



Midlothian Council

**Annual Audit Report to Members
and the Controller of Audit - year
ended 31 March 2021**

28 September 2021



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About this report

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

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Executive Summary: Key Conclusions from our 2020/21 audit

We have issued an unqualified audit opinion on the Council and Group 2020/21 financial statements.

We continued to review and update our risk assessment throughout the audit, including the materiality level applied. Our updated assessment of materiality is described on page 7.

Financial Statements

We have concluded our audit of the Council's financial statements for the year ended 31 March 2021. Two adjustments were made to the financial statements since the publication of the unaudited accounts in June 2021. We identified a further two unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were provided on time and were of a high quality. This has been an area of continued improvement over the term of our appointment. We worked with management to make a number of enhancements to the Management Commentary, Annual Governance Statement and notes to the financial statements, in particular to ensure the financial statements reflected recent good practice guidance from Audit Scotland around the disclosures of key estimates and judgements.

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

Going Concern

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

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

Wider Scope and Best Value

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

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

Audit Scotland conducted a follow up against the recommendations made within the July 2019 Best Value Assurance Report and found that good progress has been made, despite the impact of the pandemic.

We note that the Council has a number of key characteristics of Best Value in place, including effective strategic planning arrangements.

Financial Sustainability

The Medium Term Financial Strategy (MTFS) meant that the Council had a clear financial plan in advance of the impact of Covid-19. We anticipate that updates to the MTFS for the 2022/23 budget to be presented to the Council will continue to rely on one-off measures. A revised MTFS is being developed to support the new administration in May 2022.

Our assessment of amber reflects the ongoing challenge facing local authorities and the level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, all of which has been exacerbated by the ongoing impact of Covid-19. However, there remains a need for continued member and officer focus on maintaining financial sustainability and fulfilling the statutory responsibility of members to determine balanced budgets over the medium term.

AMBER

Financial Management

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding the financial impact of Covid-19. The Council's financial regulations are under review alongside a number of key governance documents including Standing Orders

The importance of good financial control is clearly understood across the Council. Our interactions with finance through the year identified a robust financial management environment and no material financial control deficiencies.

We have not identified weakening financial management arrangements following the changes to the established working environment following Covid-19.

GREEN

Governance and Transparency

The key features of good governance remain in place at the Council. The Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the global pandemic.

The Council's Audit Committee assessed itself as having a medium degree of performance and effectiveness during the year. The Council should satisfy itself that governance arrangements meet changing scrutiny needs following the forthcoming local government elections.

GREEN

Value for Money

Recent improvements have been piloted to the presentation of performance reports to support members in performing their scrutiny role effectively.

We note that performance continues to fall short of the targets set within the Council's own performance management framework although improvement has been noted in a challenging year. The Council should continue to review the targets to ensure that they are achievable and represent changing priorities.

AMBER

Introduction

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

Purpose of this report

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

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

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

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

Our independence

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

The ongoing disruption to the Council as a result of the impact of Covid-19 continues to have a significant impact on the financial statements and subsequent audit.

The financial statements reflect the impact of Covid-19 on the Council's financial position and performance.

Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Council's Audit Committee in March 2021.

The impact of the Covid-19 Pandemic

In 2019/20 we were required to supplement our Annual Audit Plan, with an addendum outlining the main anticipated areas of impact on the audit following our reassessment of all audit planning and risk assessments. As Covid-19 was a known factor in planning the audit in 2020/21, the same approach has not been required. We have, however, added to our planning and execution procedures throughout the audit to take into account various factors related to Covid-19, and have continued to reassess the risks facing the Council in this light:

- ▶ 2020/21 was the first year where there were material transactional impacts in the Council's financial statements, in particular through the recognition of additional Covid-19 related costs and subsequent government funding support.
- ▶ While some of the uncertainty around the impact of Covid-19 on key balance sheet valuations had reduced from 31 March 2020 to the current yearend, this also remained a key area of audit focus.
- ▶ We continued to work with management to ensure the financial statements adequately reflect the impact of Covid-19, in particular through the management commentary, governance statement, and accounting estimates and judgements disclosures.

In line with the audit in 2019/20, following the outbreak of the pandemic, the audit was conducted fully remotely. Information was shared between the Council and the audit team through our secure portal, and inquiries and investigation took place through Microsoft teams meetings. In order to mitigate the risk of not being able to view key documents and information on systems in person, additional supplementary procedures were completed to verify the information provided by management.

Both the audit team and Council finance team worked in conjunction to ensure the additional impact of these working arrangements were minimised as far as possible. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

We updated our assessment of materiality based on the 2020/21 financial performance. Planning materiality was increased from £6.8 million to £7.7 million.

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £6.8 million. We considered whether any change to our materiality was required in light of Covid-19 and the Council's 2020/21 financial performance. As a result of increased expenditure in year, our materiality was revised to £7.7 million.

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

Overall Materiality

£7.7 million

2% of the Council's net expenditure

Tolerable Error

£5.8 million

Materiality at an individual account level

Level that we will report to committee

£250,000

Nominal amount

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

Financial statement audit

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

- ▶ whether they give a true and fair view of the financial position of the Group and Council as at 31 March 2021 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom.

