

East Renfrewshire Council

2020/21 Annual Audit Report



 AUDIT SCOTLAND

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

November 2021

Contents

Key messages	4
Introduction	6
1. Audit of 2020/21 annual accounts	9
2. Financial management	18
3. Financial sustainability	24
4. Governance and transparency	26
5. Best Value	29
Appendix 1	35
Appendix 2	45
Appendix 3	50

Key messages

2020/21 annual accounts

- 1 Our audit opinions on the annual accounts of the Council and its group are unqualified and unmodified and confirm that the 2020/21 Financial Statements present a true and fair view of the financial activities of the Council and its Group. Similarly, our audit opinion on the section 106 charities administered by the Council is also unqualified and unmodified.
- 2 Covid-19 created additional challenges for both Council and audit staff, with key dates in the financial reporting process updated to reflect the revised statutory deadlines. These revised deadlines have been achieved.

Financial management and sustainability

- 3 The Council has appropriate and effective financial management. An underspend against budget was reported in 2020/21 after a decision to restrict non-essential expenditure in-year to ensure appropriate funds were available to cover the financial pressures arising from Covid-19. Covid-19 pressures were met through Scottish Government funding.
- 4 The council's general fund balance increased significantly during the year. At 31 March 2021, the non-earmarked balance of £11.670 million of reserves is 4.5% of the annual budgeted net revenue expenditure. This is above the Council's target of 4%.
- 5 Medium-term financial plans are aligned to the Council's corporate priorities and demonstrate future financial challenges and the associated impact.
- 6 The financial consequences of Covid-19 are continuing to emerge. The Council will need to continue to refine the medium-term financial plan as more clarity on the impacts of Covid-19 become evident and to ensure the financial impacts of the Modern Ambitious Programme are fully reflected.
- 7 Systems of internal control operated effectively in 2020/21 with some scope for improvement noted.

Governance and transparency

- 8 The Council has appropriate governance arrangements in place and emergency arrangements implemented at the start of the pandemic were appropriate.

- 9** The Council demonstrates its commitment to conducting its business in an open and transparent manner through the recording of committee meetings and availability of information through the Council website.

Best Value

- 10** The Council has an appropriate and effective best value framework in place.
- 11** Follow up work around best value findings from prior years including equality training, accommodation strategy and transformation projects has progressed.
- 12** The Council continue to perform strongly in comparison to other Councils. However, service performance levels in 2020/21 were impacted by Covid-19. Work is now underway to re-establish performance baselines for 2021/22 onwards.

Introduction

1. This report summarises the findings arising from the 2020/21 audit of East Renfrewshire Council (the Council) and its group.
2. The scope of the audit was set out in our 2020/21 Annual Audit Plan presented to the 29 April 2021 meeting of the Audit and Scrutiny Committee. This report comprises the findings from:
 - an audit of the annual accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) namely, financial management, financial sustainability, governance and transparency and value for money.
3. The main elements of our audit work in 2020/21 have been:
 - an audit of the annual accounts of the Council and its group including the statement of accounts of the seven section 106 charities administered by the Council and the issue of independent auditor's reports setting out our opinions
 - a review of the Council's key financial systems
 - audit work covering the Council's arrangements for securing best value relating to the follow up of points arising from the Council's BVAR. Our work included a review of progress in equality training, accommodation strategy and the transformation programme
 - consideration of the four audit dimensions.
4. The global coronavirus pandemic has had a considerable impact on East Renfrewshire Council during 2020/21. This has had significant implications for the services it delivers. Risks related to the pandemic were included in our annual audit plan, and we have adapted our planned work to address any new emerging risks.

Adding value through the audit

5. We add value to the Council through the audit by:
 - regularly meeting with management to discuss current issues and share knowledge and insights from the wider public sector
 - identifying and providing insight on significant risks, and making clear and relevant recommendations

- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

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

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

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

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

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

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

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

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

Auditor Independence

13. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £237,580 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

1. Audit of 2020/21 annual accounts

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

Main judgements

Our audit opinions on the annual accounts of the Council and its group are unqualified and unmodified and confirm that the 2020/21 Financial Statements present a true and fair view of the financial activities of the Council and its Group. Similarly, our audit opinion on the section 106 charities administered by the Council is also unqualified and unmodified.

Covid-19 created additional challenges for both Council and audit staff, with key dates in the financial reporting process updated to reflect the revised statutory deadlines. These revised deadlines have been achieved.

Our audit opinions on the annual accounts are unmodified

15. The accounts for the Council and its group for the year ended 31 March 2021 were approved by the Audit and Scrutiny Committee on 25 November 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the Council and its group as at 31 March 2021 and of the income and expenditure of the Council and its group for the year then ended
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

The annual accounts were signed off in line with the timescales permitted to reflect Covid-19

16. As a result of the continuing impact of Covid-19 the submission deadlines for Local Government audited annual accounts and annual audit reports have been set at 30 November 2021.

17. Remote working continues to bring additional challenges to the audit process. This affected how we were able to work as an audit team and with Council staff. Our planned audit work has adapted to new emerging risks as

they relate to the audit of the financial statements and the wider dimensions of audit.

18. The unaudited annual accounts and supporting working paper package were received in line with our agreed audit timetable on 24 June 2021. Finance staff provided good support to the audit team and all working papers were provided electronically. Working arrangements with officers continue to be reviewed to deliver an efficient and effective audit that meets our quality standards. Despite these challenges we were able to deliver the audit in line with the revised statutory deadline.

Our audit opinions on Section 106 charities were unmodified

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

20. We noted that there are two charitable trusts that did not disburse any funds in 2020/21 or on the preceding six years - The Lieutenants Duff Memorial Institute and The Endowment for Talented Children and Young People.

21. The Lieutenants Duff Memorial Institute was set up for the provision of a building to house the Busby School District library and fund repairs to the building as required. There have been discussions around planned expenditure from this trust fund, however, progress has been delayed due to the impact of Covid-19.

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

23. Our audit opinions on the Section 106 charities are unmodified and confirm that the 2020/21 financial statements present a true and fair view of the financial activities of the Section 106 charities.

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

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

25. These were approved by the Council on 25 November and signed by the statutory deadline of 30 November.

There were no objections raised to the annual accounts

26. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations. There were no objections to the 2020/21 accounts.

Work on the assurance statement for the Whole of Government Accounts has been delayed

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

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

29. The National Audit Office has advised that due to the late completion of the 2019/20 Whole of Government Accounts (WGA) for all bodies, the process for 2020/21 is running late. HM Treasury has advised that the OSCAR system will not be open for 2020/21 submissions before December 2021. The 2020/21 WGA component data will therefore not be available for auditors to review until after that. Group Audit Instructions from the NAO and the timetable for 2020/21 will follow any changes the Treasury make to the Data Collection Tool (DCT) and process.

30. We will work with the Council to progress the audit of the 2020/21 return when the issues at a UK level are resolved.

