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# NORTH AYRSHIRE COUNCIL

27 September 2021

## Audit and Scrutiny Committee

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**Title:** Annual Report on the 2020/21 Audit

**Purpose:** To invite the Committee to note the annual audit report for 2020/21 and to consider a verbal report by the external auditor.

**Recommendation:** That the Committee (a) notes the findings of the 2020/21 audit of the financial statements as contained in the External Auditor's annual report at Appendix 2, (b) considers the verbal report by the External Auditor; and (c) approves the audited Annual Accounts for signature.

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### 1. Executive Summary

- 1.1 As part of the external audit for 2020/21, Deloitte LLP have produced two reports. The initial report, covering Audit Dimensions and Best Value, was considered by the Audit and Scrutiny Committee on 1 June 2021. The second report is the Final Report and includes an opinion on the Council's financial statements
- 1.2 The unaudited accounts for the year to 31 March 2021 were approved by Council on 23 June 2021 and submitted to the Council's external auditor, Deloitte LLP, for audit. The Audit Director for Deloitte LLP has now issued his proposed Independent Auditor's Report on the financial statements which is free from qualification and confirms that the accounts give a true and fair view of the state of affairs of the Council, its group and the Council's charitable trusts as at 31 March 2021.
- 1.3 As detailed in paragraphs 2.5 to 2.6, a number of adjustments have been identified during the audit process. However, these adjustments do not impact on the reported balance of Unearmarked Reserves which remain unchanged at £11.315m.
- 1.4 Deloitte LLP's initial report on the Audit Dimensions and Best Value included an update on the progress made against the recommendations contained within the Best Value Assurance Report presented to Council on 23 September 2020. The Final Report notes that progress against these recommendations will be considered as part of the 2021/22 audit.

### 2. Background

- 2.1 The 2020/21 audit of the Council's accounts was conducted by Deloitte LLP, the fifth year of a six year cycle as the Council's appointed external auditors.

- 2.2 As well as auditing the financial statements, Deloitte LLP considered the Council's arrangements in relation to best value and the four audit dimensions of financial sustainability, financial management, value for money and governance and transparency. An initial report covering the audit dimensions and best value was considered by the Audit and Scrutiny Committee on 1 June 2021.
- 2.3 The Council's accounts for the year to 31 March 2021 were submitted to Deloitte LLP for audit by the deadline of 30 June 2021. The external auditor is required to complete the audit by 30 September 2021 and to report on certain matters arising to those charged with governance in sufficient time to enable appropriate action to be taken before the financial statements are approved and certified.
- 2.4 Appendix 1 includes letters of representation to be signed by the Head of Finance as the responsible officer for North Ayrshire Council. Deloitte LLP's annual report to members, which summarises the findings of their audit, is attached at Appendix 2.
- 2.5 Accounting adjustments totalling £7.423m have been identified during the audit process. These adjustments are mainly related to the recognition of the amounts held on behalf of the Integration Joint Board (IJB), £7.519m. Adjustments have been made to harmonise the treatment of these funds across both the Council and the IJB's annual accounts, resulting in a reduction in the level of Earmarked Reserves recognised by North Ayrshire Council.
- 2.6 Adjustments have also been made to accounts in relation to the recognition of Personal Protective Equipment and Covid-19 testing kits donated to the Council by NHS Scotland and a minor adjustment to the statutory accounting provision for holiday pay. Neither of these adjustments impacted on the Usable Reserves of North Ayrshire Council. The reported balance of Unearmarked Reserves has remained unchanged at £11.315m.
- 2.7 Pages 10 to 17 of the attached Audit Report (Appendix 2) outline the significant risks and other matters identified in the audit plan for 2020/21 together with the auditor's views of the key judgements and controls in place. These risks relate to:
- Recognition of Covid-19 Related Income; and
  - Management Override of Controls.

The report confirms that no material issues were identified in relation to these matters.

- 2.8 The report notes that final testing of the charitable trust accounts is underway. At the date of issuing the attached report, the auditors confirmed that no issues had been found and that a verbal update will be provided to the Committee.
- 2.9 In addition, in relation to the financial statements, the Audit Report has noted that:
- The Council's Management Commentary has been prepared in accordance with the statutory guidance;
  - The auditable parts of Remuneration Report have been properly prepared in accordance with the regulations; and

- 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.

2.10 It should be noted that the auditor has received a statutory objection to the accounts relating to the Common Good and Trust Funds and has met with the objector to consider the issues and evidence provided. Although a final decision has yet to be issued, no further adjustments to the financial statements are anticipated.

2.11 As well as auditing the financial statements, Deloitte LLP considered the Council's arrangements in relation to the Best Value and the four audit dimensions of financial sustainability, financial management, value for money and governance and transparency. An updated summary of the key conclusions in these areas includes:

#### Financial Management

- The Council continues to have strong financial management arrangements with a strong and consistent financial management team.

#### Financial Sustainability

- The Council continues to have appropriate arrangements in place for updating the medium term position as part of its annual budget process;
- The refresh of the Long Term Financial Outlook is a positive step to enable the Council to manage the financial challenges it faces and post pandemic recovery should continue to remain an area of focus for the Council; and
- The Council has continued to make good progress with transformation.