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

Wider Scope audit

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

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

Our findings are summarised in Section 3 of this report.

Best Value

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. We outline our findings and assessment for 2020/21 on page 41.

Financial Statements audit

Introduction

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

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

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

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

Compliance with Regulation

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. Despite the pandemic, the Council complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 30 June 2021.

The inspection notice was published by the Council on 17 June 2021, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

Preparation of the Financial Statements

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

The Regulations were amended to allow the Council to delay preparation of the financial statements. However, the draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

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

This year we worked with management to consider guidance from Audit Scotland issued to local government bodies, following a review of the significant accounting judgements and sources of estimation uncertainty disclosed within the 2019/20 financial statements of 30 Scottish councils. The disclosures of accounting judgements and estimation uncertainty were chosen for a good practice review because of their fundamental importance in understanding the financial statements, along with indications that the quality of the disclosures were variable. Following our review and discussions with management, a number of enhancements were made to further align them with identified areas of good practice.

Group financial statements

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

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

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

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

Audit Outcomes

We identified four audit difference arising from the audit, which have been summarised in the relevant sections of this report. Two have been adjusted by management in the finalised financial statements and two remain unadjusted on the grounds of materiality. Our overall audit opinion is summarised on the following page.

Our audit opinion

Element of opinion

Basis of our opinion

Conclusions

<p>Financial statements</p> <ul style="list-style-type: none"> ▶ Truth and fairness of the state of affairs of the Group and Council at 31 March 2021 and its expenditure and income for the year then ended ▶ Financial statements in accordance with the relevant financial reporting framework 	<p>We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable</p> <p>We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.</p>	<p>We issued an unqualified audit opinion on the 2020/21 financial statements for the Council and its Group.</p>
<p>Going concern</p> <ul style="list-style-type: none"> ▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting 	<p>We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis.</p> <p>Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.</p>	<p>In accordance with the work reported on page 21, our audit opinion is unqualified in this respect.</p>
<p>Other information</p> <ul style="list-style-type: none"> ▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit 	<p>We conduct a range of substantive procedures on the financial statements.</p> <p>We conduct a range of substantive procedures on the financial statements and our conclusion draws upon Review of committee and board minutes and papers, regular discussions with management, our understanding of the Council and the wider sector.</p>	<p>We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.</p>
<p>Matters prescribed by the Accounts Commission</p> <ul style="list-style-type: none"> ▶ Audited part of Remuneration Report has been properly prepared. ▶ Management Commentary / Annual Governance Statement are consistent with the financial statements and have been properly prepared. 	<p>Our procedures include:</p> <ul style="list-style-type: none"> ▶ Reviewing the content of narrative disclosures to information known to us. ▶ Our assessment of the Annual Governance Statement against the <i>Delivering Good Governance</i> Code. 	<p>We issued an unqualified opinion.</p>
<p>Matters on which we are required to report by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> ▶ there has been a failure to achieve a prescribed financial objective, ▶ adequate accounting records have been kept, ▶ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or ▶ we have not received the information we require. 	<p>We have no matters to report.</p>

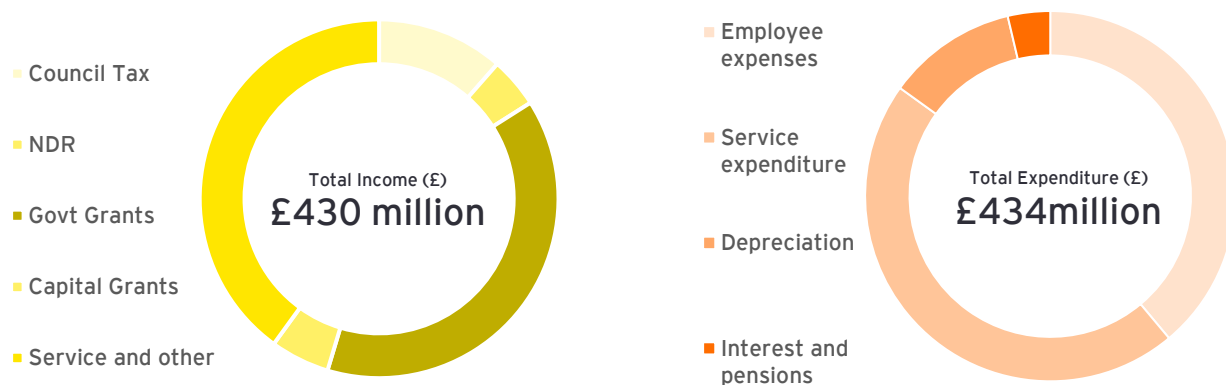
Significant and fraud audit risks

What is the Risk of Fraud in income and expenditure recognition

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

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

Exhibit 1: Key components of the Council's income and expenditure



Source: 2020/21 Financial Statements: Note 12 Expenditure and Income analysed by nature

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

Our work included:

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

Our Audit of Other Income and Expenditure

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

Other audit procedures: non-significant risk areas:

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

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

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

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

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

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

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

Audit of Covid-19 grant income and expenditure

Due to the proximity to the 2019/20 year end of the Covid-19 pandemic and subsequent lockdown in March 2020, the related audit risk on the 2019/20 financial statements was in respect of balance sheet valuations. In 2019/20 there were minimal income and expenditure transactions impacted by the pandemic. 2020/21 was the first year where income and expenditure transactions were materially impacted by Covid-19.

