81% of Scottish Councils to have set a target to reduce the council's own emissions. Midlothian, along with eight other councils have committed to reducing their own emissions to net zero by 2030. A further 14 councils have set equivalent targets by 2045. Seventeen councils have set targets for council area-wide emissions.

The Council published its Climate Change Strategy in August 2020. The strategy is ambitious and recognises the key actions necessary to mitigate and adapt to climate change. An action plan is in place to reduce emissions and the Council's carbon footprint. More recently, the commitment to climate change has been recognised within the Single Midlothian Plan 2022/23, which sets out a vision that Midlothian will be a "*Great Green Place to Grow by achieving our net zero carbon ambitions*."

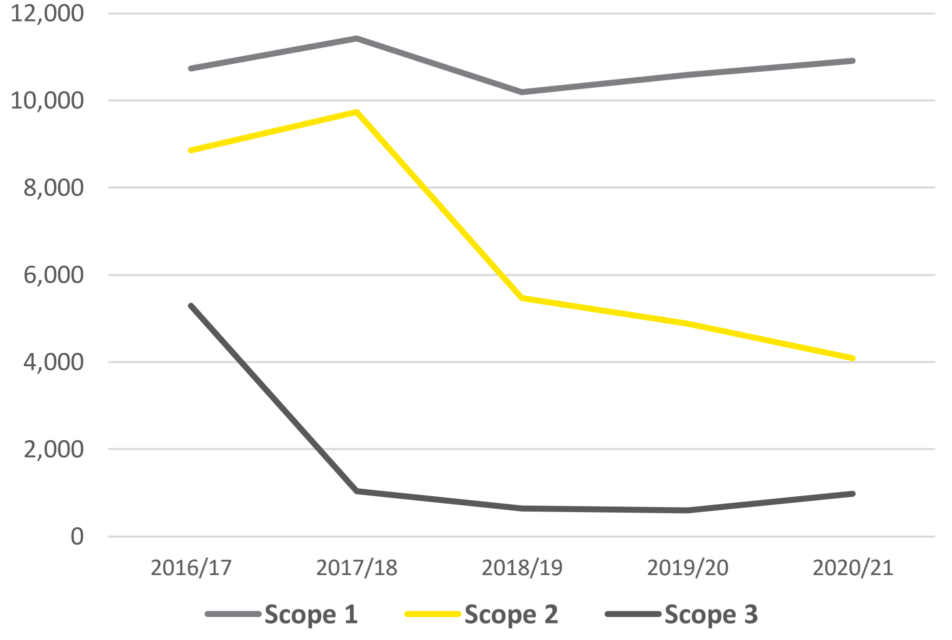
A Midlothian Climate Emergency Group has been established with other community partners to develop and monitor the progress made against the ambitious targets.

Alongside this, the Council has recognised the importance of climate change within other key strategies including:

- The role of Capital Investment Strategy 2020-30 in building in sustainability. This includes the largest Passivhaus programme in Scotland, to build 182 council dwellings that will be built in line with Midlothian Council's Net Zero Housing Design Guide. This ensures that each house will achieve very high levels of energy efficiency, with corresponding low utility bills for tenants;
- The Learning Estates Strategy, including the requirement to build the replacement for Beeslack Community High School to Passivhaus standards; and
- The Council also continues to work with Midlothian Energy to develop the business case options for addressing building fabric and energy decarbonisation of the existing estate. It's initial project is a low carbon district heating network for the Shawfair new town development.

- Scope 1 emissions are direct emissions that are released into the atmosphere from sources that are owned or controlled by the Council.
- Scope 2 emissions are indirect emissions from the generation of purchased energy, which for most organisations are primarily emissions released during the generation of the electricity it uses.
- Scope 3 emissions are all other indirect emissions that occur because of an organisation's activities but from sources not owned or controlled by the Council.

Exhibit 7: The Council reports within its annual climate duties report that it has reduced emissions by 36% since 2016/17, but the impact on Scope 1 emissions have increased over the period



Source: Annual Report on Compliance with Climate Change Duties submitted to the Sustainable Scotland Network, 2020/21

While the Council has met its public duty to report to the Sustainable Scotland Network, we note that there are not yet any arrangements to validate or peer review the levels of emissions reported. The Council reports on a number of aspects of climate action within its quarterly reporting to the Cabinet, covering aspects such as:

- The impact of LED street lighting on reducing carbon emissions;
- The percentage of waste going to landfill; and
- The percentage of council fleet which is "green."

