North Ayrshire Council

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

Issued on 27 October 2022 for the meeting on 15 November 2022

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Introduction
The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit and Scrutiny Committee ("the Committee") of the North Ayrshire Council ("the Council") for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2022. This report includes the charitable trusts ("the Trusts")

This report summarises our findings and conclusions in relation to:

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

Introduction (continued)
The key messages in this report (continued)

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

Conclusions from our testing

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

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

The auditable parts of the Remuneration Report have been prepared in accordance with the relevant regulations.

A summary of our work on the significant risks is provided in the dashboard on page 9.

We have identified four financial statement adjustments above our reporting threshold of £250k. These relate to a reclassification of prior year income and expenditure, a misstatement within the revaluation reserve and pensions. These are summarised on pages 27 – 29.

Conclusions on audit dimensions and best value

As set out on page 3, our audit work covered the four audit dimensions. Our separate detailed report presented to the Committee in May 2022 set out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report on page 24. Key highlights include:

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

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

It is positive to see the work progressing with the sustainable Change Programme, incorporating a comprehensive benefits tracker and a clear commitment to invest in recovery and renewal. However, progress continues to be impacted by the pandemic. It is critical that this work is progressed at pace and scale to ensure that the planned benefits are realised.

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Introduction (continued)
The key messages in this report (continued)

Conclusions on audit dimensions and best value (continued)

Governance and transparency – The Council continues to have strong leadership, which has been enhanced in the year with the creation of additional capacity at Head of Service level to focus on priorities. The governance arrangements also continue to be robust, with a comprehensive review of the infrastructure to enable hybrid meetings and an effective Audit and Scrutiny Committee. The Council continues to be open and transparent and demonstrates a culture of continuous improvement, with the planned development of a Participation Strategy.

Value for money — The Council continues to have a clear and robust performance management framework in place which has been enhanced in the year with the Performance Management Strategy and new Performance Dashboard. It has continued to report its performance against the priorities within the Council Plan and also against the Local Government Benchmarking Framework (LGBF) with clear actions in place to address indicators that are adrift of target.

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

Next steps

An agreed Action Plan was included in the separate wider scope report that was presented to Audit and Scrutiny Committee in May 2022. We also have an Action Plan on page 30 of this report.

Added value

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

In addition, we included our "sector developments" in the separate wider scope report that was presented to Audit and Scrutiny Committee in May 2022 which covers our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council.

Managing transition to 2022/23 audits

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

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

Pat Kenny
Associate Partner

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Annual Accounts Audit

Quality Indicators

Impact on the execution of our audit

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

Area	Grading			Reason
	FY22	FY21	FY20	
Timing of key accounting judgements	●	●	●	Management demonstrated a clear understanding of key accounting judgements and estimates made in the preparation of the Annual Accounts and provided sufficient appropriate evidence of good quality to support these.
Adherence to deliverables timetable	●	●	●	Management provided all evidence in a timely manner, in advance of agreed timelines. Any follow-up requests during the audit were quickly actioned.
Access to finance team and other key personnel	●	●	●	Deloitte and North Ayrshire Council have worked together to facilitate remote communication during the audit which has been successful. There have been no issues with access to the finance team or other key personnel.
Quality and accuracy of management accounting papers	●	●	●	Documentation provided has been of a high standard, which enabled an efficient audit. This is demonstrated by the fact that we only returned 7% of working papers provided by officers for further clarification.
Quality of draft financial statements	●	●	●	A full draft of the Annual Accounts were received for audit on 23 June 2022. We identified a small number of required changes primarily relating to formatting.
Response to control deficiencies identified	!	●	●	We identified one control deficiency during our audit. Further insight can be seen on page 19.
Volume and magnitude of identified errors	!	●	●	We identified 4 misstatements and 2 disclosure misstatements at the time of writing this report. Management have corrected for these adjustments. For further detail see pg. 27-29.