The Council received £23.8 million in the year from the Scottish Government related to Covid-19 to support the Council in meeting its additional costs, local businesses and the wider public. The material nature of the additional funds created a new income stream for audit consideration. Our audit work focused on:

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

Our conclusions

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

Risk of Misstatement due to Fraud or Error

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

Risk of Fraud

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

Testing on Journal Entries

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

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

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

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

Our conclusions

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

Judgements and Estimates

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

- ▶ a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes (outlined on page 19 of this report); and
- ▶ areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment, outlined on page 18 of this report).

Our procedures included:

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

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

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

Accounting Policies

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

Our conclusions

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

Other inherent audit risks

Valuation of Property, Plant and Equipment

The Council's property, plant and equipment (PPE) portfolio totals over £0.96 billion of assets (2020: £0.89 billion). The valuation of these assets requires expertise and significant estimation. In 2020 we reported that the Royal Institute of Chartered Surveyors (RICS) issued guidance highlighting that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty in the valuation of assets at 31 March 2020.

To meet the requirements of the CIPFA Code of Practice, the Council values its property, plant and equipment on a 5 year cycle. Due to the timing of the Council's valuation cycle a significant amount of the Council's estate was subject to revaluation in 2020/21 (£0.78 billion). This included the Council's social housing assets where the discount factor was reviewed (£397 million) and its schools (£383 million).

As RICS withdrew its guidance which caused valuers to conclude that there was a material uncertainty in the valuation of assets for 31 March 2020, we assigned an inherent audit risk to the valuation of the Council's PPE.

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

- ▶ Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Sample testing key asset information used by the valuers in performing their valuation based on both size of asset value and our consideration of risk assigned to each valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ Auditing management's assessment of assets not subject to valuation in the year to confirm that there were no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.
- ▶ Completion of procedures designed to address the requirements of the revised ISA 540, as outlined earlier.
- ▶ We identified no audit differences through the course of our work around the valuation of the Council's social housing assets, and identified no assets which had not been revalued which demonstrated indicators they should be revalued in the year.
- ▶ We identified one audit difference in relation to the valuation of schools in 2020/21, outlined in Appendix E. The difference has not been adjusted on the grounds of materiality.

Valuation of Property, Plant and Equipment (continued)

The Council's overarching process for valuation of its property, plant and equipment, continued to show improvements in 2020/21. The finance team has invested significant resources in monitoring its estate and considering the accounting implications of any significant changes and ensuring there is proactive discussions with its auditor around the most appropriate way to account for matters identified.

The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty, and the material size of the assets continues to increase the risk of major movements in asset values following formal revaluation. While the Code requires that assets must be revalued at least every five years it is becoming more common that this period of time between valuations results in significant movements. Equally, there is a challenge for management to balance the requirement to ensure asset valuations are not materially misstated at each balance sheet date, in accordance with International Financial Reporting Standards, while also ensuring the significant work associated with valuations can be completed in time to allow thorough internal review and confirmation.

Given the increased scrutiny of asset valuations, combined with the completion in 2020/21 of the revaluation of the major aspects of the Council's assets, we consider that this would be an opportunity for the Council to consider its future approach to this important area. This may include:

- ▶ Reducing the time between full valuations for all major individual asset classes; and
- ▶ Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations.

Recommendation 1: Given the ongoing focus on the valuation of fixed assets, and the materiality and estimation uncertainty associated with valuations, management should review its valuation cycle arrangements going forward.

Our conclusions

- ▶ We identified one audit adjustments related to the Council's valuation of assets in 2020/21.
- ▶ We concluded that management has undertaken sufficient procedures to identify any further assets which should be revalued before their cycle valuation date.
- ▶ In light of the ongoing focus on the valuation of assets we have recommended the Council take this opportunity to consider its overall asset valuation arrangements.

Valuation of pension liabilities

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Lothian Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2021 the net liability totalled £141 million (2020: £97.7 million). The pension figures included in the financial statements are those that are prepared annually for accounting purposes as required by IAS 19. The funding of the scheme and the determination of employer contributions is determined with reference to the triennial valuations carried out by the scheme actuary. The last triennial actuarial valuation, in 2020, assessed the overall funding position to be 104% (2017: 99%)

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

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

- ▶ Auditing the reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent developments in relation to the various ongoing equalisation case judgements such as the GMP, McCloud and Goodwin rulings.
- ▶ Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that our own estimate of the valuation based on those inputs was materially consistent with the actuarial reports.
- ▶ Considering the findings of the appointed auditor of the Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2021.
- ▶ Auditing the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

Our conclusions

- ▶ The assumptions used by the actuary were reviewed by our EY actuarial team who concluded that the assumptions and methodology used are considered to be within a range which is appropriate.
- ▶ The auditor of the Lothian Pension Fund reported no material differences in the valuation of assets held by the Fund. The material uncertainty reported in relation to the valuation of complex investments at 31 March 2020 has been removed for the same assets at 31 March 2021.