However, it is difficult for elected members to assess the progress against the 2030 carbon neutral target, and therefore whether it is likely to be achievable based on current levels of investment. The Council's Strategic Risk Register notes that climate change is regarded as a "red" risk but the actions in place currently focus on recruiting a Climate Change Officer and development of a Carbon Management Plan, including the development of a standard methodology for measuring and accounting for carbon emissions.

Recommendation 8: The Council must review whether current actions are sufficient to meet its 2030 target. This should include an assessment of the level of future investment required and the affordability of these investments in the context of the Council's MTFS.

Looking ahead: Sustainability Reporting

Significant advances have been made in sustainability reporting in the corporate sector and central government sectors over a number of years. There are not yet any mandatory emissions measurement and reporting requirements for local government, although it is an area many local authorities are exploring.

Mandatory requirements are likely to be required in the coming years. In March 2022, the International Sustainability Standards Board issued an Exposure Draft consultation, on requirements for the disclosure of climate-related matters. The proposals in the exposure draft set out requirements for identifying, measuring and disclosing climate-related risks and opportunities based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The consultation closed on 29 July 2022. In Appendix G we set out the key reporting areas of TCFD disclosures, along with annotations in green boxes with recommendations of good practice from other sectors.

Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit Committee

D – Action plan, including follow up of prior year recommendations

E – Adjusted errors identified during the audit

F – Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body’s Responsibilities

Corporate Governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit, risk and governance committees or equivalent) in monitoring these arrangements.
Financial Statements and related reports	Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. • maintaining proper accounting records. • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. • Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: • such financial monitoring and reporting arrangements as may be specified • compliance with any statutory financial requirements and achievement of financial targets • balances and reserves, including strategies about levels and their future use • how they plan to deal with uncertainty in the medium and longer term • the impact of planned future policies and foreseeable developments on their financial position.
Best Value	Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

Appendix B: Independence and audit quality

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the Council.

Matters that we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

We are not aware of any inconsistencies between the Council's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

Audit Fees

	2021/22	2020/21
Component of fee:		
Total agreed auditor remuneration	**£152,060**	**£148,890**
Additional audit procedures (see below)	**£22,500**	**£27,300**
Audit Scotland fixed charges:		
Pooled costs	**£15,850**	**£14,160**
Performance audit and best value	**£67,040**	**£66,860**
Audit support costs	**£8,120**	**£8,190**
Total fee	**£265,570**	**£265,400**

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year.

Through the 2021/22 audit cycle we have discussed with management areas of the audit which required additional work beyond that usually expected for the Council. These areas related to the additional procedures in respect of infrastructure assets (£9,500) as well as additional work following the reduction of our materiality (£9,000) and PPE valuations (£4,000). For these areas we have agreed the fee noted in the table above with management and Audit Scotland, based on the additional time required at the contracted Audit Scotland rates.

Matters that we are required to communicate	International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The EY 2021 UK Transparency Report can be accessed on our website at EY UK 2021 Transparency Report | EY UK. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our Audit Quality Report. The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it. Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ). Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures. Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report	Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission. We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland. The most recent audit quality report which covers our work at the Council since appointment can be found at: Quality of public audit in Scotland annual report 2021/22 (audit-scotland.gov.uk)

Appendix C: Required communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Annual Audit Plan
Significant findings from the audit • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Annual Audit Plan Annual Audit Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Annual Audit Report
Misstatements • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Annual Audit Report
Fraud • Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Annual Audit Report

Required communication	Our reporting to you
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	No significant matters have been identified.
Independence Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan This Annual Audit Report – Appendix B
Internal controls Significant deficiencies in internal controls identified during the audit	This Annual Audit Report – no significant deficiencies reported
Subsequent events Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Material inconsistencies Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Annual Audit Report
Consideration of laws and regulations • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Annual Audit Report or as occurring if material.
Group audits • An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Annual Audit Plan This Annual Audit Report

Appendix D: Action Plan

We include an action plan to summarise specific recommendations included elsewhere within this Annual Audit Report. We grade these findings according to our consideration of their priority for the Council or management to action.