Overall materiality is £3.7 million

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

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

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

Exhibit 1

Materiality values for the East Renfrewshire Council and its Group

Materiality level	Council	Group
Overall materiality	£3.7 million	£4.1 million
Performance materiality	£2.2 million	£2.5 million
Reporting threshold	£180 thousand	£205 thousand

Source: Audit Scotland Annual Audit Plan 2020/21

Appendix 2 identifies the main risks of material misstatement and our audit work performed to address these

34. [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

Significant findings to report on the annual accounts

35. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

36. Where we have identified misstatements in the accounts, we have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. It is our responsibility to request that all misstatements, other than those below the reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

37. Our audit identified four significant adjustments which cumulatively exceeded our materiality level of £3.7 million. In addition, our audit identified a prior year re-classification within expenditure totalling £2.253 million and two non-significant adjustments which were significantly below our materiality level. The overall impact of these adjustments on the annual accounts was an increase in the total comprehensive income and expenditure and a corresponding reduction in total reserves of £0.085 million. Management have

agreed to correct all misstatements and there are no uncorrected errors arising from our audit.

38. [Exhibit 2](#) below summarises the significant findings from our audit split between those that required adjustments to the accounts and those which are non-adjusting. The non-significant adjustments are detailed after [Exhibit 2](#) in paragraph 39.

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
Non-Adjusting Finding	
<p>1. Valuer Report</p> <p>The non-current asset valuation within the annual accounts is supported by workings from the valuer. The valuation documentation could be further enhanced to support the disclosures in the accounts and the annual audit process through the preparation of an annual valuation report outlining</p> <ul style="list-style-type: none"> • the assets revalued in year • the methodology applied to the exercise • the total valuation amount reflected within the annual accounts and • details of compliance with industry standards. 	<p>We recommend that a valuation report is prepared by the Council’s valuer on an annual basis outlining the details of the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme.</p> <p>Recommendation 1</p> <p>(see below and refer Appendix 1, action plan point 1)</p>
<p>2. Governance Statement</p> <p>The annual governance statement forms an integral part of the annual accounts. Responsibility for the preparation of the annual governance statement changed this year and our review of the unaudited statement noted a number of refinements required to ensure that:</p> <ul style="list-style-type: none"> • a governance focus was maintained • information provided by Council directors through their completed assurance statements was fully reflected • the statement reflected the changes to the internal audit plan during the year 	<p>Review and refine the project plan for the delivery of the unaudited Annual Governance Statement to ensure the statement is delivered within agreed timescales and to the appropriate standard.</p> <p>Directors should ensure that their assurance statements are completed comprehensively, within the required timeframe and to appropriate quality standards for review and consideration prior to the drafting of the governance statement.</p> <p>Recommendations 2 and 3</p> <p>(see below and refer Appendix 1, action plan point 2)</p>

Issue	Resolution
<ul style="list-style-type: none"> updates were provided for actions not progressed. <p>Furthermore, the assurance statements provided by directors to support the annual governance statement contained varying levels of detail.</p>	
Adjusting Finding	
<p>3. Capitalisation of staff costs</p> <p>Directly attributable staff costs are part of the cost of a capital asset and should not be reflected within the total staff costs within the Comprehensive Income and Expenditure Statement. From discussions with officers, we noted that all staff costs, whether capital or revenue in nature, are included within the Comprehensive Income and Expenditure Statement (CIES). The CIES is a revenue statement and should not include capital costs.</p> <p>The Council are able to identify the capital costs and whilst the current arrangements in place are reasonable for internal reporting, to ensure compliance with the Code of Practice on Local Authority accounting the capitalised staff costs need to be removed from the revenue account. The Council should incorporate a process to re-allocate capitalised costs for the purposes of the annual accounts.</p>	<p>The financial statements have been adjusted to account for the capitalisation of staff costs. This adjustment resulted in £2.323 million of staff costs being removed from revenue staff costs and recognised within the accounts as capital costs.</p> <p>Recommendation 4 (see below and refer Appendix 1, action plan)</p>
<p>4. Personal Protective Equipment</p> <p>East Renfrewshire Council received £0.912 million of personal protective equipment (PPE) from Scottish Government via National Services Scotland during the pandemic to support front line services.</p> <p>The Council are unable to account for how the PPE was used but it appears that this was distributed to local businesses due to a lack of storage capacity within the Council. Therefore, this should be included as an agency disclosure within the annual accounts.</p>	<p>The PPE of £0.912 million has been included within the agency note within the financial statements.</p> <p>Learn the lessons from the PPE experience to review and assess stock control/distribution processes and transparency of decision making with a view to improving control over provision of equipment and avoiding duplicate purchasing.</p> <p>Recommendation 5 (see below and refer Appendix 1, action plan)</p>

Issue	Resolution
<p>The Council procured its own PPE at a cost of £1.05 million during 2020/21. Furthermore, it is not clear at what level the decision to distribute the PPE to local businesses was taken.</p>	
<p>5. Misclassification of asset as asset under construction</p> <p>As part of our work on non-current assets we review a sample of assets categorised as assets under construction. These are assets that are still under construction and are not yet operational and as such are not subject to depreciation charges.</p> <p>We identified that within assets under construction there was £3.753 million relating to Balgraystone Road which became operational during 2020/21.</p> <p>The Council agreed to move the asset from assets under construction to infrastructure assets.</p>	<p>This was corrected within the audited accounts.</p>
<p>6. Miscoded receivables from related parties</p> <p>As part of the audit, we queried variances in short term debtors and creditors. There were a number of mis-postings between accounts including:</p> <ul style="list-style-type: none"> • miscoding of £4.401 million of receivables from related parties in short term creditors which included a miscoding of prepayments of £0.398 million relating to DWP housing benefit • miscoding of ICT prepayments and CCS prepayments totalling £1.468 million within short term creditors. <p>The impact of these coding errors resulted in an increase of receivables to related parties by £4.401 million and decreases in short term creditors for prepayments of £4.401 million which included the £0.398 million noted above.</p> <p>An increase in prepayments of £1.468 million and a corresponding decrease in short term creditors.</p>	<p>This was corrected within the audited accounts.</p>

Source: Audit Scotland

Recommendation 1

The Council's valuer prepares a valuation report on an annual basis outlining the details of the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme.

Recommendation 2

Review and refine the project plan for the delivery of the unaudited Annual Governance Statement to ensure the statement is delivered within agreed timescales and to the appropriate standard.

Recommendation 3

Directors should ensure that their assurance statements and certificate are completed comprehensively, within the required timeframe and to appropriate quality standards for review and consideration prior to the drafting of the governance statement.

Recommendation 4

Develop a process to support year-end reporting requirements for the allocation and recognition of capitalised staff costs within the financial statements

Recommendation 5

Learn the lessons from the PPE experience to review and assess stock control/distribution processes and transparency of decision making with a view to improving control over provision of equipment and avoiding duplicate purchasing.

39. In addition to the significant adjustments detailed in [Exhibit 2](#) our audit also identified two non-significant adjustments to the accounts. The first, relates specifically to the Housing Revenue Account whereby the Council had removed £408k from HRA rental income due to an identified error with income received from DWP in relation to universal credit. This was included within the accounts as a creditor, however, following discussions between audit and finance officers, this has been disclosed as a provision instead of a creditor. This results on a nil impact within the balance sheet. The second relates to a re-classification of £0.288 million of funding due to updated LASAAC guidance issued after the preparation of the annual accounts.