Financial flexibilities

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

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

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

Council delegated authority to the Chief Officer Corporate Solutions, in consultation with the Group Leaders approval, to apply flexibilities as required, based on the outcome of the ongoing discussion with the Scottish Government, on the actual outturn position at the year end and an assessment of continued Covid-19 financial pressures for 2021/22. The latest position on flexibilities was reported to Council in June 2021 which noted that:

- ▶ Until the Cabinet Secretary confirms the technical methodology which should be used to reprofile PPP debt repayment periods and the associated implications, this flexibility will not be used.
- ▶ Given the current affordability pressures in the approved capital programme, use of capital receipts was not recommended.
- ▶ The Council is able to use the loans fund repayment holiday in 2021/22 however at present, based on forecast outturn, it is not necessary to deploy this flexibility but this will be monitored throughout the year.

At 31 March 2021 the Council had not applied any of the financial flexibilities initially presented by the Scottish Government. We will keep this under review in 2021/22 and consider the accounting treatment and impact on future financial planning accordingly.

Going concern

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

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the CIPFA Code of Practice on Local Government Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. CIPFA bulletin 09 (issued at closure of the 2020/21 financial statements) states that while there is likely to be a significant impact of Covid-19 on local authority financial sustainability, the rationale for the going concern basis of reporting had not changed.

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to October 2022, including the expected impact on the Medium Term Financial Plan.

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

Our conclusions

- ▶ We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key Council reports and treasury management forecasts of future cash balances. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council, or of the wider Group where they are material to the consolidated financial statements.
- ▶ We worked with management to enhance the disclosures in the financial statements in relation to the impact of Covid-19 on the Council's future financial performance.

Looking ahead

IFRS 16 - Leases and Other changes

The implementation of IFRS 16 has been delayed until 1 April 2022 following the impact of Covid-19 on local government and to ensure other areas of financial management are prioritised.

The Council finance team has demonstrated progress in undertaking work to understand and disclose the impact of the change on the Council's financial statements.

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

Implementation of IFRS 16 has been delayed on a number of occasions in local government financial statements for various reasons. Most recently it was due to be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. As part of the consideration of the impact of Covid-19 on local government, CIPFA confirmed the implementation of the standard was to be delayed to 1 April 2022.

This further deferral is limited to one year only and CIPFA LASAAC note that it will not grant any further extensions based on lack of preparedness. All finance teams are therefore urged to continue their preparations for implementation and to ensure that they are ready to adopt the standard in the 2022/23 financial year.

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

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

Work is therefore necessary to prepare information required to enable the Council to fully assess their leasing position and ensure compliance with the standard from 1 April 2022.

We have discussed progress in preparing for the implementation of *IFRS 16 Leases* standard with the finance team over the course of the past few audits and are satisfied robust arrangements were being established to assess the impact of the changes for inclusion in the financial statements. We will continue to assess the Council's progress, including the results of its impact assessment, including the accuracy and completeness of disclosures required in the 2021/22 financial statements.

We will continue to work with management to proactively agree any material changes to financial statement accounting and related disclosures following amendments to the underlying CIPFA code.

CIPFA/LAASAC Code for 2021/22

Local authorities are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The CIPFA/LAASAC Code on local authority accounting in the United Kingdom for 2021/22 includes a number of amendments. These changes include:

- ▶ Reframing the Code requirements in terms of UK-adopted standards rather than EU adopted standards, reflecting the United Kingdom's withdrawal from the European Union.
- ▶ Confirmation of the accounting arrangements for the Dedicated Schools Grant to reflect changes to the statutory requirements.
- ▶ Amendments to confirm the existing adaptation in the Code for standards issued but not yet adopted.
- ▶ Augmentations to the reporting of estimation uncertainty.
- ▶ Confirmation of the reporting requirements for interest rate benchmark reform.

The Code includes an appendix on the future implementation of IFRS 16 Leases standard which has been deferred for a further year, as outlined on the previous page.

It is important that management performs its own assessment of the impact in advance of preparation of the 2021/22 financial statements. We will continue to discuss relevant matters with management in advance of the financial year end to ensure agreement is made on any amendments in the most efficient manner possible.

Best Value and Wider Scope dimensions

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

Introduction

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

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

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

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

Financial Sustainability

The adoption of the Medium Term Financial Strategy (MTFS) and supporting governance arrangements meant that the Council had a clear financial plan in advance of the impact of Covid-19. Updates to the MTFS for 2022/23 budget will be presented to the Council later in 2021 however, as in 2020/21, we anticipate that the Council will continue to rely on one-off measures. Early work is ongoing by officers for the development of the next MTFS to ensure the new administration can commence work early in their term on addressing the financial challenges which face the Council over the future planning period.

Our assessment of amber reflects the ongoing challenge facing local authorities and the level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, all of which has been exacerbated by the ongoing impact of Covid-19. However, there remains a need for continued member and officer focus on maintaining financial sustainability and fulfilling the statutory responsibility of members to determine balanced budgets over the medium term. This will require challenging decisions on relative service priorities and associated expenditure commitments, careful evaluation of new spending commitments and the delivery of challenging levels of savings as the Council moves into its next planning period.