New recommendations Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
1	Audit procedures in respect of valuations continued to note a number of errors and areas for improvement: • Omission of a school campus from the valuation report; • Formula errors within the housing valuations; • Supporting evidence for valuation not being readily available; • Limitations in valuation methodology in respect of assets with lower useful lives	The valuation methodology adopted by the Council's internal valuers should be subject to review to ensure it remains in line with best practice. This should include a review of the quality review arrangements in place to reduce errors in valuations. *Grade 2*	**Response**: Recommendation Accepted **Responsible officer**: Chief Officer Place **Implementation date**: 31 March 2023
2	The statutory override in respect of infrastructure assets is intended to be a short-term solution to issues in respect of accounting for infrastructure assets.	The Council should ensure that greater detail on infrastructure assets is retained moving forward and appropriate consideration is given to disposals and replacements of infrastructure assets. *Grade 2*	**Response**: Recommendation Accepted **Responsible officer**: S95 Officer/Chief Officer Place **Implementation date**: 31 March 2023

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
3	The Council has identified significant budget gaps within initial drafts of the MTFS however to date no plans to address these gaps have been identified and agreed.	As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council's transformation plans. It is imperative for measures to be agreed to balance the 2023/24 budget urgently. *Grade 1*	**Response**: Recommendation Accepted **Responsible officer**: Chief Executive **Implementation date**: 11 March 2023
4	Our audit work in 2021/22 identified an increased number of adjustments and control observations including in relation to bank reconciliations, cut-off and ability to generate accurate listings from the Council tax system.	Officers should review both the errors and control observations identified during the audit and ensure appropriate improvement actions are identified to prevent future occurrences. *Grade 2*	**Response**: Recommendation Accepted **Responsible officer**: S95 Officer **Implementation date**:31 March 2023
5	The Council's experienced and knowledgeable Section 95 officer leaves the Council in October 2022. Interim arrangements are in the process of being finalised however there is likely to be reduced capacity within impacted teams including finance while a permanent arrangement is implemented.	Management should ensure appropriate handover arrangements are in place for the section 95 officer and ensure the finance team continues to have sufficient skills, capacity and capability. Grade 2	**Response**: Recommendation Accepted **Responsible officer:** Executive Director Place **Implementation date**: 4 October 2022

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
6	The Council's internal audit team has continued to experience capacity challenges with audit days available being 82% of planned capacity. The shared services arrangement with Scottish Borders Council has ended and work to finalise a revised arrangement is ongoing.	The Council should ensure a permanent solution to internal audit provision is agreed to ensure appropriate capacity is in place to ensure the delivery of the 2022/23 and future internal audit plans. *Grade 1*	**Response**: Recommendation Accepted **Responsible officer**: Chief Executive **Implementation date**: 31 December 2022
7	The Council's Equality Mainstreaming & Outcomes Progress Report for 2019-21 sets out a broad range of activity and strategies that have contributed to its equalities outcomes. However, the Council could benefit from more specific and measurable targets to demonstrate progress.	The Council develop more specific and measurable targets to demonstrate its progress with its equality and fairness agenda. *Grade 1*	**Response**: Recommendation Accepted **Responsible officer**: Continuous Improvement Manager **Implementation date**: 31 March 2023
8	The Accounts Commission published a briefing in September 2022 noting that councils have a critical role in helping Scotland achieve its national climate change goals and that climate change must be central and integral to all council activity. In our view, the reporting against the Council's target to be carbon neutral by 2030 is insufficient to target interventions.	The Council must review whether current actions are sufficient to meet its 2030 target. This should include an assessment of the level of future investment required. *Grade 1*	**Response**: Recommendation Accepted **Responsible officer**: Chief Officer Place **Implementation date**: 31 March 2023