#### Governance and Transparency

- The Council continues to have strong leadership which has been demonstrated in the collaborative response to Covid-19; and
- The Council continues to be open and transparent.

#### Value for Money

- The Council continues to have a clear and robust performance management framework in place;
- The Council is responding to demand for changes in service delivery as a result of the pandemic; and
- The Council should continue to focus on reducing inequalities through the Equalities Outcomes plan 2021-2025.

#### Best Value

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

2.12 Deloitte LLP's initial report on the Audit Dimensions and Best Value included an update on the progress made against the recommendations contained within the Best Value Assurance Report presented to Council on 23 September 2020. The Final Report notes that progress against these recommendations will be considered as part of the 2021/22 audit

- 2.13 A link to the final audited accounts will be issued to all members for their information.
- 2.14 Representatives from Deloitte LLP will be in attendance at Committee and will present a verbal report highlighting the main findings of the 2020/21 audit.

### **3. Proposals**

- 3.1 It is proposed that the Committee (a) notes the findings of the 2020/21 audit of the financial statements as contained in the External Auditor's annual report at Appendix 2, (b) considers the verbal report by the External Auditor; and (c) approves the audited Annual Accounts for signature.

### **4. Implications/Socio-economic Duty**

#### **Financial**

- 4.1 The financial implications are as outlined within the report.

#### **Human Resources**

- 4.2 None.

#### **Legal**

- 4.3 Under the Local Authority Accounts (Scotland) Regulations 2014 the Council is required to approve the audited Annual Accounts for signature by 30 September 2021

#### **Equality/Socio-economic**

- 4.4 None.

#### **Environmental and Sustainability**

- 4.5 None.

#### **Key Priorities**

- 4.6 This report directly supports the Council Plan 2019 to 2024 by maximising resources and providing value for money to support financially sustainable delivery models.

#### **Community Wealth Building**

- 4.7 None.

## **5. Consultation**

- 5.1 The Chief Executive, Executive Directors and other appropriate officers have been consulted as part of the audit process.

**Mark Boyd**  
**Head of Service (Finance)**

For further information please contact **David Forbes, Senior Manager (Strategic Business Partner)**, on **01294 324551**.

### **Background Papers**

North Ayrshire Council Unaudited Annual Accounts 2020/21 - Council 23 June 2021;  
North Ayrshire Charitable Trusts: Unaudited Trustees' Annual Report 2020/21 – Council 23 June 2021.

External Audit Report on Audit Dimensions and Best Value for 2020/21 – Audit and Scrutiny Committee 1 June 2021

**HEAD OF FINANCE: Mark Boyd**

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Appendix 1



**North Ayrshire Council**  
Comhairle Siorrachd Àir a Tuath

Your Ref: Our Ref: PK/NAC/2021

If telephoning please ask for: Mark Boyd ☎ 01294 324560

27 September 2021

Dear Pat Kenny,

## **NORTH AYRSHIRE COUNCIL AUDIT – YEAR ENDED 31 MARCH 2021**

This representation letter is provided in connection with your audit of the financial statements of North Ayrshire Council ('the entity') for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the entity as of 31 March 2021 and of the results of its operations, other comprehensive income and expenditure and its cash flows for the year then ended in accordance with the applicable accounting framework as interpreted by the directions given by the Auditor General for Scotland ('the Auditor General') in accordance with, Code of Practice on Local Authority Accounting in the United Kingdom.

In addition to the above, this representation letter is provided in connection with your audit of the other information in the Annual Report and Accounts, for the purposes set out in the Code of Audit Practice 2016.

We are aware that it is an offence to mislead an auditor of a public body.

On behalf of the entity, I confirm as Responsible Financial Officer, to the best of my knowledge and belief, the following representations.

### **Financial statements**

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework, as set out in the directions given by the Auditor General for Scotland ('the Auditor General') in accordance with, Code of Practice on Local Authority Accounting in the United Kingdom, which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value and assessing the impact of COVID-19 on the entity are reasonable. We have made sufficient and appropriate disclosure of the general increased estimation uncertainty arising from the impact of COVID-19.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".

4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. There are no uncorrected misstatements and disclosure deficiencies.
6. We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with IAS 1 all matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including principal conditions or events and our plans. We do not intend to cease operations as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. The entity has satisfactory title to all assets and there are no liens or encumbrances on the entity's assets and assets pledged as collateral.
8. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
9. We have reconsidered the remaining useful lives of the property, plant and equipment and confirm that the present rates of depreciation are appropriate to amortise the cost less residual value over the remaining useful lives.
10. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of property, plant and equipment may not be recoverable.
11. With respect to accounting estimates, we confirm:
  - a. the measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently;
  - b. the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;
  - c. the disclosures related to accounting estimates under the entity's applicable financial reporting framework are complete and appropriate; and
  - d. there have been no subsequent events that require adjustment to the accounting estimates and disclosures included in the financial statements.
12. We confirm that we consider the depreciated historic cost is an appropriate proxy for the fair value of non-property assets and are not aware of any circumstances that would indicate that these assets require revaluation.
13. We confirm that the provisions included within the financial statements are our best estimate of the liability due by the entity.
14. We confirm that:
  - a. all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
  - b. all settlements and curtailments have been identified and properly accounted for;

- c. all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
  - d. the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with our best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the entity;
  - e. the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
  - f. the amounts included in the financial statements derived from the work of the actuary are appropriate.
15. We have made the following restatement to correct a misstatement in the prior period financial statements that effect the comparative information: inclusion of North Ayrshire Council's share of the Clyde Valley Waste PFI project.