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Medium Term Financial Planning to 2022/23

The Council's Medium Term Financial Strategy (MTFS) was approved in June 2019, and represented a step change in the Council's strategic financial planning. Initial resource allocation measures reduced the budget gap over the three years to 2022/23 from £18.8 million to £8.3 million. The cross-party Business Transformational Steering Group was tasked with assessing and approving further proposals to deliver a sustainable financial plan, drawing upon consultation with communities.

The pandemic brought a shift in the usual financial planning parameters and timetable with the draft local government settlement only being published on 1 February 2021 and the final version agreed in March 2021. The Council received an MTFS update, along with finalised 2021/22 budget projections in February 2021. Based on the draft settlement, the Council agreed to freeze council tax levels, along with fees and charges, to recognise the unique pressures created by the pandemic and to help protect household incomes. A planned rent increase was delayed for the same reasons.

A 'corporate solution' was developed to support the achievement of a balanced budget in both 2021/22 and 2022/23. This solution relates to the conclusion of the Loans Fund review.

The budget also recognised that a number of savings originally planned for 2021/22 were either not feasible to implement or would be delayed, recognising the scale of the challenge facing the Council as it continues to operate in a Covid-19 environment.

2021/22 Performance to date

Like all councils in Scotland, the impact of the Covid-19 pandemic continues to create significant financial pressure in 2021/22. We do, however, note that the Council's most recent financial update report, prepared in August 2021, forecasts a small surplus of £0.323 million for the financial year. This represents an improvement against prior years, where we have noted that the Council historically reports overspends in the early part of the financial year, although we note that risks remain within the budget particularly due to the ongoing uncertainty regarding Covid-19 and associated recovery plans.

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

We also note that the Council is heavily reliant on one-off, non-recurring measures such as the Loans fund review to support the balanced budget. Accurately forecasting early in the financial year is always challenging, but the ongoing uncertainties make this task more difficult. Cost pressures identified to date include:

- ▶ Additional fleet repairs and maintenance costs of £0.4 million;
- ▶ Insurance premium increases of £0.3 million; and
- ▶ £0.5 million of cost reductions which have still to be finalised.

These costs are more than offset by favourable movements due to vacant posts held pending service reviews, lower pupil numbers and an easing of pressure on the Family Placement and Residential Respite budget

The revenue budget took account of the forecast impact from Covid-19 including assumptions around significant service income loss and that no dividend will be received from Lothian Buses. Some cost pressures have also been eased by the additional non-recurring Covid-19 funding of £259 million announced by the Scottish Government on 28 January 2021, with the Council's share being approximately £4.4 million.

Risks and uncertainties within the MTFS

There are a number of other areas of uncertainty that could materially impact the Council's delivery of financial plans, balanced budgets and the underlying required savings. These include the risks around accuracy of key assumptions such as around inflation, pay awards and demographic drivers of income and expenditure.

The MTFS notes cost pressures as a result of demographic demand exceeding budget estimates as a key risk. Rising school rolls place a significant pressure on the Council's capital and revenue planning. The 2020/21 education budget anticipated savings of £3 million, but as a result of delays to consultation management forecast that only £0.6 million will be achieved in year, resulting in a cost pressure of £2.4 million. This was subsequently addressed through the "mini budget" exercise instructed by Council.

Other savings that have not progressed as planned as a result of the pandemic include:

- ▶ the delayed implementation of the second phase of the management review;
- ▶ cost reductions relating to digital service provision; and
- ▶ efficiency targets within the Place Directorate.

Funding disparity

In March 2021, the Scottish Government published the Green Book, which provided additional transparency about the methodology applied to allocate central government funding to councils. One of the key factors adopted within the funding model for 2021/22 is the National Records of Scotland (NRS) population estimate, for which the 2019 mid-year estimate is adopted as the indicator. As the Council is experiencing the highest population growth in Scotland, it faces a particular challenge as the funding model does not keep pace with population changes. Based on NRS estimates, the Council's population in 2020 has increased by 0.7% since 2019, compared to a 0.05% increase across the whole of Scotland. In previous years, the disparity has been felt more acutely through the floor mechanism. That is funding assessed as being required for Midlothian which is redirected to provide a degree of stability to other Councils, including those with reducing populations. However, for the 2021/22 grant settlement, Midlothian has not contributed to the floor mechanism compared to a £1.8 million contribution in 2020/21. The reduction in the contribution to the floor in 2021/22 is a temporary adjustment which relates to the ending of historic loan charge support and consequent reduction in assessed grant partly dampened by the floor mechanism. Continued and rapid population growth is likely to require the Council to continue to contribute to the floor for 2022/23 and beyond.

During last years audit, we noted that Audit Scotland drew attention to a specific funding challenge facing Midlothian within their national report, *Early Learning and Childcare Follow up*, relating to the rollout of additional funded childcare hours. Due to a decision to base funding allocations on 2014 population figures, the funding that the Council will receive is 24% less than required due to the rapid growth in early years population.

Covid-19 Recovery Planning

In June 2020, the Council approved the local "route map", outlining the steps that will be taken in a four phase recovery through and out of the Covid-19 crisis.

The route map identifies a number of key priorities to guide decision-making:

- ▶ Economic Renewal;
- ▶ Accelerated Capital Programme for Housing and the School Estate;
- ▶ Education Recovery Plan;
- ▶ Hub and Spoke Place Service Delivery;
- ▶ Health and Social Care Transformation; and
- ▶ Digital by default, remote working and Carbon Neutral by 2030 approaches to the workplace and active travel.