! Lagging ! Developing ● Mature

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Our Audit Explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

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

Scoping

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

Other findings

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

1. Identify changes in your business and environment
2. Determine materiality
3. Scoping
4. Significant risk assessment
5. Conclude on significant risk areas
6. Other findings
7. Our audit report

Determine materiality

When planning our audit we set our materiality at £10.6m (Council only £10.07m) based on forecast gross expenditure. We have updated this to reflect final figures and completed our audit to group materiality of £10.51m (Council only £10.50m), group performance materiality of £7.36m (Council only £7.35m) and report to you in this paper all misstatements above £250,000.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

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

Our audit report

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

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Significant Risks
Dashboard

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

Overly prudent, likely to lead to future credit ⊖ ⊖ ● ⊕ ⊕ Overly optimistic, likely to lead to future debit.

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

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Significant Risks (continued)

Recognition of COVID-19 related income

Risk identified and key judgements

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

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2021/22 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2021/22, the Council has received additional funding in relation to COVID-19 mobilisation costs. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that are being administered by Councils on behalf of the Scottish Government.

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

The key judgements for management are assessing:

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

Deloitte response and challenge

We have performed the following:

- Assessed the design and implementation of the controls in relation to the accounting treatment of all COVID-19 related funding;
- Tested a sample of funding for COVID-19 mobilisation costs and confirm these have been recognised in accordance with any conditions applicable; and
- Tested the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:
  - Transactions have been excluded from the Comprehensive Income and Expenditure Statement;
  - The Balance Sheet reflects the debtor or creditor position at 31 March 2022 in respect of cash collected or expenditure incurred on behalf of the principal; and
  - The net cash position at 31 March 2022 is included in the financing activities in the Cash Flow Statement.

Deloitte view

We have concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting and the "*Guidance on Accounting for Coronavirus (COVID-19) Grants/ Funding Streams*" issued by LASSAC.

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Significant Risks (continued)
Management override of controls

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

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

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

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

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

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

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

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

Deloitte view

We have not identified any significant bias in the key judgements made by management.

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

Significant Risks (continued)
Management override of controls (continued)

Key judgements The key judgment in the annual accounts relates to our significant risk around the recognition of COVID-19 income (page 10). While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (page 14), and the recognition of expenditure (page 17). In the table below, we set out our challenge of the assumptions used in the determination of property valuations, PFI projects and provisions.

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property valuations	The Council is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with it modern equivalent asset. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. The Council has had an independent valuation carried out at 31 March 2022 by its internal valuers to include valuation of 20% of all of the Council's land and property in accordance with its 5-year rolling programme. The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards. The Council's revaluation reserve has experienced a surplus position of £11.509m and the net revaluation movement in the year equated to £11.994m.	We did not identify this as a significant risk in our Audit Plan as our property specialists, Real Asset Advisory, reviewed the methodology applied by the Council's valuer in previous years and concluded it was robust. We have confirmed that the valuer and the methodology applied has not changed in the year. We also tested a sample of revaluations in the year by agreeing this to the valuer's report and tracing the impact to the Revaluation Reserve and/or CIES. An error was identified in relation to the Revaluation Reserve. Further insight can be seen on page 27. We have completed input testing of valuations back to source documentation including floor areas to individual asset site plans. We have challenged management's assessment for those assets not subject to valuation in the year and consulted with our internal property experts. For those valued on Existing Use Value on a market comparable basis, our property experts have confirmed that minimal market value movement would be expected in 2021/22. For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we have performed an analysis of changes in the Build Costs Information Service (BCIS) index and concluded that no material movement would be expected. We are therefore satisfied that there is no indication of a material movement in assets not formally revalued during the year.