Progress was made on prior year recommendations

40. The Council has made progress on our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

The Council has appropriate and effective financial management. An underspend against budget was reported in 2020/21 after a decision to restrict non-essential expenditure in-year to ensure appropriate funds were available to cover the financial pressures arising from Covid-19. Covid-19 pressures were met through Scottish Government funding.

The Council's general fund balance increased significantly during the year. At 31 March 2021, the non-earmarked balance of £11.670 million of reserves is 4.5% of the annual budgeted net revenue expenditure. This is above the Council's target of 4%.

Systems of internal control operated effectively in 2020/21 with some scope for improvement noted.

The Council reported a surplus but the Covid-19 pandemic had a significant impact on the 2020/21 financial year

41. The impact on public finances of the Covid 19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

42. The Covid-19 pandemic had a significant impact on East Renfrewshire Council's 2020/21 budget, and all Council services generally. It has also impacted on the Council's ability to deliver objectives and brought new work streams to the Council as it works to find a 'new normal'.

43. The Council approved its 2020/21 budget in February 2020 together with its financial planning 2020-2026 report. The budget was set at £251.882 million with savings required totalling £18.059 million.

44. There were additional cost pressures as a result of Covid-19. These include additional costs such as personal protective equipment, lost Council income and additional staff costs to address the pandemic. This resulted in pressures of £14.4 million which were fully funded by the Scottish Government.

45. By the end of the year total approved budgeted expenditure, including additional funding, was £259.990 million. There was an overall surplus of £15.8 million at the end of March 2021. This relates mainly to an increase in unspent grants as the Council ceased all non-essential spend during the year. Full grant funding for 2020/21 Covid-19 pressures was confirmed towards the end of the financial year. Therefore, an element of grant funding will be carried forward to assist with Covid-19 pressures in 2021/22.

46. In addition, the Council administered the distribution of £20.2 million of Covid-19 grants to local businesses and residents during 2020/21. These included business support grants, hardship payments, the transitional support scheme, temporary restriction funds and self-isolation support. There was an agency arrangement between the Council and the Scottish Government in the administration of these grants.

The Council underspent against their planned outturn position and General Fund reserves significantly increased

47. One of the key measures of the financial health of an organisation is the level of reserves held. The level of usable reserves held by the Council was relatively stable between 2018/19 and 2019/20 with a slight increase of £0.5 million to £44.2 million. However, the usable reserve position has increased to £60.3 million at 31 March 2021.

48. [Exhibit 3](#) shows reserve movements and year end balances for 2020/21 to illustrate where the most significant reserve movements are attributed.

Exhibit 3 Movements in useable reserves in 2020/21

	Opening £m	Used £m	Added £m	Closing £m
General Fund (Non-earmarked)	(9.643)	16.165	(18.192)	(11.670)
General Fund (Earmarked)	(31.461)	26.289	(42.092)	(47.264)
Housing Revenue Account	(2.316)	95	-	(2.221)
Capital Reserve	(2.656)	-	(12)	(2.668)
Capital Grants and Receipts Unapplied Account	-	-	(1.920)	(1.920)
Repairs and Renewal Fund	(5.829)	2.011	(0.418)	(4.236)
Insurance Fund	(1.960)	-	(9)	(1.969)
Total	(44.222)	28.395	(44.451)	(60.278)

Source: Audited Accounts 2020/21

49. Increases were noted in both the earmarked and non-earmarked general fund reserves during the year. Budget monitoring reports throughout the year outlined uncertainties around the level of Covid funding that may be received. Action was taken to avoid all non-essential expenditure and maintain directorate expenditure within budget. The control of in-year expenditure contributed to £2.027 million and accounts for the total increase in the non-earmarked general fund reserve. Covid funding awarded to the Council in 2020/21 covered Covid pressures in-year and £12.815 million of unspent Covid grants have been earmarked within the general fund as 'unspent Covid grants and will be carried forward to address pressures in 2021/22. Due to the additional Covid funding and the controlled in-year expenditure, the budgeted drawdown on reserves of £3.5 million was not required.

50. The general fund reserve is the largest reserve, with a balance of £47.264 million. Although the general fund reserve has no restrictions on its use, £35.594 million has been ring-fenced for future expenditure plans including £12.815 million specifically for Covid-19 recovery which arose due to additional funding from Scottish Government.

51. The Council's reserve strategy considers the level of non-earmarked general fund reserves as a percentage of the annual budgeted net revenue expenditure. At 31 March 2021, the balance of £11.670 million of reserves is 4.5% of the annual budgeted net revenue expenditure. This is broadly in-line with the Council's target of 4%.

52. In previous audit reports we have recommended improvements to budgeting and forecast reporting arrangements within the Council due to consistent underspends against budget. An underspend was achieved in 2020/21 and planned utilisation of reserves was not required due to the impact of Covid-19 and decisions made to constrain expenditure levels. This was reported through budget monitoring arrangements.

Recommendation 6

Continue to assess the adequacy of reserve levels as part of the financial strategy review; and ensure that members are provided with adequate information to make choices around the utilisation of all monies including previously unused balances.

Capital expenditure reduced in 2020/21 as the Council paused and deferred some capital investment projects due to the impact of Covid-19

53. General fund and housing capital expenditure were approved by the Council as part of the budget setting process in February 2020. These outlined capital budgets of £43.093 million and £17.589 million for the general fund and housing respectively.

54. The impact of Covid-19 had a significant effect on the timing and cost of projects due to market forces, inflation and new ways of working. In November 2020 Cabinet approved changes to the capital plans to defer work into 2021/22

and to reflect movements in timings and cost variations. Despite the challenges encountered the Council delivered capital projects within the education estate to support the Council's expansion of early years' facilities across five sites.

Eastwood Leisure Centre and Eastwood Park Masterplan

55. The Council identified the requirement for a new leisure facility in 2017/18. There have been several reports to Council outlining plans and costings. A briefing and feasibility report has been presented to members and includes images of what the facility will look like and provides details of site considerations, initial project brief, feasibility, sustainable aspirations, planning considerations and procurement.

56. The Council have a strong vision for the project and a consultancy firm has been appointed to manage the project. The build work is planned to commence next year, subject to the resolution of uncertainties around supply issues, the cost and availability of materials as well as ongoing discussions with contractors. The overall development cost is estimated to be £55 million. This projection includes professional and planning fees, construction and fit out of the sport and leisure centre and theatre, contract inflation, contingencies, site clearance and associated external works.

Land and building valuations

57. To ensure the accuracy of land and property valuations within the annual accounts, management obtain expert advice from appropriately qualified staff within the Council's estates team in the environmental department.

58. The Council revalue elements of its fixed assets over a 5-year rolling programme. This can lead to significant movements in value, particularly if a large class of asset is due for revaluation in a particular year. Management should consider a valuation methodology whereby 20 per cent of each class of asset is revalued each year, with all assets still being revalued once over a 5-year period. This would reduce the likelihood of uneven valuation movements arising from a specific class of assets due for revaluation in a given year.

Recommendation 7

Consider a valuation methodology whereby 20 per cent of each class of asset is revalued each year.

Housing revenue account reported a small deficit in year

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

60. Income and expenditure reported in the HRA was in line with the budget with a small deficit recorded in year of £0.095 million. This has decreased the HRA reserve to £2.221 million.