The route map includes use of a significant, and accelerated, capital programme to prioritise economic and social recovery from the crisis, including additional social housing which will, whenever possible, be located close to community facilities.

The Council's local route map reflects Scottish Government guidance and will have an impact on other strategies as priorities change to reflect the anticipated impact on vulnerable communities.

As a result of the recovery and renewal plans captured within the route map, change and transformation plans that were in place have been superseded. The Council recognised that in order to deliver the transformation at the pace required, it has been necessary to review and reset delivery plans. Eight Strategic Transformation Boards have been created in line with the Council's priorities to drive improvement at pace:

- ▶ Carbon Neutral by 2030;
- ▶ Digital First;
- ▶ Economic Renewal;
- ▶ Education recovery;
- ▶ HSCP Transformation;
- ▶ Hub and Spoke Based Transformations; and
- ▶ Remote working.

Financial Management

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid-19. Financial reporting is clear and consistent throughout the year. The Council's financial regulations and financial directives are currently under review alongside a number of key governance documents including Standing Orders.

The importance of good financial control is clearly understood across the Council. Our interactions with finance through the year identified a robust financial management environment and no material financial control deficiencies. We did not identify weakening financial management arrangements following the changes to the established working arrangements following Covid-19.

Financial control environment

While our financial statement audit work is not designed to express an opinion on the effectiveness of internal control, we consider the financial control environment through the course of our interactions and observations through the audit. Based on work undertaken, we have not noted any material deficiencies in internal control.

The Council's financial regulations and financial directives are currently under review alongside a number of key governance documents including the Scheme of Delegation, Standing Orders and Scheme of Administration. A working group has been established and the updated documents will be presented to Council for approval.

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

Ongoing impact of Covid-19

In 2019/20 we reported that we had not observed issues with the capacity or capability of the finance team following its previous restructures or following the impact to working arrangements due to Covid-19. We have not identified any significant changes to key processes and controls across the finance function through our observations in 2020/21. There continues to be additional pressure on the capacity of the finance team in the ongoing environment, however information related to the audit and financial statements continues to be provided in a timely manner and to a reasonable overall standard. The financial management capacity of the Council, in particular related to the longer term impact of Covid-19 on working arrangements, will require to be subject to continued monitoring.

A suite of key governance documents were due for review at the time the pandemic hit, including the financial regulations. The review of these documents is ongoing with the intention they will be subject to approval by Council in late 2021/22.

Financial monitoring and outturn

The Council's financial monitoring arrangements have been broadly consistent with previous years, however they continue to be supplemented with additional monitoring and reporting to reflect the additional risks around Covid-19. The Council's budget position originally set in February 2020 has moved significantly during the year with these changes primarily being driven by the impact of Covid-19, rather than issues with forecast arrangements.

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

Reporting period	Aug-20	Nov-20	Feb-21	Outturn
Forecast surplus / (deficit)	(£1.19m)	(£0.49m)	£0.58m	£0.76m
Forecast General Fund balance	£3.4m	£3.4m	£3.5m	£3.8m

Source: Midlothian Council 2020/21 Financial monitoring reporting

Separate reporting to Council has enabled clear transparency of the financial impacts of Covid-19 on the financial position. Specifically, we note that during the year the Council:

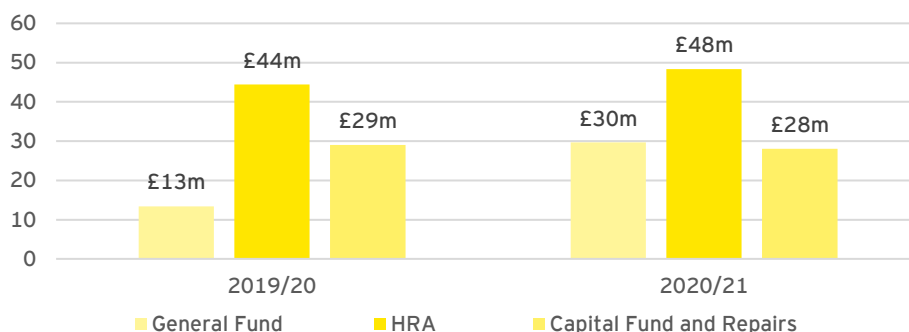
- ▶ Received additional grant funding of £23.832 million;
- ▶ Incurred response costs of £5.9 million, offset by specific funding received totalling £3.6 million; and
- ▶ Lost income of £8.2 million including in relation to sports and leisure and catering arrangements.

Council reserve levels and strategy

As part of the annual revenue budget setting process, the Council approves the minimum reserves to be held as uncommitted general funds. For 2020/21 it concluded that the uncommitted balance should be maintained at a minimum of 2% of net expenditure (excluding the IJB allocation) which equates to £3.63 million. At 31 March 2021 the Council's uncommitted general fund balance was £3.8 million, representing a small decrease from the 2020 balance of £4.05 million.

The Council's uncommitted general fund reserves remains in line with the approved reserves strategy. The forecast position for 31 March 2022 is projected to increase to £4.1 million.