Significant Risks (continued)

Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Private Finance Initiatives ('PFI') and similar contracts	The Council currently has 3 PFI and similar projects: Clyde Valley Waste, North Ayrshire Council Schools and Largs Campus. Each PFI liability is valued based on the value of the remaining lease payments under the relevant accounting standards. The minimum lease rental is split between interest and principal using the actuarial method.	We obtained and assessed the initial PFI agreements in place and reconciled to the payment schedules for each model. We identified a factual disclosure error in Note 18 equating to £8.46m for service charges and contingent rentals. Management have corrected this error and we have confirmed that it has not had any impact on the PFI liability. Further details can be viewed on page 29. We have conducted a retrospective review of the prior year liability to assess accuracy, and have challenged any changes made to the model. We have assessed the value of the underlying buildings through our Valuations work. We are satisfied that the PFI liability recognised in the accounts is in line with the models and there is no indication of management bias.
Provisions	The total provisions held within the Council's balance sheet is immaterial, at £1.217m. This comprises of a number of individually immaterial provisions, including: • Equal Pay / Single Status £0.130m • Termination Benefits £0.161m • Landfill Site Restoration £0.363m • Employee Costs – Paid Absences £0.148m • Teachers Maternity £0.198m • Former Authorities £0.217m	We examined the rationale for each provision, including a retrospective review of amounts provided in 2020/21. We have consulted with the Council's legal experts to confirm completeness of the provisions. We concluded that the provisions made were reasonable.

Other Areas of Audit Focus
Defined benefits pension scheme

Background

The Council participates in two defined benefits schemes:

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

The net pension liability has decreased from £180.577m in 2020/21 to £56.983m in 2021/22. The decrease is a combination of an increase of £94m in the fair value of the assets and a reduction of £30m in the liabilities as a result of demographic changes and financial assumptions.

Deloitte response

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

	Council	Comments
Discount rate (% p.a.)	2.7	Within reasonable Range
RPI Inflation (% p.a.)	3.65	
CPI Inflation (% p.a.)	3.2	
Pension increase in payment (% p.a.)	3.2	
Salary increase (% p.a.)	3.9	In line with funding valuation
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65)	19.6/ 22.4	Within reasonable range
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	21/ 24.5	

Other Areas of Audit Focus (continued)
Defined benefits pension scheme (continued)

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

- **Goodwin** – this is a legal challenge made against the Government in respect of unequitable benefits for male dependants of female members (based on service after 1988) following the earlier Walker ruling. The 31 March 2020 triennial funding valuation did not allow for the impact of Goodwin, therefore the Council's actuary has used the same percentage allowance that was used last year (0.1% of the liability). Given the lack of relative data available, we have concluded that the actuary's calculation approach is reasonable.

- **McCloud** – this case is in respect of possible discrimination in the implementation of transitional protections following the introduction of the reformed public services pension schemes from 1 April 2014 and 2015. The actuary has advised that an estimated allowance for McCloud has been included within the current service cost, consistent with the prior year. We have concluded that the allowance made and approach taken is reasonable. There is still uncertainty about the form of compensation that will be provided to members and therefore the final actual cost of complying with the ruling may be different to the estimate.

- **GMP indexation** – in order to ensure smooth transition to the single tier State pension and equalisation of GMP benefits between males and females, the Government introduced an interim solution in March 2016 in respect of people who are in public service pension schemes and who have a State Pension Age (SPA) between 6 April 2016 and 5 December 2018, whereby full inflationary increases will be provided by the LGPS. An announcement on 23 March 2021 confirmed that all public service pension schemes, including the LGPS, will need to provide full indexation to members with a SPA beyond 5 April 2021. This is a permanent extension of the previous interim solution. We have confirmed that the 31 March 2020 funding valuation for the whole Fund included an allowance for the additional liability arising as a result of GMP indexation. As this valuation was used as the starting point for the 31 March 2022 valuation, this has also been included in the current year liability. We have concluded that the approach taken is reasonable.

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

- The actuary has calculated an "experience loss" of £1.946m. Based on the data provided during the audit, we have estimated that this should be circa. £2.413m. In the absence of further information to justify the quantum of the experience loss, there is a potential misstatement of £0.467m.

Deloitte view

Management have agreed to adjust the annual accounts for the above issue. We have therefore concluded that the pension liability in relation to the defined benefits pension scheme is fairly stated.