### **Information provided**

1. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland.
2. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
3. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error. We are not aware of any deficiencies in internal control of which you should be aware.
4. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
5. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
  - we have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
6. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.
7. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
8. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. No other claims in connection with litigation have been or are expected to be received.
9. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.



10. We confirm that:

- we consider that the entity has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and
- we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.
- all minutes of Council and Committee meetings during and since the financial year have been made available to you.
- we have drawn to your attention all correspondence and notes of meetings with regulators.
- we confirm that all of the disclosures relating to sections of the Annual Report and Accounts which are considered 'other information' as set out in the Code of Audit Practice 2016 have been prepared in accordance with relevant legislation and guidance.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

**Head of Finance**

Signed as Responsible Financial Officer, for and on behalf of North Ayrshire Council

**HEAD OF FINANCE: Mark Boyd**

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**North Ayrshire Council**  
Comhairle Siorrachd Àir a Tuath

Your Ref: Our Ref: SA/NACT/2021

If telephoning please ask for: Mark Boyd ☎ 01294 324560

27 September 2021

Deloitte LLP  
1 City Square  
Leeds  
LS1 2AL  
United Kingdom

Dear Sirs,

## **NORTH AYRSHIRE COUNCIL AUDIT – YEAR ENDED 31 MARCH 2021**

This representation letter is provided in connection with your audit of the financial statements of North Ayrshire Council Trust Funds ('the entity') for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements properly present the receipts and payments of the charity as of 31 March 2021 and their statement of balances at that date in accordance with the applicable accounting framework and the Charities and Trustee Investment (Scotland) Act 2005.

We are aware that it is an offence to mislead an auditor of a public body.

On behalf of the entity, I confirm as a Trustee, to the best of my knowledge and belief, the following representations.

### **Financial statements**

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Charities and Trustee Investment (Scotland) Act 2005 which present fairly, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value and assessing the impact of Covid-19 on the entity are reasonable. We have made sufficient and appropriate disclosure of the general increased estimation uncertainty arising from the impact of Covid-19.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. There are no uncorrected misstatements and disclosure deficiencies.

6. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of property, plant and equipment may not be recoverable.

**Information provided**

7. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland.
8. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
9. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error. We are not aware of any deficiencies in internal control of which you should be aware.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
12. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
13. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.
14. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
15. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. No other claims in connection with litigation have been or are expected to be received.
16. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
17. We confirm that:
  - (i) we consider that the entity has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and
  - (ii) we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.
18. All minutes of Council and Committee meetings during and since the financial year have been made available to you.
19. We have drawn to your attention all correspondence and notes of meetings with regulators.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

**Head of Finance**

Signed for and on behalf of the Trustees



# North Ayrshire Council

Report to the Audit and Scrutiny Committee, Members of the Council and the  
Controller of Audit on the 2020/21 audit

Issued on 13 September 2021 for the meeting on 27 September 2021

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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 North Ayrshire Council ("the Council") for the year ending 31 March 2021 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2021.

This report summarises our findings and conclusions in relation to:

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



# Introduction (continued)

## The key messages in this report (continued)

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

### Conclusions from our testing

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

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

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

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

We have identified three adjustments above our reporting threshold of £250k, relating to the treatment of amounts held on behalf of the Integration Joint Board (IJB), the recognition of donated Personal Protective Equipment (PPE) and testing kits and a pension disclosure adjustments, which are included on pages 26 and 27.

### Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Completion of testing on charitable trusts;
- Receipt of assurance from the Pension Fund auditors on asset testing (expected 17 September 2021);
- Finalisation of internal quality control procedures;
- Receipt of final annual accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2021.

### Conclusions on audit dimensions and best value

As set out on page 3, our audit work covered the four audit dimensions. Our separate detailed report presented to the Committee in June 2021 set out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report on pages 20 to 23. Key highlights include:

**Financial Management** – The Council continues to have strong financial management arrangements with a strong and consistent finance team. After earmarking £34.084m to meet future year expenditure requirements, the General Fund reported an in-year underspend of £1.656m. This earmarking was largely assisted by one-off non-recurring funding made available by the Scottish Government for COVID-19 related costs.

**Financial sustainability** – The Council continues to have appropriate arrangements in place for updating the medium-term position as part of its annual budget process. The refresh of the Long Term Financial Outlook (“LTFO”) is also a positive step to enable the Council to manage the financial challenges that it faces and to make well-informed decisions which are aligned to Council strategic priorities. Post-pandemic recovery should continue to remain an area of focus for the Council.

The Council has continued to make good progress during 2020/21 with transformation. In response to the Best Value Assurance Report (BVAR) recommendation, it is positive to see that the Council is developing a Transformation Benefits Realisation Monitoring Framework to provide greater oversight of the transformation activities and the linkages with the budget, Medium Term Financial Strategy (“MTFS”) and LTFO.