Financial systems of internal control operated effectively

61. Our management letter presented to the Audit and Scrutiny Committee on 23 September 2021 summarised our findings from the review of systems of internal controls. Whilst our audit testing did not identify any significant control weaknesses. We did identify and report some less significant issues.

62. The Council introduced new systems during the year. The new payroll/HR system iTrent replaced resourcelink in November 2020. The Orbis benefits/council tax system was replaced by the NPS system in December 2020. Our testing was undertaken across the systems in place at the start of the year and also the new systems introduced during the year to ensure appropriate coverage of the controls in operation across the full financial year.

63. We recognise the challenges around system implementation and note that during this period Council employees continued to work remotely. Additional workload has arisen during the year for the benefits/council tax teams around the increased level of council tax reduction and self-isolation grants. We noted several areas for improvement around the new systems. In response to these findings, additional controls and substantive testing was undertaken by the audit team to gain the required assurances for the financial statements audit. We concluded that appropriate and effective internal controls were in place for those key financial systems reviewed by us.

Internal audit

64. Each year we consider whether we can rely on internal audit work to avoid duplication of work. We reviewed the Council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. We have taken cognisance of the work of internal audit and have used their work as appropriate in the areas of:

- Creditor payments
- Debtor control
- Cash income and banking
- Council tax review of the transfer of data to the new NPS system.

65. The Council's internal audit function regularly reported progress to the Audit and Scrutiny Committee throughout the year. The reports outlined capacity and resourcing challenges and difficulties in auditing remotely. This led to the approved internal audit plan of 733 days being reviewed and refined in August 2020 and then further in February 2021. This resulted in the planned internal audit days reducing to 349 days. Internal audit completed all revised planned audits.

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

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

67. The risk profile of public bodies during 2020/21 has been significantly affected by the Covid-19 pandemic. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner. We have concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

3. Financial sustainability

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

Main judgements

Medium-term financial plans are aligned to the Council's corporate priorities and demonstrate future financial challenges and the associated impact.

The financial consequences of Covid-19 are continuing to emerge. The Council will need to continue to refine the medium-term financial plan as more clarity on the impacts of Covid-19 become evident and to ensure the financial impacts of the Modern Ambitious Programme are fully reflected.

The financial impact of the Covid19 pandemic will be significant

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

69. Financial management across the Council has remained strong, with budget monitoring reports outlining the related costs and income losses from core operating costs due to the impact of Covid-19.

70. The 2021/22 revenue budget was approved by Council on 15 March 2021. The budget outlined departmental non-Covid spending plans of £258.343 million, including contributions to the Integration Joint Board and East Renfrewshire Culture and Leisure Trust. The Council plan to drawdown reserves during the year of £3.465 million. Savings requirements of £3.5 million across Council directorates have been set and sufficient savings options to address this gap have been identified.

Medium and longer-term financial plans are in place and have been updated to reflect the impact of the pandemic

71. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's operational strategies. Although Councillors only approve the budget for a single year, this should be supported by indicative future spending plans that forecast the impact of relevant pressures on the Council.

72. The Council adopted a multi-year budget approach in March 2018 when the 2018/19 budget and indicative budgets for 2019/20 and 2020/21 were approved. The Council planned to continue with a three-year budget cycle for 2021/22 to 2023/24, however, due to the impact of Covid-19, the Council settlement figures for 2021/22 were not known until March 2021. As a consequence, the Council were unable to prepare a three-year budget including the associated savings proposals and therefore a one-year budget for 2021/22 was compiled. The Council intend to re-introduce three-year budget cycles once more certainty is available around future budget settlements.

73. To support a long-term financial approach the Council have retained departmental modelling of their financial position. This approach assists with the Outcome Delivery Plan and covers the three-year period from 2021/22.

74. As part of the annual budget setting process, the Council present their long-term financial plan, covering the period 2021/22 to 2026/27. The plan details a range of funding scenarios and provides context on future economic and demographic trends. The long-term plan reflects changing demands on the Council's budget through legislative changes and government priorities. It also provides commentary on wider political, societal and economic changes including Covid-19, the independent review of adult social care and the UK's withdrawal from the European Union.

75. Due to the additional challenges presented by the Covid-19 pandemic and the medium to longer term impact this may have on planned public sector spending across the UK and Scotland, the Council's existing financial outlook plan is subject to significantly greater uncertainty.

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

Recommendation 8

Develop a revised financial strategy incorporating revised approaches to service delivery and new ways of working to ensure the total balances available are used to support the financial sustainability of the Council over the medium term. To address the financial challenge the Council will need to actively engage with local and national partners to deliver the required level of efficiencies and savings.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

The Council has appropriate governance arrangements in place and emergency arrangements implemented at the start of the pandemic were appropriate.

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

Governance arrangements operating throughout the Covid19 pandemic have been appropriate and operated effectively

77. In response to the Covid-19 pandemic East Renfrewshire Council held an emergency meeting of Full Council on 23 March 2020. An Emergencies Committee was established. Its membership included the Leader and Depute Leader of the Administration and the Leader of the main Opposition Party. Council agreed the following changes to governance arrangements:

- all delegations to committees, with the exception of the Emergencies Committee, were suspended on a temporary basis
- delegated authority was granted to the Chief Executive, all directors and heads of service and the Chief Officer – Legal and Procurement to take operational decisions within their respective areas of operation that would normally require Council/committee approval
- referral to the Emergencies Committee where the proposed decision would be contrary to existing Council policy, or would be seeking an amendment to an existing policy, or for any other reason that would require political approval
- the temporary extension of the delegated authority to be kept under review in order that it may be revoked at the appropriate time.

78. . The May 2020 Council meeting lifted the temporary suspension of delegations to committees and it was agreed that the temporary extension of delegated powers to officers would be withdrawn on 30 June 2020.

79. Committee meetings reconvened following the summer 2020 recess. All meetings continue to be held virtually with recordings available on the Council's website. This has enabled key decisions to continue to be made.

80. Overall East Renfrewshire Council has appropriate governance arrangements in place and emergency arrangements were established promptly at the start of the pandemic.

Audit and Scrutiny Committee

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

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

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

83. At the April 2021 meeting of the Audit and Scrutiny Committee it was agreed that the self-assessment review would be completed before the end of the current administration. A meaningful self-review will address the challenge of how effective the committee perceives itself to be in delivering its business and not merely focus on what activities the committee undertakes.

84. There are a variety of tools available to assess effectiveness. To support the development of the new committee, the self-assessment should capture insights which will add value through highlighting areas of good practice and areas where performance may need to improve.

Openness and transparency

85. There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means

that the public has access to understandable, relevant and timely information about how the body is taking decisions and using resources.

86. The Council's commitment to transparency is evidenced from several sources. Members of the public can attend meetings of the full Council and other boards. Minutes and supporting papers for committee meetings are available on the Council's website. Most items on committee agendas are covered in open session at meetings rather than in private.

87. The Council records its main Council and committee meetings and this is available on the Council's YouTube Channel afterwards. All agenda papers and minutes, including the annual accounts are on the Council's website.

88. The Council's website allows the public to access a wide range of information including the register of members' interests, how to make a complaint and current consultations and surveys including the recent budget consultation on future priorities.