Other Areas of Audit Focus (continued)
Infrastructure Assets

Background

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

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

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

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

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

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

Deloitte response

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

Deloitte view

We have assessed the impact of the adoption of the statutory overrides and confirmed the updated Annual Accounts correctly reflect the required disclosure. We are also satisfied that the depreciation charge for the year, based on UEL's set out within the Council's accounting policy, is not materially misstated. As the Council's Fixed Asset Register has a degree of detail in terms of different types of infrastructure assets held, the Council should revisit its UEL policy to consider whether alternative UEL's should be set for different types of assets.

The Scottish Government expects that Councils will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a more permanent solution is delivered.

Other Areas of Audit Focus (continued)

Expenditure recognition

Risk identified

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

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

Deloitte response

We performed the following procedures to address the above risk:

- A review of the number and median value of invoices processed in the year. As illustrated in table opposite, based on the medium amount, the Council would need to omit over 46,620 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 7,557 invoices were processed. We therefore concluded that a risk of material misstatement was remote.

- An analytical review to test the completeness and accuracy of year-end creditor balances was carried out. We are satisfied that the amount recorded is reasonable.

	Invoice Analysis
Median invoice amount	£216
Average number of invoices processed per month	6,311
Number of invoices that would need to be unrecorded to cause a material misstatement	46,620
Total invoices processed in April 2022 (one month after year-end)	7,557

Deloitte view

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

Other Areas of Audit Focus (continued)

Charitable trusts

Risk identified

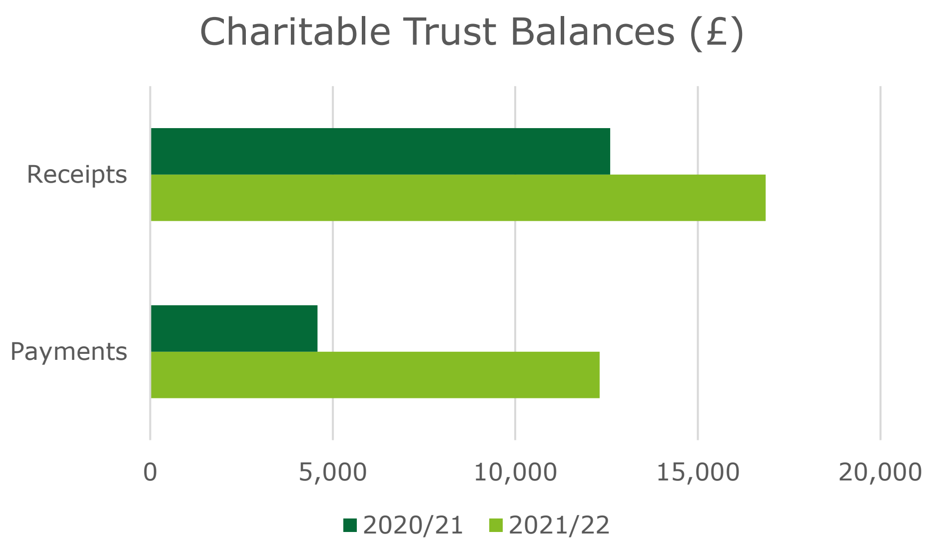
From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each charity, and a separate audit of each. North Ayrshire Council administers eight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

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

Deloitte response

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

A summary is provided in the table adjacent. From an initial review of draft annual accounts we note that there has been a large movement in payments which have increased by £7,553 since 2020/21. This is due to the increase in grant awards during the year.



Deloitte view

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

Other Significant Findings

Internal control

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

Area	Observation	Priority
Revaluation Reserve Postings	During the course of our audit engagement, management informed us of an error in relation to the revaluation reserve. The error arose as a result of the Integra system inadvertently recognising devaluations in the revaluation reserve. The result of this brought two assets to a negative value. We have summarised this misstatement on page 27. As a result of this, we recommend that management investigate this fault within Integra system with immediate effect. Management should rectify this and input pre-emptive measures to prevent similar errors occurring in the future. We also recommend that management review the revaluation reserve postings prior to preparing the Annual Accounts. This should ensure that similar errors do not occur in the future.	