# Introduction (continued)

## The key messages in this report (continued)

**Governance and transparency** –The Council continues to have strong leadership which has been demonstrated in the collaborative response to COVID-19 in working closely with partners. The Council also continues to be open and transparent.

**Value for money** –The Council continues to have a clear and robust performance management framework in place This also includes arrangements to comply with new SPI Direction.

We are pleased to see that the Council are responding to demand for changes in service delivery as a result of the pandemic. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery. This should also continue to focus on reducing inequalities in North Ayrshire through the Equality Outcomes plan 2021-25

**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 our wider scope report, including a follow-up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2021/22 audit.

### Added value

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

This is provided throughout the report. In addition, we have included our “sector developments” within our wider scope report in June 2021 where we have shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council.

During the year, we have also held regular discussions with management the topics of discussion included in particular the impact of COVID-19 on the organisation, treatment of additional funding and national guidance issued.

**Pat Kenny**  
**Audit Director**

# Annual accounts audit



# Quality indicators

## Impact on the execution of our audit

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

Area	Grading	Reason
Timing of key accounting judgements	●	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 the majority of 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 the 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	●	On the whole, documentation provided has been of a high standard. Working papers were generally clear and reconcilable to the Annual Accounts. This is borne out by the resubmission rate on requests for the audit being low, at 7%.
Quality of draft Annual Accounts	●	A full draft of the Annual Accounts was received for audit on 25 June 2021. We identified minimal changes which were required.
Response to control deficiencies identified	●	We did not identify any control deficiencies during our audit.
Volume and magnitude of identified errors	●	We have identified three financial and disclosure misstatements which are detailed on pages 26 - 27. These relate to the treatment of amounts held on behalf of the IJB, the recognition of donated PPE and testing kits and a pension disclosure adjustment. The IJB adjustment was unique this year due to the underspends achieved and the PPE and testing kits arose as a result of late guidance from the Scottish Government. They are therefore not indicative of the quality of the draft Annual Accounts.