Exhibit 4: The Council's cash backed reserves increased by approximately £19.2 million in 2020/21



Source: Midlothian Council 2020/21 Financial Statements

Capital programme

The Council spent £41.2 million on capital expenditure in 2020/21 (2019/20: £58 million), an overspend of £0.6 million against its original budget. This reverses a historic trend of slippage against the capital budget. We do, however, note that rephasing during the year was required for a number of capital projects primarily due to the impact of Covid-19 and Brexit on availability of materials and equipment and social distancing onsite and this may have an impact on the capital programme in future years.

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

In order to ensure the Council has the appropriate skills and capacity to deliver the ambitious capital programme, the Council has appointed two Heads of Development to support programme delivery. The Council has additionally progressed with making improvements to monitoring and reporting processes through the Capital Plan and Asset Management Planning Board. Work continues to ensure this framework is being applied consistently across all large capital projects.

CIPFA financial management code

The Council has demonstrated a strong level of compliance with the CIPFA financial management code on its implementation for 2021/22.

The CIPFA Financial Management Code comes into effect for all councils in 2021/22. It is intended to support good practice in financial management, assist in demonstrating a local authority's financial sustainability, and set out standards of financial management. A short-life working group was established in March 2021 to perform the self-assessment and review compliance against each of the 17 standards. The assessment will be reviewed by the Corporate Management Team with the intention that an annual progress report is presented in future years. The assessment demonstrates the Council's existing compliance with the majority of the Code and sets out proposed actions to ensure compliance with the code in 2021/22. This will be subject to ongoing monitoring.

Procurement

The effectiveness and appropriateness of the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function was an area of focus for the audit in 2019/20 where we highlighted that the Council must address capacity weaknesses as a matter of urgency.

The Council has subsequently secured additional capacity within the procurement team, including an additional procurement assistant and recruitment of a Procurement Manager. A strategic procurement review from Scotland Excel was commissioned and completed with a final report provided in March 2021. The report provided by Scotland Excel will provide the new Procurement Manager with an action plan to be progressed.

Our audit procedures identified that the Council migrated its mobile voice and data services contract to the Scottish Government Framework in June 2021. The Framework had been published in March 2020. We recognise that significant work was required to progress the migration at the time that the service was required to give priority to the response to the pandemic, including sourcing devices for staff working remotely against the backdrop of a global shortage. As a result, the new contract was signed on 5 May 2021 with migration completed by the supplier on 10 June 2021.

The Scottish Government mobile voice and data services framework provides the Council with a data sharing plan which better meets the Council's requirements in relation to the mobile and data services for members and officers, particularly in the context of remote working and reliance on data for access to the internet. The new contract is more efficient and cost-effective than the previous set data allowance, and the Council has identified that it will see a reduction in quarterly billing cost. While it is acknowledged that the contract migration was adversely impacted by Covid-19, the opportunities presented by the new framework contract value reinforces the need for the Council to continually review its existing contracts and contract management arrangements to ensure that they deliver best value.

Treasury Management

Our audit plan identified treasury management as an area of audit focus for our 2020/21 audit. The results of our additional procedures in this area were reported separately to the Audit Committee on 22 June 2021. Our report concluded that:

No significant findings were identified in relation to the Council's Treasury Management arrangements with only minor areas for improvement identified.

- ▶ The Council's policies and procedures reflect the requirements within CIPFA's Treasury Management Code and Prudential Code. A planned update in 2020/21 should be subject to scrutiny by the Audit Committee.
- ▶ While it is more challenging to perform robust due diligence checks on local authorities, the Council has developed a draft checklist to provide an audit trail of the decision making process and checks performed.
- ▶ Annual, mid-year and outturn reports on Treasury Management are considered by the Council and the Audit Committee and cover the key requirements of the Codes.
- ▶ Training for elected members has been provided but we noted that areas of challenge and scrutiny by audit committee members have not been as fully minuted as they could be.

Based on our work at final audit fieldwork, we note that 3 of the recommendations were complete including in relation to ensuring discussions from committee are fully minuted. One finding remains outstanding and completion is dependent on the finalisation of the revised Treasury Management Code.

Governance and Transparency

The key features of good governance remain in place at the Council. As noted in our prior year consideration, the Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic.

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

Local Code of Corporate Governance

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

the Council uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement. This is supplemented in 2020/21 by CIPFA's Bulletin 6 which provides guidance concerning the impact of the continuing Covid-19 pandemic on governance in local government bodies and takes into account the introduction of the CIPFA Financial Management Code.

During 2020/21, officers performed a detailed review and update of the Council's Local Code of Corporate Governance with the Code presented to Council for approval in March 2021. The Code review informed the annual assurance process including completion of the Annual Governance Statement.

The governance statement for 2020/21 concluded that *"reasonable assurance can be placed upon the adequacy and effectiveness of Midlothian Council's systems of internal control and governance. Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control."*

The Annual Governance Statement includes a summary of the impact of Covid-19 on governance arrangements and how management has responded to ensure adequate governance arrangements remained in place, particularly through the initial lockdown period. This included reference to the statutory mechanisms available to the Council, both through new and existing legislation, and where the Council took advantage of these mechanisms. We were satisfied regular and consistent communication and decision making arrangements were developed quickly. In the main the Council continued under existing arrangements with minimal use of extraordinary measures.