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

Low Priority

Medium Priority

High Priority

Other Significant Findings
Financial reporting findings

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

Qualitative aspects of your accounting practices:

The Council has prepared its Annual Accounts in line with the Code of Practice on Local Authority Accounting. We are satisfied that the Council's accounting practices are appropriate.

Significant matters discussed with management:

Significant matters have been discussed with management throughout the audit engagement. In particular, we discussed the treatment of the prior year reclassification of income/expenditure adjustment (as outlined on page 28). We also discussed the treatment of infrastructure assets (as outlined on page 16).

Other matters relevant to financial reporting:

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

We received an objection to the Council's accounts in accordance with section 1010 of the Local Government (Scotland) Act 1973 in relation to the Common Good and Trust funds. We have provided an initial response and currently considering the detail. Any significant matters arising will be reported to the Audit and Scrutiny Committee prior to the approval of the accounts.

Regulatory Change:

IFRS 16, Leases, comes into effect on 1 April 2022, therefore will be implemented in financial year 2022/23. This will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. We have considered the preparatory work carried out by management and the disclosures made in the 2021/22 Annual Accounts and are satisfied that the new standard has been appropriately considered.

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

Our Audit Report

Other matters relating to the form and content of our report

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

Our opinion on the financial statements

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

Material uncertainty related to going concern

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

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

Emphasis of matter and other matter paragraphs

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

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

Other reporting responsibilities

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

Our opinion on matters prescribed by the Controller of Audit is discussed further on page 22.

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Your Annual Report

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

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Council also focuses on the strategic planning context.	We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Following amendments for minor improvements in the final version of the Annual Accounts, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the Council.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Council's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government Framework. We conclude that the Annual Governance Statement is consistent with the financial statements, our knowledge and the accounts regulations.

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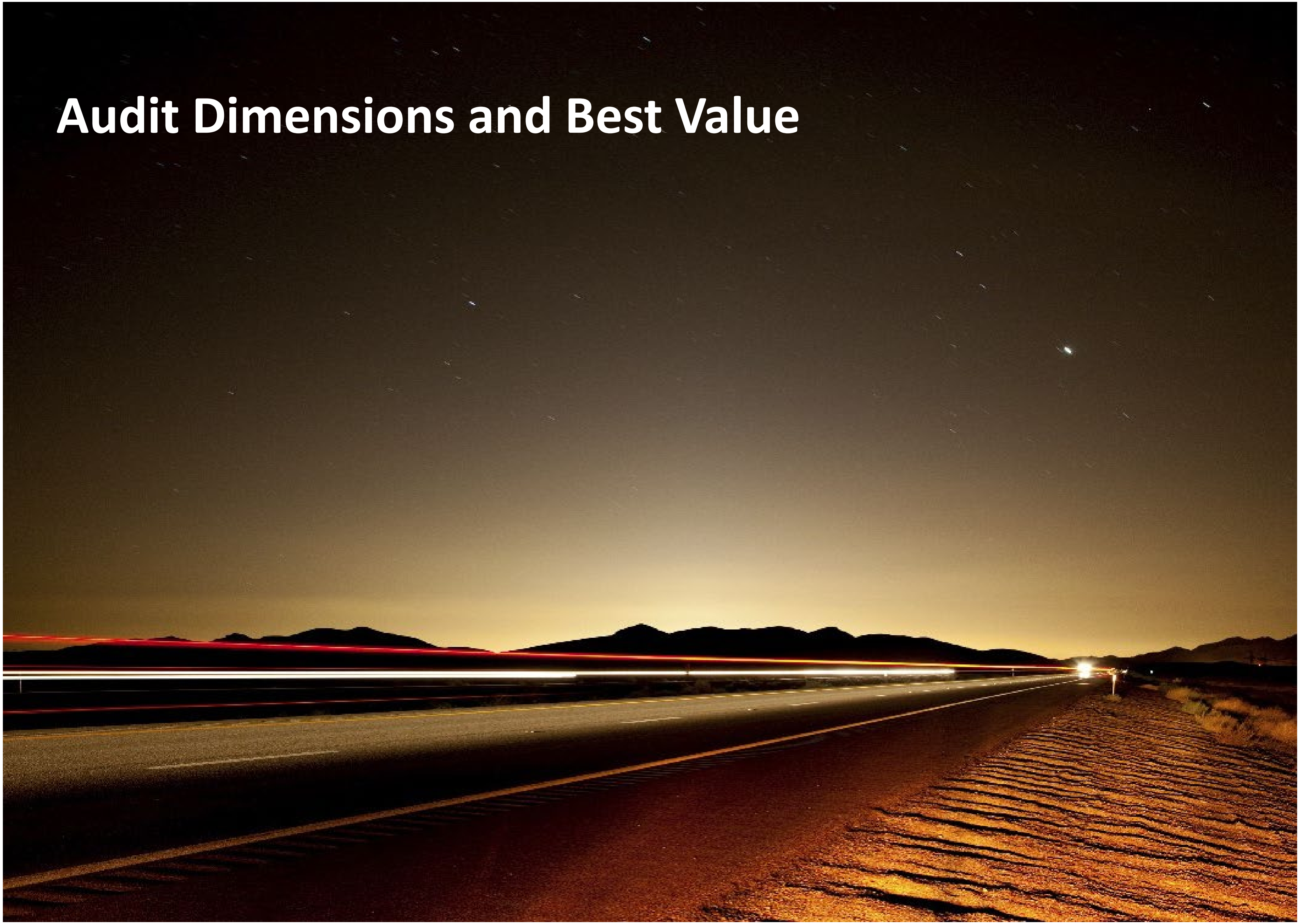
Audit Dimensions and Best Value