Lagging



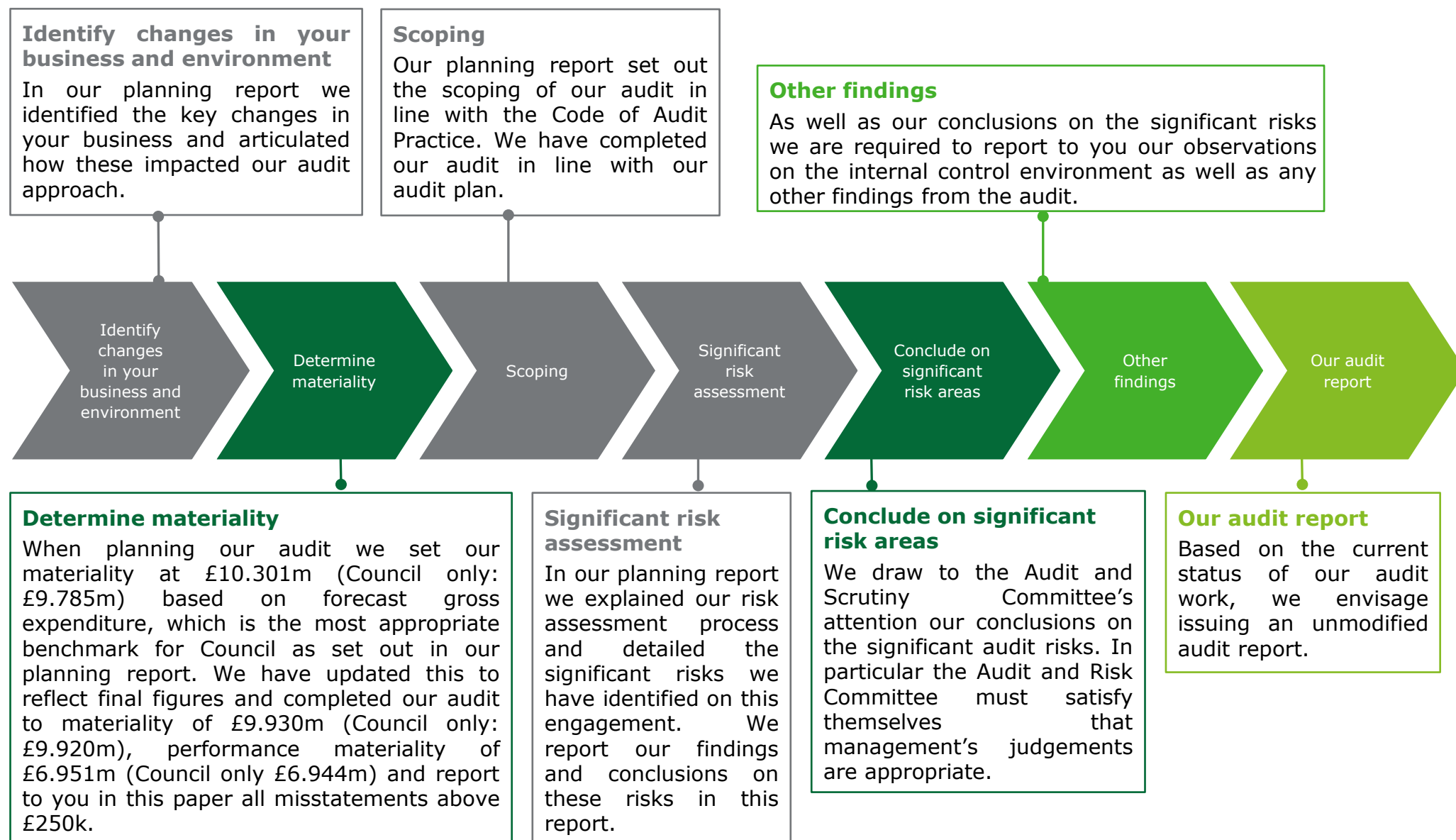
Developing



Mature







# Our audit explained

We tailor our audit to your business and your strategy



# Significant risks

## Dashboard

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

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

# Significant risks (continued)

## Recognition of COVID-19 related income



### Risk identified and key judgements

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

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2020/21, the Council has received additional funding in relation to COVID-19 mobilisation costs. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that have been 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
- Test 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 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and
  - The net cash position at 31 March 2021 is included in the financing activities in the Cash Flow Statement.

### Deloitte view

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. Given the significance and change in the year, the funding has also been appropriately explained within the Management Commentary and the notes to the accounts.



# Significant risks (continued)

## Management override of controls



### Risk identified

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

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



### Deloitte response and challenge

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

#### Journals

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

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

### Accounting estimates and judgements

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

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

### Significant and unusual transactions

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

#### Deloitte view

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

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

# Significant risks (continued)

## Management override of controls (continued)

### Key judgements

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

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property valuations	<p>The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value.</p> <p>The Council has had an independent valuation carried out at 31 March 2021 by its internal valuers to include valuation of 20% of all of the Council's land and property in accordance with its 5-year rolling programme. The Council has also updated its valuation of its Council Dwellings during the year.</p> <p>The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards, The Council's revaluation has resulted in a net upward valuation to property values of £46.766m. The most significant movement was with the Council Dwellings, which had a net increase of £51.7m.</p>	<p>We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Estate, reviewed the methodology applied by the Council's valuer in previous years and concluded it was robust. We have confirmed that the valuer and the methodology applied has not changed in the year.</p> <p>We have challenged management assessment and consulted with our internal property experts. For those valued on Existing Use Value on a market comparable basis, our property experts have confirmed that minimal market value would be expected in 2020/21. For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we have performed an analysis of changes in the Build Costs Information Service (BCIS) index and concluded that no material movement would be expected. We are therefore satisfied that there is no indication of a material movement in assets not formally revalued during the year.</p> <p>We have reviewed the valuers report, specifically in relation to the impact of COVID-19. The valuer has confirmed that the valuation is not reported as being subject to 'material valuation uncertainty'. This is in line with our expectation and in line with the RICS guidance at 31 March 2021.</p>



# Significant risks (continued)

## Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Private Finance initiatives ('PFI') and similar contracts	<p>The Council currently has 3 PFI or similar contracts relating to:</p> <ul style="list-style-type: none"> <li>• North Ayrshire Council Schools PPP Contract</li> <li>• Largs Campus DBFM Contract</li> <li>• Clyde Valley Waste Contract.</li> </ul> <p>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.</p> <p>The Clyde Valley Waste has been included as a prior year adjustment as the information was not available from the administering authority in 2019/20. North Ayrshire Council has a 17% share in the contract.</p>	<p>We obtained and assessed the initial PFI agreements in place and reconciled to the payment schedules for each model. We have conducted a retrospective review of the prior year liability to assess accuracy, and have challenged any changes made to the model. We have assessed the value of the underlying buildings through our Valuations work.</p> <p>We have assessed the prior year adjustment processed for Clyde Valley as appropriate although note the value was immaterial.</p> <p>We are satisfied that the PFI liability recognised in the accounts is in line with the models and there is no indication of management bias.</p>
Provisions	<p>The total provisions held within the Council's balance is immaterial, at £1.3m. This comprises a number of individually immaterial provisions, including:</p> <ul style="list-style-type: none"> <li>• £0.533m in relation to landfill site restoration;</li> <li>• £0.262m in relation to termination benefits;</li> <li>• Other smaller provision in relation to equal pay, employee costs of paid absences, teachers maternity pay and potential liabilities to meet expenditure incurred in respect of the former Cunninghame District Council and Strathclyde Regional Council</li> </ul>	<p>We examined the rationale for each provision, including a retrospective review of amounts provided in 2019/20. We have consulted with the Council's legal experts to confirm completeness of the provisions.</p> <p>In relation to the provision for equal pay, we have challenged the completeness of the provisions made through review and discussion with the Council's legal advisors and benchmarked with our industry knowledge.</p> <p>We concluded that the provisions made were reasonable.</p>

# Other areas of audit focus

## Defined benefits pension scheme



### Background

The Council participates in two defined benefits schemes:

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

The net pension liability has increased from £122.116m in 2019/20 to £180.577m in 2020/21. The increase is combination of an increase of £213.562m in the fair value of the assets and an increase of £272.023m the liabilities as a result of demographic changes and financial assumptions.