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
1	Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis. The Council must continue to develop a balanced MTFP in the medium to long term. *Grade 1*	Agreed, Officers continue to support BTSG to recommend measures to council to achieve a balance MTFS. Responsible officer: **BTSG** Implementation date: **11 February 2020**	While plans are in place for the 2021/22 and 2022/23 budgets, the Council is relying on one-off measures. Significant work is required to develop a revised MTFS for the next administration. **Our assessment: Superseded by current year recommendation 3**
2	The Council continues to experience timing and data accuracy issues in relation to feeder financial information systems The Council must ensure that services apply greater rigour to feeder financial systems to support improved reporting. *Grade 2*	Agreed. As part of the review of the 2018/19 year end an issue and lessons learnt report is being prepared which will set out recommendations for future improvement required for 2019/20 year end. Responsible officer: **Head of Finance & ISS** Implementation date: **31 March 2020**	Within Financial Management, we noted that the level of variation in financial monitoring reports noted in prior years did not occur, signalling improved financial forecasting and control. **Our assessment: Complete**
3	The Best Value Assurance Report highlighted that there is scope to be clearer about priority indicators and targets to track the Council's performance. The Council should ensure that performance reporting arrangements support elected member scrutiny. *Grade 3*	Responsible officer: **Quality & Scrutiny Manager** Implementation date: **31 March 2020**	While significant improvements have been made to the Council's performance reporting capability, we note that the development of a new strategic plan and MTFS creates opportunities to review indicators. **Our assessment: Ongoing**

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
4	The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty. The completion in 2020/21 of the revaluation of the major aspects of the Council's assets, would be an opportunity for the Council to consider its approach going forward as a matter of good practice. This review may include: • Reducing the time between full valuations for all major individual asset classes; • Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations; and • Ensuring up-to-date condition surveys are in place for all assets. *Grade 2*	**Response**: Accepted. A review of the asset valuation arrangements will be undertaken in preparation for the 2021/22 year end. Changes arising will be reflected in the formal engagement with the internal valuation team and in the final accounts project plan. **Responsible officer**: Chief Officer, Corporate Solutions **Implementation date**: 31 March 2022	We note that the Council has reduced the time between full valuations for major asset classes such as council dwellings and schools. However, up-to-date condition surveys are not in place. We are aware a timetable for obtaining condition surveys is now in place. **Our assessment: Superseded by current year recommendation 1**
5	We noted there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement. While the Annual Governance Statement is in line with current requirements, there is an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge. *Grade 3*	**Response**: Accepted. In preparation for the 2021/22 Annual Governance Statement a review of the structure will be undertaken and changes reflected in the draft Annual Governance Statement for 2021/22 **Responsible officer**: Chief Internal Auditor/Legal Services Manager **Implementation date**: May 2022	While we have observed improvements in the Annual Governance Statement, we consider there remains scope to review the structure and content to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge. **Our assessment: Ongoing**

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
6	We note that the role and membership of the Audit Committee should be considered by the new Council, following local government elections in May 2022. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value. The Council should review audit committee arrangements post-election to ensure that governance arrangements reflect the political and strategic environment. *Grade 2*	**Response**: Accepted. The review will form part of the review of Standing Orders and the Scheme of Delegation in preparation for the next term of Council. **Responsible officer**: Executive Director Place **Implementation date**: May 2022	The review of the committee structure remains ongoing following the recent elections. **Our assessment: Ongoing**
7	Quarterly and annual performance reports presented to Cabinet and Performance, Review and Scrutiny Committee are heavily narrative based. Council officers have been exploring alternative formats for presenting data including the introduction of graphics such as charts, trend analysis however Committee reports, which are also publicly available, continue to contain significant narrative analysis. Officers should work with members to ensure performance reports are presented in a manner which supports effective challenge and scrutiny, including through the use of more graphical presentations. *Grade 3*	**Response**: Accepted. Work is underway to progress dashboards which will supplement quarterly reporting data currently available to elected members via 'Pentana Browser'. In addition these will be publicly available ensuring more timely and accessible performance information is published on the Council's website. The intention is to introduce dashboards as part of improvements for the performance management cycle for 2022/23. **Responsible officer**: Continuous Improvement Manager **Implementation date**: September 2022	We note that dashboards have been reported for some directorates to recent Cabinet meetings. However this is not common practice across all areas and are submitted as an Appendix to the narrative based reports. **Our assessment: Ongoing**

Appendix E: Summary of adjusted differences identified during the audit

This appendix sets out the significant adjustments processed as part of finalisation of the financial statements. There were no unadjusted audit differences identified above our reporting threshold.