89. The management commentary that accompanies the financial statements clearly explains to readers how the Council has performed against its revenue and capital budgets and how this is reconciled to the financial statements.

90. The Council conducts its business in an open and transparent manner.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

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

Follow up work around best value findings from prior years including equality training, accommodation strategy and transformation projects has progressed.

The Council continue to perform strongly in comparison to other Councils. However, service performance levels in 2020/21 were impacted by Covid-19. Work is underway to re-establish performance baselines for 2021/22 onwards.

The council is making good progress in securing Best Value

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

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

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

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

94. The Council prepared an action plan to address the recommendations and progress is reported annually to Cabinet. The Council continues to make positive progress in implementing the recommendations from the 2017 Best

Value and Assurance Report. We will continue to monitor the Council's progress against the improvement actions.

Equal opportunities

95. The Equality Act 2010 requires the Council in carrying out its functions to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people. We followed up prior year recommendations around the employee training on equality as part of our 2020/21 audit.

96. The Council have demonstrated their commitment to equal opportunities through the Corporate Management Team's decision in February 2021 for mandatory training to be introduced on equalities for all staff. Staff and elected members were invited to undertake the e-learning modules from June 2021 and the training will form part of future corporate induction programmes. Uptake of the training will be monitored and reported to the Equality Officer Working Group and the Corporate Management Team.

97. Equally safe is a Scottish Government project to support, strengthen and scale-up Violence Against Women and Girls training at local, regional and national levels. Women's Aid are developing equally safe e-learning training to give public sector staff an understanding of gender equality, sexual violence and domestic abuse. In July 2021, the Council supported the development of an equally safe pilot by inviting a sample of managers within the Council to complete the training.

Transformation

98. An update on the Modern Ambitious Programme (MAP) and the Council's new digital strategy was presented to Cabinet on 3 June 2021. This outlined recent achievements and ongoing areas of work including the pandemic response, digital inclusion and each service department's digital plans.

99. Digitisation has been important in the Council's response to the pandemic. The Council had to reconfigure services to ensure digital inclusion within education; increased contact from residents and businesses online; the launch of the new council website in July 2020 and the use of data sets and dashboards to monitor the impact and management of Covid response measures including the management of isolation support.

100. The Council is currently reviewing its structures and resources for change. A new approach has been established to manage the prioritisation of transformation projects. This has supported the development of a database which details the nature of the project, the expected benefits and the resources required. A prioritisation matrix has been developed to support this process and determine which projects progress.

101. We have previously recommended improvements around the Council's linkage and documentation between transformation projects and the attainment of savings. The Council have developed a savings template which outlines the nature of the savings, for example, efficiency, redesign or cost cutting and have started using Engage Process Modeller. This documents the benefit realisation

from a project and maps the transformation process, including outlining the cost of each phase and the quantification of savings.

Accommodation Strategy

102. The Council were developing their accommodation strategy prior to the Covid-19 pandemic. Work paused as attention turned towards the pandemic response. This has provided an opportunity for the Council to re-assess the direction of travel and to consider a variety of working models including home working, office working and hybrid arrangements.

103. The Council launched a review of how staff work entitled the 'Way we work' to gather information around working patterns and preferences for the future. This will inform the property needs and configurations for the future. Accommodation will be reviewed in relevant groupings for example, offices, learning, leisure and miscellaneous with offices being considered in the first instance. Officers have developed criteria for application against each property to gather information and assess running costs; the carbon footprint; the future needs for the property; investment requirements and how the property is used and managed.

104. The Council plan to develop option appraisals to support the decision-making process at key milestones throughout the project.

Recommendation 9

Develop robust option appraisals to consider all relevant financial, legislative and environmental factors including cost, future need, configurations, investment requirements and carbon footprint to enable informed asset management decisions to be made.

Business Continuity and Disaster Recovery

105. We have previously reported on the need for the Council to ensure disaster recovery and business continuity plans are up to date, realistic and are tested. Due to the impact of Covid-19 many services are operating within a business continuity scenario and utilising their contingency plans. As a result, no whole scale updates to business continuity plans have been requested.

106. The environment department are currently piloting the new Business Impact Assessment process and template which will validate the new approach before it is rolled out across the organisation. It is anticipated that in early 2022, all services will be asked to update their Business Impact Assessment, which will reflect the changes to office working arrangements and take cognisance of a move away from fixed desk working towards a hybrid approach.

Performance management arrangements provide a sound base for improvement

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

108. The Outcome Delivery Plan is a rolling three-year plan which is revised annually. This demonstrates how the Council's services will contribute towards the outcome deliveries in the Community Plan and Fairer East Ren.

109. The Annual Strategic Performance report was presented to Council in June 2021. This presents the Council's performance against the Outcome Delivery Plan. This year the report reflected on key areas of the Council's response to supporting residents and communities during the pandemic.

110. The plan contains an update for 38 of the 50 indicators. Council agreed in October 2020 that due to the impact of Covid, targets would not be set for the Outcome Delivery Plan for the year 2020-21 and indicator values would be viewed as establishing baselines for a reset for the period 2021-24.

Statutory performance indicators (SPIs) are being met

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

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

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

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

The Council were able to maintain service performance levels despite the pandemic

114. The pandemic is expected to have had a substantial impact on performance measures, particularly for services which have been temporarily suspended, are operating at a reduced level or have had to adapt to new ways

of working. The Council have continued to monitor key performance targets throughout the year with annual performance reports being presented to Council. These reports monitor progress against the Council's key priorities.

The Council continues to perform well in comparison to other councils

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

116. The annual update on performance within the Local Government Benchmarking Framework was presented to Cabinet on 3 June 2021. This provided Cabinet and the public with a full assessment of all 97 indicators in the Local Government Benchmarking Framework (LGBF) for 2019/20, highlighting those indicators in the top and bottom quartile, trend data and ranked position over the two years, Scottish average, and the family group range for all indicators.

117. The Council continues to perform well in comparison to other councils with 32 indicators in the top quartile (ranked 1st to 8th), however 18 indicators are in the bottom quartile (ranked 25th to 32nd). Strong performance has been reported in a number of areas including educational attainment of children where the Council has maintained their position as the top performing Council and in environmental services where they were ranked as the best performing Council on percentage of household waste recycled and the percentage of A class roads requiring maintenance.

118. Areas where performance could be improved include the:

- proportion of adults supported at home by Adult and Social Care who agree that they are supported to live as independently as possible; and
- sickness absence levels for local government employees.

119. These represent pre-pandemic data and will provide a benchmark for future years. The 2020/21 data will be published in 2022.

National performance audit reports

120. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland published a number of reports which may be of interest to the body. These are outlined in [Appendix 3](#).

121. East Renfrewshire Council have arrangements in place to consider and review national reports. The Audit and Scrutiny Committee considered a number of national reports during the past year including the Local Government in Scotland Financial Overview 2019/20; Digital progress in local government and Improving outcomes for young people through school education. The

committee covering paper outlines key messages and articulates this from an East Renfrewshire Council perspective. The committee agree required actions arising from the report findings.