The Council's pension liability continues to be affected by the following legal cases:

- **McCloud** – this case is in respect of possible discrimination in the implementation of transitional protections following the introduction of the reformed public services pension schemes from 1 April 2014 and 2015. The actuary has advised that an estimated allowance for McCloud has been included within the current service cost, consistent with the prior year. There is still uncertainty about the form of compensation that will be provided to members and therefore the final actual cost of complying with the ruling may be different to the estimate.
- **Goodwin** – this is a legal challenge made against the Government in respect of unequitable benefits for make dependants of female members (based on service after 1988) following the earlier Walker ruling. The 31 March 2020 triennial funding valuation did not allow for the impact of Goodwin, therefore the Council's actuary has used the same percentage allowance that was used last year (0.1% of the liability).

### Deloitte response

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

	Council	Comments
Discount rate (% p.a.)	2.0	Prudent and reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.9	Prudent end of reasonable range
Salary increase (% p.a.)	3.6	Real salary increases 1.1% above CPI inflation
Pension increase in payment (% p.a.)	2.9	Reasonable
Pension increase in deferment (% p.a.)	1.9	Reasonable
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65)	19.8/ 22.6	Prudent
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	21.2/ 24.7	Prudent

### Deloitte view

We are awaiting receipt of assurance from the Pension Fund auditors on asset testing. We are also awaiting final reports from our internal pension specialists, however, we do not anticipate any material issues arising based on the work performed to date.

# Other areas of audit focus (continued)

## Expenditure recognition

### Risk identified

In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, as discussed further on page 12, 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 42,849 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 4,902 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	£250.24
Average number of invoices processed per month	5,431
Number of invoices that would need to be unrecorded to cause a material misstatement	42,849
Total invoices processed in April 2021 (one month after year-end)	4,902 (total value £24m)

### 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.

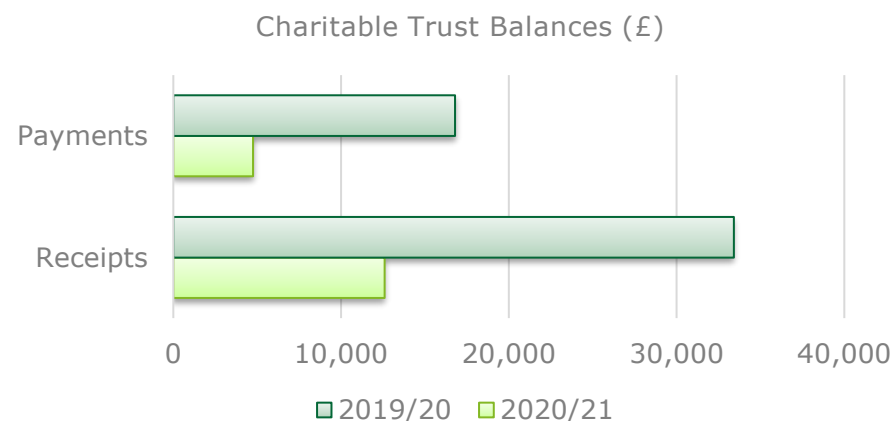
As the gross income of each of the Trusts is less than £100,000, the Council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with The Charities Accounts (Scotland) Regulation 2006. Fully compliant Charities SORP accounts are therefore not required and 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 dropped from £33,413 in 2020/21 to £4,759 in 2020/21. This is largely due to the impact of the COVID-19 pandemic.



### Deloitte view

Our testing of the charitable trusts is ongoing, but no issues identified to date. We anticipate issuing an unmodified opinion.

# Other significant findings (continued)

## Financial reporting findings

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

### Qualitative aspects of your accounting practices:

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

### Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation. In particular, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) guidance on accounting for Personal Protective Equipment (PPE) COVID-19 suggests that the Council is acting as principal regarding the PPE transactions and therefore should recognise any income, expenditure, or stocks of PPE. This was discussed with management and confirmed that this guidance has been followed.

### 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.

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

# Our audit report

## Other matters relating to the form and content of our report

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



### **Our opinion on the Annual Accounts**

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



### **Material uncertainty related to going concern**

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

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



### **Emphasis of matter and other matter paragraphs**

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

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



### **Other reporting responsibilities**

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

Our opinion on matters prescribed by the Controller of Audit as discussed further on page 19.