Adjusted differences			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
1	Council Dwellings Valuation – correction of formula used to calculate discount rate.		Dr Revaluation Reserve 8,221 Cr PPE – Council Dwellings 8,221
2	Assets Under Construction- non-recognition of construction costs.		Dr PPE – AUC 1,422 Cr Creditors 1,422
3	Loanhead Centre – asset missed from valuation cycle		Dr PPE – Buildings 1,682 Cr Revaluation Reserve 1,682
4	Retentions – Danderhall Primary School		Dr PPE – Buildings 1,830 Cr Creditors 384 Cr Revaluation Reserve 1,446
5	Debtors/Bank Reconciliation		Dr Cash & Bank 1,142 Cr Debtors 1,142
6	Beeslack High School Valuation		Dr Revaluation Reserve 2,495 Cr PPE – Buildings 2,495
7	NDR Bank Reconciliation		Dr Debtors 6,088 Cr Cash & Bank 6,088
8	Creditors/Bank Reconciliation		Dr Creditors 414 Cr Cash & Bank 414
9	Reclassification between Land & Buildings		Dr PPE – Land 483 Cr PPE – Buildings 483

Appendix F: Timing and deliverables of the audit

We delivered our audit in accordance with the timeline set by the Council, in accordance with the annual audit planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2021/22 audit cycle, including the remaining areas of work with completion deadlines subsequent to this report.

JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC

Audit Activity	Deliverable	Timing
• Onsite fieldwork, documentation and walkthrough of key accounting processes • Scoping of wider scope work for year	Annual Audit Plan	Finalised and submitted to Audit Scotland March 2022
• Review of current issues impacting the Council • Review of reported frauds	Quarterly current issue return submission Quarterly fraud return submission	Quarterly throughout the audit cycle
• Year-end substantive audit fieldwork on unaudited financial statements • Conclude on results of audit procedures • Issue opinion on the Council's financial statements	Whole of Government Accounts assurance statement to NAO (as required) Certify Annual Financial Statements Issue Annual Audit Report Submit minimum dataset return to Audit Scotland	*[Financial statements audit and annual audit report on course for submission September 2022.]* WGA guidance and further minimum dataset return requests awaited.
• Completion of Non–Domestic Rates return testing	Certified Non-Domestic Rates return	On course for completion October 2022
• Completion of Housing Benefits claim testing	Certified Housing Benefit subsidy claim	On course for completion October 2022

Appendix G: Likely developments in sustainability reporting

In the corporate sector, significant financial reporting developments has meant that there has been a step change in the level of climate related disclosures within company financial statements. There is not yet an equivalent requirement for local government accounting, but guidance from the Scottish Government recently issued Public Sector Leadership on the global climate emergency guidance which recommends that public bodies should consider reporting to external frameworks such as the Taskforce for Climate Related Financial Disclosure. We outline the key elements below:

Cross-reference to where the disclosure can be found. If cross-referencing to another document, explain why the information is not included in the annual report.

The governance processes, controls and procedures the entity uses to monitor and manage climate related risks and opportunities

How climate related risks and opportunities are identified, assessed, managed and mitigated

TCFD elements	TCFD recommendations	Cross-reference or explanation of non-compliance	Next steps and other comments
Governance	a. Board oversight		
	b. Management's role		
Strategy	a. Climate-related risks and opportunities		
	b. Impact on the organisation's businesses, strategy and financial planning		
	c. Resilience of the organisation's strategy to climate-related risks		
Risk Management	a. Risk identification and assessment processes		
	b. Risk management process		
	c. Integration into overall risk management		
Metrics and Targets	Climate-related metrics in line with strategy and risk management process		
	Scope 1, 2 (and 3) Green House Gas (GHG) metrics and the related risks		
	Climate-related targets and performance against targets		

Consider commenting on progress in preparing a climate transition plan

Consider commenting on progress in being able to report scope 3 GHG emissions

Set out key focus areas for next year

Consider explaining readiness to comply with any changes to requirements applicable for next reporting cycle

Source: Adapted from Continuing the journey towards TCFD compliance, EY Centre for Board Studies, May 2022

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com