Appendix 1

Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Valuation Report</p> <p>The valuation documentation provided to support the annual valuation exercise could be further enhanced through the preparation of an annual valuation report outlining:</p> <ul style="list-style-type: none"> • the assets revalued in year • the methodology applied to the exercise • the total valuation amount reflected within the annual accounts and • details of compliance with industry standards. <p>Risk – There is a risk that the documentation to support the valuation exercise lacks detail and results in additional audit work being required to ensure appropriate assurances are obtained to support the valuations within the annual accounts.</p>	<p>The Council's valuer prepares a valuation report on an annual basis outlining the details of the work undertaken, the impact on the asset values and the methodology applied in completing the revaluation programme.</p> <p>Exhibit 2, Point 1</p>	<p>Agreed.</p> <p>Estates Surveyor/Chief Financial Officer</p> <p>31 March 2022</p>
<p>2. Annual Governance Statement</p> <p>The Annual Governance Statement provided as part of the unaudited accounts required additional disclosures to be incorporated and further refinement to reflect the activity within the Council.</p>	<p>Review and refine the project plan for the delivery of the unaudited Annual Governance Statement to ensure the statement is delivered within agreed timescales and to the appropriate standard.</p>	<p>Agreed.</p> <p>CEO Business Manager</p> <p>31 March 2022</p>

Risk – The Annual Governance Statement does not include all relevant disclosures.

[Exhibit 2, Point 2](#)

3. Annual Governance Statement

The Directors' assurance statements varied in terms of the level of detail provided and in some instances we would expect additional narrative to be provided to support the disclosures within the annual governance statement.

Directors should ensure that their assurance statements and certificate are completed comprehensively, within the required timeframe and to appropriate quality standards for review and consideration prior to the drafting of the governance statement.

Agreed.

All directors/CEO Business Manager

30 April 2022

[Exhibit 2, Point 3](#)

Risk – The Accountable Officer is not provided with the required assurances and the governance statement omits a significant issue.

4. Capitalisation of staff costs

Directly attributable staff costs are part of the cost of a capital asset. From discussions with officers we noted that all staff costs are included within the Comprehensive Income and Expenditure Statement. This is a revenue statement and should not include capital costs.

Develop a process to support year-end reporting requirements for the allocation and recognition of capitalised staff costs within the financial statements.

Whilst the Council will continue to follow its internal reporting approach, an adjustment will be made at year end to adjust for capitalised staff costs in the annual accounts.

[Exhibit 2, Point 4](#)

Chief Accountant

31 May 2022

The Council are able to identify the capital costs and whilst the current arrangements in place are reasonable for internal reporting, to ensure compliance with the Code of Practice on Local Authority accounting the capitalised staff costs need to be removed from the revenue account. The Council should incorporate a process to re-allocate capitalised costs for

the purposes of the annual accounts. Narrative on issue

Risk – There is a risk that the income and expenditure shown within the Comprehensive Income and Expenditure Statement is overstated.

5. Personal Protective Equipment

The Council received £912k of personal protective equipment (PPE) from Scottish Government via National Services Scotland during the pandemic to support front line services.

The Council are unable to account for how the PPE was used but it appears that this was distributed to local businesses due to a lack of storage capacity within the Council. The Council procured its own PPE at a cost of £1.05 million during 2020/21. It is not clear at what level the decision to distribute the PPE to local businesses was taken.

Risk – There is a risk that resources were utilised unnecessarily on obtaining PPE stock.

Learn the lessons from the PPE experience to review and assess stock control/distribution processes and transparency of decision making with a view to improving control over provision of equipment and avoiding duplicate purchasing.

[Exhibit 2, Point 5](#)

The Council reviewed its PPE procurement and distribution arrangements in August 2020. Departments now control their own PPE stocks and purchasing in conjunction with Procurement staff. The position will be kept under review in future.

All directors in conjunction with Chief Purchasing Officer
December 2021

6. General Fund

The Council has a history of underspend against budget as previously reported through our annual audit reports. An underspend was reported in 2020/21 through a combination of restrictions placed on non-essential expenditure and the impact of Covid-19 funding received. The general fund reserve position has increased significantly, however, a large

The Council should continue to assess the adequacy of reserve levels as it reviews its financial strategy; and to ensure that members are provided with adequate information to make choices around the utilisation of all monies including previously unused balances.

[Paragraph 52](#)

Agreed. The 2020/21 underspend was a result of planned prudent management action whilst there was uncertainty on the COVID funding to be made available from the Scottish Government. The Council will continue to report on current and forecast reserve levels as a key element of its financial planning.

Chief Financial Officer

proportion of the general fund balance is earmarked with a substantial element of the increase in the 2020/21 reserve position relating to Covid-19 unspent grants.

Risk – There is a risk that the Council are not fully utilising available budget in year to support the delivery of front-line services.

February 2022

7. Land and building valuations

The Council revalue elements of its fixed assets over a 5-year rolling programme, with different classes of asset being revalued each year.

Risk: There is a risk of large valuation movements between each year's annual accounts.

Management should consider a valuation methodology whereby 20 per cent of each class of asset is revalued each year, with all assets still being revalued once over a 5-year period.

[Paragraph 58](#)

Consideration will be given to this, however implementation of the revised methodology is likely to increase demands on limited staff resources. Any significant changes in individual or group property values will continue to be reflected in the annual accounts each year.

Director of Environment
31 March 2022

8. Financial strategy to support financial sustainability

The Council face continuing financial challenges and significant uncertainty.

The Modern Ambitious Programme is continuing to progress and will alter the way the Council works in the future. Alignment of transformation plans and the financial strategy will support decision making around service redesign.

Risk – There is a risk that decisions around transformation and redesign of savings are made without detailed financial impacts being available to support the decision-making process.

Develop a revised financial strategy incorporating revised approaches to service delivery and new ways of working to ensure the total balances available are used to support the financial sustainability of the Council over the medium term.

To address the financial challenge the Council will need to actively engage with local and national partners to deliver the required level of efficiencies and savings.

[Paragraph 76](#)

Agreed. The Council is currently developing a revised approach to financing key projects including digital transformation, The Way We Work and zero carbon ambitions.

All directors/Chief Financial Officer
February 2022

9. Option Appraisal

The 'Way we work' project will inform the property needs and configurations for the future. Accommodation will be reviewed in relevant groupings using pre-determined criteria. The Council will face challenging decisions regarding the Council's accommodation.

Risk – There is a risk that the optimal decision is not reached if all information and options are not fully considered and scrutinised.

The Council should develop robust option appraisals to consider all relevant financial, legislative and environmental factors including cost, future need, configurations, investment requirements and carbon footprint to enable informed asset management decisions to be made.

[Paragraph 104](#)

Agreed.