# Your Annual Report

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

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



# Audit dimensions and best value





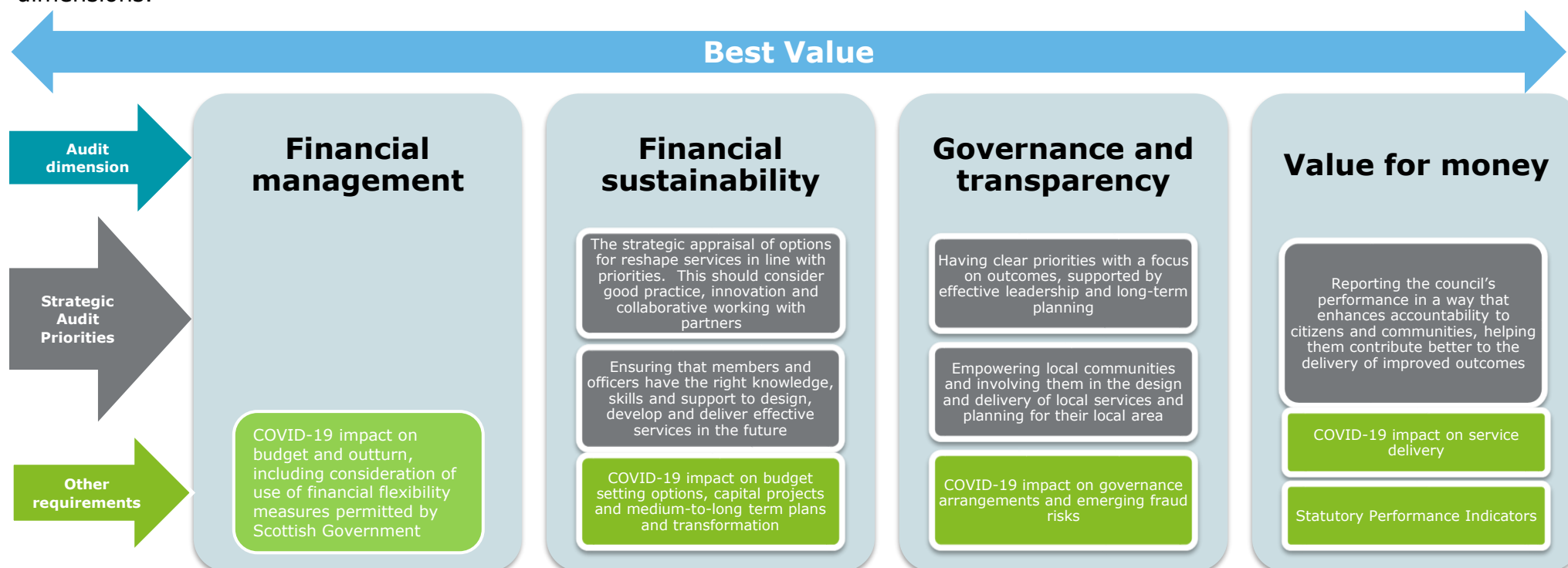
# Audit dimensions and best value

## Overview and conclusions

As set out in our audit plan and separate report on the “Audit Dimensions and Best Value” presented to the Committee in June 2021, public audit in Scotland is wider in scope than financial audits. Our separate report sets out our findings and conclusions on our audit work covering the areas set out below. Our report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on Best Value, the Accounts Commission’s **Strategic Audit Priorities (SAPs)** and the **Statutory Performance Information (SPI)** Direction.

The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. Our audit work across each dimension has therefore been specifically focussed on how the Council has responded to these risks.

In recognition of the demands on auditors’ time and the challenges of remote auditing, the Commission agreed that auditors are not required to specifically consider and report on the SAPs as part of the 2020/21 audit. The SAPs continue to be important but the work on the audit dimensions will be used to inform progress. We have therefore set out below how each SAP inter-relates to the audit dimensions.



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

# Audit dimensions and best value (continued)

## Overview and conclusions (continued)

### Financial management

The Council continues to have strong financial management arrangements which are robust enough to manage financial activity and capture and address any challenges to the achievement of financial targets. The General Fund achieved an underspend of £1.656m. While the Council continues to engage with COSLA and the Scottish Government in relation to the financial flexibilities available to address the impact of the COVID-19 pandemic, these were not used in 2020/21.

The capacity of the finance team has remained consistent during the year and is sufficient to support the Council's financial management arrangements. The internal audit programme has been impacted to a limited extent due to the COVID-19 pandemic. Of particular note is the additional work carried out in relation to COVID-19 funding to check for duplicate payments in response to the increased fraud risk in this area.

### Financial sustainability

As discussed above, the Council achieved a small underspend in 2020/21 and has set a balanced budget for 2021/22. The current reserves held are at an acceptable level, albeit towards the lower end of the Reserves Policy range. While the reserves balance is projected to increase, the majority is earmarked for specific purposes. It is positive to note the increased commitment to the Investment Fund to support sustainable investment. We are therefore satisfied that the Council is financially sustainable in the short-term.

It is positive to note that the Council has res-assessed its medium and long term financial planning to take into consideration the impact of COVID-19 and has a clear picture of the financial challenges it faces. It is also positive to note that the 10 year funding gap has reduced slightly from that previously estimated in 2017. However, the cumulative funding gap of £120m over the next 10 years, with £40m over the next three years, remains a significant risk. It is also recognised that the long-term impact of COVID-19 is not yet known. Details plans need to be developed to identify how the Council plan to bridge this gap.

The Council has continued to make good progress during 2020/21 with transformation, in particular the development of the Recovery and Renewal Strategy and Renewal Programme in response to the COVID-19 pandemic. We are also pleased to note that a comprehensive Transformation Benefits Realisation Monitoring Framework has been developed, as recommended in the BVAR audit report, and a clear set of governance arrangements are in place. It is important that this is fully embedded and actively used as the Renewal Programme is implemented. It is also critical that the projects within the Renewal Programme are progressed at pace given the financial challenges faced over the medium and longer term.