Audit Dimensions and Best Value
Overview and conclusions

As set out in our audit plan and separate report on the "Audit Dimensions and Best Value" presented to the Committee in, May 2022 public audit in Scotland is wider in scope than financial audits. Ours separate report sets out our findings and conclusions on our audit work covering the areas set out below.

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

Financial management

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

Financial sustainability

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

It is positive to see the work progressing with the sustainable Change Programme, incorporating a comprehensive benefits tracker and a clear commitment to invest in recovery and renewal. However, progress continues to be impacted by the pandemic. It is critical that this work is progressed at pace and scale to ensure that the planned benefits are realised.

Governance and transparency

The Council continues to have strong leadership, which has been enhanced in the year with the creation of additional capacity at Head of Service level to focus on priorities. The governance arrangements also continue to be robust, with a comprehensive review of the infrastructure to enable hybrid meetings and an effective Audit and Scrutiny Committee. The Council continues to be open and transparent and demonstrates a culture of continuous improvement, with the planned development of a Participation Strategy.

Value for money

The Council continues to have a clear and robust performance management framework in place which has been enhanced in the year with the Performance Management Strategy and new Performance Dashboard. It has continued to report its performance against the priorities within the Council Plan and also against the Local Government Benchmarking Framework (LGBF) with clear actions in place to address indicators that are adrift of target.

Deloitte view – Best Value

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

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Purpose of our Report and Responsibility Statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

Our observations are developed in the context of our audit of the annual accounts.

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

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

Use of this report

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

Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 27 October 2022

Appendices

Audit Adjustments

Unadjusted misstatements

There are no uncorrected misstatements up to the date of this report.

Corrected misstatements

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

	Debit/(Credit) Comprehensive Income and Expenditure Statement (CIES) £k	Debit/(Credit) in Net Assets £k	Debit/(Credit) prior year Reserves £k	Debit/(Credit) in Income £k	If applicable, control deficiency identified
Misstatements identified in current year:					
Impairment Charge [1]	1,272				
Revaluation Reserve [1]	(1,272)				
Prepayments [2]	212	(212)			
Pension experience items [3]	467	(467)			
Total	**679**	**(679)**	-	-	

[1] The Integra system inadvertently recognised devaluations in the revaluation reserve bringing two assets to a negative value. We have discussed this with management and reviewed their workings. We have also recalculated the correcting adjustments and, we have comfort that this only occurred in isolation for two assets. This has been corrected by management and a control deficiency has been summarised on page 19.