Director of Environment
December 2022

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>10. Impact of Covid-19 on valuations of land and buildings</p> <p>The Council's land and properties are part of a rolling 5-year valuation programme.</p> <p>The valuer noted in the final valuation report that '(year-end) valuations do not reflect the consequences of the prevailing Covid-19 pandemic and its influence on the property market and wider economy which are anticipated to be significant.'</p> <p>Risk - There is a risk that asset valuations remain an area of uncertainty for 2020/21 and that the amounts in the financial statements are misstated.</p>	<p>The Council and the valuer should assess the ongoing impact of Covid-19 on valuation of assets in the coming year. Consideration should be given to revisiting valuations again for 2020/21.</p>	<p>Complete</p>
<p>11. Clyde Valley Residual Waste Treatment arrangement</p>	<p>Management should prioritise reaching an agreement over the accounting treatment for</p>	<p>Complete – accounting treatment for Clyde Valley</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Alongside four other local authorities, East Renfrewshire Council entered into an agreement with partners in the private sector to improve and run Clyde Valley Waste Management Facility. An interim financial model has been applied in 2019/20 as the accounting treatment has not yet been agreed between partners.</p> <p>Risk - There is a risk that there is an inconsistent accounting treatment between different local authorities.</p>	<p>Clyde Valley Residual Waste Treatment Facility with partners and ensure that processes are put in place to ensure that the accounting treatment for future projects are considered prior to these becoming operational.</p>	<p>Residual Waste Treatment Facility has been resolved.</p>
<p>12. Payroll adjustment relating to responsibility allowances</p> <p>Testing on the payroll system identified a control weakness in relation to the process of awarding responsibility allowances to education staff. For Council staff, a standard form is required to be completed and approved by line managers however such a form is not required to be completed for education staff.</p> <p>Risk - There is a risk that responsibility allowances are inappropriately awarded.</p>	<p>The Council should consider the implementation of a standard Council wide process for the award of responsibility allowances.</p>	<p>Complete – audit testing of payroll adjustments relating to responsibility allowances did not identify any issues.</p>
<p>13. Systems of internal control</p> <p>As a result of Covid-19 many staff have been working from home for all of 2020/21. This change in working arrangements will impact on how the internal controls operate.</p> <p>Risk - There is a risk that the internal controls do not</p>	<p>The Council should review its framework of controls, including for the new systems, to ensure that the impact of home working is taken into account.</p>	<p>In progress. This will be taken forward as we develop our plans for “The Way We Work”.</p> <p>All directors/Chief Financial Officer</p> <p>December 2022 (to align with TWWW in 9 above)</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>operate as expected due to home working.</p>		
<p>14. Medium to long term financial planning</p> <p>The Council operates a 3-year budget cycle, with 2020/21 being the final year in the current cycle. Due to the impact of Covid-19, the Council decided in June 2020 that they would adopt a single year approach for the 2021/22 budget. The intention is that they will revert to 3-year budget setting for 2022-25, when it is hoped that multi-year settlements will be available from Government.</p> <p>Risk – There is a risk that the long-term impact of Covid-19 on the Council’s budget is not adequately reflected in the long-term financial plans.</p>	<p>The impact of Covid-19 in the medium to long term are expected to be significant. The Council will need to revise its financial plans to address the challenges once greater clarity is received on the financial flexibilities to be permitted by the Scottish Government.</p>	<p>Superseded by Action Plan point 8.</p>
<p>15. Annual Instruction to the Valuer</p> <p>We recommended in 2017/18 that the Council formalise the relationship with the valuer. This has been partially implemented and we would recommend a formal instruction to be issued by Accountancy Services each year which clearly directs the valuer on the valuations to be undertaken. This instruction should include a formal impairment review to be undertaken and also instruct the valuer to consider the need for indexation to be applied to assets not subject to review under the 5 year rolling programmes.</p>	<p>The Council should develop a formal process to include: the assets to be revalued and that valuation be provided in accordance with The CIPFA Property Valuation Guide; the need for the valuer to conduct an annual impairment review of assets; and requirement for the valuer to set out their approach to the use of indexation factors.</p>	<p>Superseded by Action Plan Point 1.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – Finance do not have ownership of the valuation exercise and changes to accounts have to be made due to late information.</p>		
<p>16. Budget Underspends</p> <p>The Council has a history of underspend against budget as reported in 2016/17 and 2017/18. Given the current and future pressures which service budgets are under, there is a need for the budget to reflect the actual pattern of spending and for forecasts to be reviewed to ensure they reflect demand.</p> <p>Risk – There is a risk that the Council may not be able to deliver the targeted savings in 2019/20.</p>	<p>The Council should continue to review its budget to ensure budgets and forecasts reflect actual spending and demand patterns.</p>	<p>Superseded by Action Plan Point 6.</p>
<p>17. Business Continuity/ Disaster Recovery</p> <p>We have previously reported on the need for the Council to ensure disaster recovery and business continuity plans are up to date, realistic and are tested. Progress has been made on this and a report on progress is due in mid-September on the status of the plans.</p> <p>Risk – Until the plans are fully implemented and tested, that the Council suffers a loss of data and disruption to service.</p>	<p>The Council should ensure that the business continuity arrangements are current and that disaster recovery arrangements are current and tested.</p>	<p>In progress</p> <p>Head of Digital and Community Safety</p> <p>June 2022</p>
<p>18. Transformation Programme</p> <p>During 2018/19 the Council have made good progress in developing a new reporting framework for the</p>	<p>Enhance the MAP reporting framework to align the Council’s transformation programme and its associated projects with approved savings plans to</p>	<p>Superseded by Action Plan point 8.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Transformation Programme. Corporate monitoring of the progress of projects and reporting to members has improved. However, the reporting of the financial links to savings targets and progress against agreed savings plans require further development.</p> <p>Risk - It is not possible to monitor progress against the target savings and benefits to be delivered by the MAP projects.</p>	<p>track savings achieved at both the programme and project level.</p>	
<p>19. Accommodation Strategy</p> <p>A draft Accommodation Strategy was reported to the Council in October 2018. Work on the development of a final Accommodation Strategy is still ongoing.</p> <p>Risk - Future decisions on the future of the Council's estate are made in the absence of an overarching accommodation strategy.</p>	<p>Approve a finalised Accommodation Strategy to inform future decisions, in particular the planned new build Leisure Centre, the Eastwood park master plan and the development of the Council's corporate landlord approach to asset management.</p>	<p>Superseded by Action Plan Point 9.</p>
<p>20. Equal Opportunities Training</p> <p>Training for employees on equalities is not a mandatory part of the Council's Continuous Professional Development programme and equality training has not featured as an explicit element of the members training and induction programme.</p> <p>Risk – Equality issues are not effectively mainstreamed and adequately considered as part of the Council's</p>	<p>Training on equalities should be a mandatory requirement for employees and elected members should be provided with training on equality, including the Public Sector Equality Duty to ensure they can carry out their role effectively.</p>	<p>Complete</p> <p>Mandatory training has been introduced for all Council employees.</p> <p>Completion rates for the training will be monitored.</p>

Issue/risk	Recommendation	Agreed management action/timing
strategic planning and decision making.		