It is also positive that the Council has started to consider the impact COVID-19 has had on the workforce via the Future Working Environment project and is actively engaging with staff as part of this. We are also pleased to note that work is progressing in response to the recommendation made in the BVAR audit to align service workforce plans to the transformation projects.

# Audit dimensions and best value (continued)

## Overview and conclusions (continued)

### Governance and transparency

The Council continues to have strong leadership and the transition of the posts during the year went smoothly. Strong leadership has been demonstrated in the collaborative response to COVID-19 in working closely with partners, including the Council, Health Board, third sector, volunteers and private providers.

The Council continues to be open and transparent with meetings open to the public via live webcasting and recordings made available through the Council's website.

The Council has continued to exercise sufficient oversight and scrutiny of the HSCP's activities. The IJB has made some good progress during the year, continuing to achieve financial balance, and drive forward transformational change. The risks of COVID-19 on both the financial position and financial sustainability of the services will remain ongoing. It is therefore critical that the planned comprehensive review of the IJBs MTFP and strategic commissioning plan during 2021 and 2022 is progressed.

### Value for money

The Council continues to have a clear and robust performance management framework in place through the LOIP. In line with best practice, its performance measures align to the National Performance Framework.

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

We are pleased to see that the Council are responding to demand for changes in service delivery as a result of the pandemic. Whilst performance has kept level with the 2019/20 performance, it is important to view this in light of the challenges faced by the Council as a result of the COVID-19 pandemic. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery.

The Council has clear strategies in place for progressing the equalities agenda, including an updated Equality Outcomes plan for 2021-25 and equalities built into the Council Plan and performance measures.

### **Best value**

It is the duty of the Council to secure Best Value as prescribed in Part 1 of the Local Government in Scotland Act 2003. We have a statutory duty to be satisfied that the local government bodies have made proper arrangements for securing BV.

Based on our audit work performed on the four audit dimensions, we are satisfied that the Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the 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.

### The scope of our work

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

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

### Use of this report

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

### What we don't report

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

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

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

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



**Pat Kenny, CPFA**

**For and on behalf of Deloitte LLP**

Glasgow | 13 September 2021

# Appendices



# Audit adjustments

## Corrected misstatements

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

	(Debit)/Credit Comprehensive Income and Expenditure Statement (CIES) £m	Debit/(Credit) in Net Assets £m	Debit/(Credit) prior year Reserves £m	Debit/(Credit) in MIRS £m	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>					
IJB Creditor adjustment [1]	(7.519)	7.519	-	-	N/A
PPE and Testing Kit adjustments [2]	-	-	-	-	N/A
Holiday Pay accrual [3]	0.096	(0.096)	(0.096)	0.096	N/A
<b>Total</b>	<b>7.423</b>	<b>7.423</b>	<b>(0.096)</b>	<b>0.096</b>	

[1] During the audit we identified that the amounts held by the Council on behalf of the IJB were recognised in reserves in both the IJB and Council accounts. An adjustment has therefore been made to recognise this as a Creditor within the Council accounts, on the basis that the amounts are due to the IJB.

[2] During the audit, the Scottish Government and Audit Scotland finalised the guidance in relation to the accounting for Personal Protective Equipment and COVID-19 testing kit usage by Council's and HSCPs including the determination of principal and agency transactions. As a result an adjustment was required to recognise donated stocks of £1.409m with £0.905m having been utilised in year. This has an overall nil impact as is recognised within the "Donated Inventories Account".

[3] An error of £96,000 was identified in the holiday pay accrual, being a balance incorrectly carried forward from 2016/17 in relation to flexi-leave. While the value is immaterial and below our reporting threshold, the Council has chosen to make this adjustment, therefore we have included in the above for completeness.



# Audit adjustments (continued)

## Disclosures

### Disclosure misstatements

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

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<i>Transactions relating to post-employment benefits</i>  <i>During the audit we identified that the MIRS adjustments had not been split between net charges and actuarial gains/(losses) in the supporting note, although this had been correctly presented within the MIRS</i>	To separately identify the actuarial gains/(losses) on the pension scheme assets/(liabilities)	Both Qualitative – significant difference in the type of transactions and Quantitative - £37m of £58m MIRS adjustment

# Our other responsibilities explained

## Fraud responsibilities and representations



### **Responsibilities:**

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

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



### **Audit work performed:**

In our planning we identified the risk of fraud in relation to recognition of grant income and management override of controls as a key audit risk for your organisation.

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

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



### **Required representations:**

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

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



# Independence and fees

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

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## Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and our objectivity is not compromised.

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## Fees

The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £310,320, as analysed below:

	£
Auditor remuneration	190,150
Audit Scotland fixed charges:	
Pooled costs	18,080
Contribution to PABV	91,630
Audit support costs	10,460
<b>Total fee</b>	<b>310,320</b>

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

We have still to assess any impact the additional testing as a result of COVID-19. Once completed, we will discuss any impact on the fee with management.

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

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## Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

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## Relationships

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.



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