[2] An insurance prepayment was made in the year totalling £250,000 and a subsequent reversal should have been made totalling £212,000 as this was no longer a valid prepayment as at 31/03/2022. The closing prepayment at year-end is £38,000. Management has corrected for this misstatement.

[3] As discussed on page 15, In the absence of further information to justify the quantum of the experience loss, there is a potential misstatement of £0.467m.

Audit Adjustments (continued)

Corrected misstatements (continued)

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

	Debit/(Credit) Comprehensive Income and Expenditure Statement (CIES) £k	Debit/(Credit) in Net Assets £k	Debit/(Credit) prior year Reserves £k	Debit/(Credit) in Income £k	If applicable, control deficiency identified
Misstatements identified in prior year:					
Chief Executive Income [4]	39,394				
Other Corporate Items Income [4]	(39,394)				
Chief Executive Expenditure [4]	(41,802)				
Other Corporate Items Expenditure [4]	41,802				
Total	-				

[4] Management reclassified housing discretionary income and expenditure in the current year to Other Corporate Items but did not reclassify the prior year equivalent income and expenditure to this cost centre. This was not in accordance with IAS 1 and the Code which requires entities to present financial statements in a comparative format. Management have correctly restated these figures from Chief Executive to Other Corporate Items for the prior year.

Audit Adjustments (continued)
Disclosures

Disclosure misstatements

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

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Prior Year Reclassification	Disclosures in relation to a prior period reclassification did not initially comply with the Code, which requires the following: a) The nature of the reclassification; b) The amount of each item or class of items that is reclassified, and c) The reason for the reclassification. Management have since revised the disclosure in accordance with the Code.	The misstatement is quantitatively and qualitatively material for the users of the financial statements.
Private Finance Initiative ("PFI")	Note 18 of the Annual Accounts details contracts that the Council have in place with PFI holders. This includes North Ayrshire Council Schools, Largs Campus and Clyde Valley Waste.	We discovered a factual disclosure error in Note 18 equating to £8.46m for service charges and contingent rentals. This did not impact the liability position at the year-end. This was due to a fault within management's working paper which calculates the split of Note 18. The error is above performance materiality is therefore quantitatively material.

Action Plan

Recommendations for Improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	**Infrastructure Assets**	The Council's Fixed Asset Register has a degree of detail in terms of different types of infrastructure assets held, the Council should revisit its UEL policy to consider whether alternative UEL's should be set for different types of assets.	In order to support the ongoing review of the Code requirements in relation to accounting for Infrastructure Assets, the nature of assets held under Infrastructure Assets will be reviewed and engineering advice will be sought to ensure that the assigned UEL's are consistent with the nature of the assets.	Head of Finance	March 2023	High

Our Other Responsibilities Explained

Fraud responsibilities and representations

Responsibilities:

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

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

Required representations:

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

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

Audit work performed:

In our planning we identified the risk of fraud in relation to recognition of COVID-19 related income and management override of controls as key audit risks for your organisation.

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

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

Deloitte view – Conclusion:

We have not identified any errors concerning our fraud risks in relation to the recognition of COVID-19 related income and management override of controls.

We have informed management, the Council and the Committee of their overall fraud responsibilities.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the Annual Accounts. We have also explained throughout our audit report, how we considered the audit capable of detecting irregularities, including fraud.

Independence and Fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and and our objectivity is not compromised.
Fees	The audit fee for 2021/22, in line with the expected fee range provided by Audit Scotland, is £316,670, as analysed below:

	£
Auditor remuneration	194,200
Audit Scotland fixed charges:	
Pooled costs	20,240
Contribution to PABV	91,869
Audit support costs	10,370
Total fee	**316,670**

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

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

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

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