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<p>1. Material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standard require that audits are planned to consider the risk of material misstatement on the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Reviewed of accounting estimates and judgements.</p> <p>Focussed testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the scope of normal business.</p>	<p>Results: Substantive testing of journal entries did not identify any issues.</p> <p>A review of the accounting estimates and judgements within the annual accounts was undertaken and no issues were identified.</p> <p>We tested a sample of transactions taken from both pre and post year end to confirm expenditure and income had been accounted for in the correct financial year.</p> <p>We tested a sample of accruals and prepayments and evaluated significant transactions that were outside the normal course of business. No issues were identified through this testing.</p> <p>Conclusion: Our testing did not identify any evidence of management manipulating accounting records or overriding controls.</p>
<p>2. New payroll system</p> <p>East Renfrewshire Council introduced a new payroll system during 2020/21. The</p>	<p>Review and testing of the controls in place within the new payroll system.</p>	<p>Results: The review and testing of controls within the new payroll system were concluded satisfactorily.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>payroll figures within the 2020/21 financial statements will be produced from the new system. There is an increased risk of misstatement in the figures and balances.</p>	<p>Confirm the completeness and accuracy of balances transferred from the old to the new payroll system.</p>	<p>No issues were identified with the review of balances transferred from the old to the new payroll system.</p> <p>Conclusion: The controls in place within the new payroll system are appropriate and no significant issues were reported.</p>
<p>3. New council tax and housing benefit system</p> <p>East Renfrewshire Council introduced a new council tax and benefit system during 2020/21. As the new system will be used for the production of council tax income account figures and benefit awards in the 2020/21 financial statements, there is an increased risk of misstatement in the figures and balances.</p>	<p>Review and testing of the controls in place within the new council tax and benefits system.</p> <p>Confirm the completeness and accuracy of balances transferred from the old to the new system.</p>	<p>Results: The review and testing of the controls within the new council tax and benefits system identified several areas for improvement including the introduction of controls which were not operating fully on the new system in 2020/21. Additional work was undertaken by the audit team to ensure sufficient assurance could be obtained for the financial statements audit.</p> <p>The completeness and accuracy of balances from the old system to the new system was reviewed and appropriate assurances obtained.</p> <p>Conclusion: Additional audit work undertaken provided the required assurances for the 2020/21 financial statements audit. Recommendations made within our management letter presented to the Audit and Scrutiny Committee in September 2021 will be followed up as part of our 2021/22 audit.</p>
<p>4. Estimates and judgements in the valuation</p>	<p>Complete the 'review of the work of an expert' for the in-house valuer.</p>	<p>Results: Our review of the valuer was completed, and we concluded that we could</p>

Audit risk	Assurance procedure	Results and conclusions
<p>of property, plant and equipment</p> <p>At 31 March 2020, East Renfrewshire Council had property, plant and equipment (PPE) with a net book value of £729 million. There is a significant degree of subjectivity in the valuation of these assets as they are based on specialist and management assumptions and estimates. Any changes in assumptions and estimates made by the valuer or management can result in changes in value.</p> <p>The Council's valuer reported a material uncertainty, caused by Covid-19, the valuation of land and buildings in 2019/20. We understand the latest guidance issued by the Royal Institute of Surveyors (RICS) suggests that this will not be required in 2020/21 but recognise this position may change in the coming months.</p>	<p>Review and assess the reasonableness of revaluations performed in year.</p> <p>An assessment of the underlying information the valuer is using to base valuations to ensure it is complete and accurate.</p> <p>Examine evidence that the valuer is performing an annual impairment exercise.</p> <p>Assess the Council's responses to any changes in guidance issued by RICS.</p>	<p>rely on the year end valuations.</p> <p>Satisfactory evidence was obtained to confirm the reasonableness of the revaluations in the year.</p> <p>Information was received on the underlying information the valuer is using to base valuations. We were able to conclude that the valuations are complete and accurately based.</p> <p>Information was received to support the work done on assessing the need to impair the value of assets. We found that there could be improvements in the level of detail provided.</p> <p>The Council have complied with appropriate guidance issued by RICS regarding the valuation of assets.</p> <p>Conclusion: While estimates and judgements included in the audited accounts are satisfactory the evidence to support the valuation of land and buildings, specifically in terms of reports from the valuer, could be improved. See action plan point 1.</p>
<p>5. Estimates and judgements in the valuation of the pension liability</p> <p>East Renfrewshire Council recognised a net liability of £87.594 million relating to its share of the Strathclyde Pension Fund at 31 March 2020. There is a significant degree of subjectivity in the measurement and valuation</p>	<p>Completion of 'review of the work of an expert' for the professional actuary.</p> <p>Review of the estimates and assumptions made in calculating the pension fund liability.</p> <p>Assess the completeness and accuracy of information submitted by the Council to</p>	<p>Results: Our review of the actuary was completed, and we concluded that we could rely on the year end valuations.</p> <p>We have reviewed the actuarial assumptions made within the calculation of the pension fund liability and have not noted any issues.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>of the pension fund liability. The valuation is based on specialist assumptions and estimates and changes in these can result in material changes to the valuation.</p> <p>Additionally, the triennial valuation exercise will take place for the pension fund and impact on the 2020/21 annual accounts. This exercise is more detailed than the annual valuations and will also set employer contribution rates for the next three years.</p>	<p>Strathclyde Pension Fund to support the triennial valuation exercise.</p>	<p>Confirmed that information submitted to Strathclyde Pension Fund is in line with requirements.</p> <p>Conclusion: Estimates and judgements in relation to pensions included in the audited accounts are satisfactory.</p>
<p>6. Impact of additional funding due to Covid-19 on the financial statements</p> <p>The Covid-19 pandemic has resulted in significant financial pressures for the Council. The Scottish and UK governments have announced a range of additional funding streams for the Council to support frontline services and help the Council manage the financial pressures caused by Covid-19. This has also resulted in an associated increase in expenditure, with some new expenditure streams. Total additional expenditure in 2020/21 is expected to be around £9 million.</p>	<p>Assess how the Council has processed and controlled the additional funding and associated expenditure,</p> <p>Assess how the additional funding and associated expenditure impacts on the financial statements.</p> <p>Review the Annual Report and Accounts and consider how the additional funding and associated expenditure has been reported.</p>	<p>Results: Completed a walk-through of the process and controls surrounding additional funding and expenditure in the areas of business support grants, education hardship grant and self-isolation grants.</p> <p>Confirmed that income and expenditure continued to be processed through the Council's normal controls and processes.</p> <p>Reviewed the disclosures within the annual report and accounts and concluded that the reporting of additional funding and associated expenditure is complete and accurate.</p> <p>Conclusion: The annual report and accounts reflects accurately the additional funding provided to the Council in 2020/21.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>7. Financial sustainability</p> <p>Whilst the Council are projecting a year end underspend on departmental activity for 2020/21 the financial challenges going forward remain significant.</p> <p>The Council approved a one-year 2021/22 budget in March 2021. This had a funding gap of £8.5 million. As part of the budget process, Council approved savings of £3.5m and use of reserves of £3 million.</p> <p>In the short to medium term the Council will continue to face a number of uncertainties and pressures that may have a financial impact on the Council. There is a risk that the Council is not able to deliver its strategic objectives.</p>	<p>Assessment of the adequacy of the Council's longer term financial management arrangements and plans reported to members.</p> <p>Monitor the Council's financial position through budget monitoring reports presented to members and consider the delivery of in year savings programmes and the robustness of future savings plans and targets.</p>	<p>Results: Reviewed and considered the council's financial plans.</p> <p>Considered budget reporting through the committee structure during the year.</p> <p>Conclusion: The Council updated their medium-term financial plan along with their one-year budget for 2021/22. The Council intend to revert to 3-year budget setting from 2023.</p>

Appendix 3

Summary of national performance reports 2020/21

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

East RenfrewshireEast Renfrewshire Council

2020/21 Annual Audit Report

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