Arrangements were quickly developed to ensure that the Council was kept informed of the impact of Covid-19, and that key governance arrangements could continue during the lockdown.

Recommendation 2:
While the Annual Governance Statement is in line with current requirements, there is an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge.

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity.

We do, however, note that there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement. In our view, the improvement actions identified within the current statement do not fully reflect the significant changes in the environment that have evolved in the period since the last Best Value Assurance Report. Our assessment of progress against the recommendations is also addressed on page 42.

Covid-19 Governance arrangements

As reported in our 2020 Annual Audit Report, the Council moved to revised governance arrangements at the beginning of the UK lockdown period in March 2020. Council and committee meetings scheduled over the summer of 2020 were undertaken remotely, including the Audit Committees, and this remains the case at this time.

Risks associated with the pandemic continue to be monitored and reported by the Council's Corporate Incident Management Team and the Corporate Management Team and reported to the Council's Audit Committee accordingly.

Internal audit activity

The internal audit work planned for the year 2020/21 was mostly completed in line with planned deadlines by 31 March 2021. Work remained ongoing at all times, however the nature of a number of reviews meant that they could not be completed under a lockdown environment to the same timetable as originally planned. The delayed work has been rolled into the 2021/22 work plan for internal audit.

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

Governance arrangements

The Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers in usual circumstances, and agendas and papers are available in advance of each meeting. While these arrangements were temporarily unavailable during the year as a result of meetings being held remotely due to the pandemic, minutes of meetings, including key decisions, remained publicly available after the meetings. Key Council and committee meetings can be accessed to meetings via livestream or video broadcasting.

The Council's governance arrangements have continued to operate as planned, including evidence of scrutiny and challenge of officers.

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

As we note on page 32, we conducted an additional review of Treasury Management in 2020/21 to reflect an area of concern highlighted by the Audit Committee. While it is appropriate for the Audit Committee members to highlight areas of financial risk impacting the Council and seek assurance from officers, one of the key characteristics which enhances the effectiveness of local government audit committees is that they act in an apolitical, balanced and objective way. The role of the Audit Committee chair is important in ensuring these characteristics are observed by all participants. In our view, some discussions and challenge at Audit Committee have been less balanced and may have diverted resource and focus away from other significant risks facing the Council during the response to the pandemic.

The Audit Committee undertook its annual self-assessment of the effectiveness of its arrangements in May 2021. While the overall assessment was positive, the committee noted areas for improvement including the use of the CIPFA Skills and Knowledge Toolkit and understanding of the effectiveness of other committees on which the Audit Committee places reliance. The wider review against CIPFA guidance also noted that two of the current six elected members on the Audit Committee are in the Cabinet. The Annual Report from the Audit Committee Chair recommends that consideration should be given to:

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

Recommendation 3: The Council should review audit committee arrangements post-election to ensure that governance arrangements reflect the political and strategic environment.

In our view, the role of independent members on the committee, together with the benefit brought to the committee as a result of the wider roles and experience of the two Cabinet members, has outweighed any risk impacting independence. More widely, we would note that the role and membership of the Audit Committee should be considered by the new Council, following the forthcoming local government elections in May 2022. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value. Additional forward-looking focus may be helpful for the new Council in the context of a new Strategic Plan and MTFs, and focus of the Financial Management Code.

Arrangements to prevent fraud and corruption

The consideration of financial management also includes evaluating the Council's arrangements for fraud and corruption. CIPFA's *Code of Practice on Fraud and Corruption* notes that leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations. The Council approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy on 25 August 2020. A new Integrity Group was established in 2020 with the purpose of the Group being to improve the Council's resilience to fraud, corruption, theft and crime.

The Council draws upon national publications to highlight fraud risks, including the Audit Committee's consideration in October 2020 of Audit Scotland's publication *Covid-19: Emerging Fraud Risks*. The Integrity Group prepared a self-assessment against the fraud risks identified within the report which was reported to committee in March 2021. The results of this assessment identified two areas where action was necessary which officers were already addressing:

1. To ensure up-to-date financial regulations and directives are in place.
2. To strengthen the capacity and skills in the Procurement Team.

Financial control arrangements around Covid-19 income and expenditure

From March 2020, the Council received, managed and distributed significant additional funds in relation to support from the Scottish Government related to addressing the impact of the Covid-19 pandemic.

The Council has considered and monitored the potential for fraud and misuse of Covid-19 grants throughout the financial year:

- ▶ As outlined on page 31, the Integrity Group has reviewed specific Covid-19 fraud risks and will continue to review and report and report to Audit Committee.
- ▶ The main Business Grant scheme was administered on the Council's behalf by City of Edinburgh Council who administer the Non-Domestic Rates billing and Collection for the Council, due to the close alignment of this grant scheme with NDR. As a result, reliance was placed on the internal controls and financial governance arrangements of City of Edinburgh Council. We note 92 applications have been identified as potentially fraudulent and reported to Police Scotland.
- ▶ In respect of the grant schemes administered by the Council, such as the self-employed and B&B grants schemes, the Council implemented a number of additional controls including ensuring there was segregation of duties in place and a full audit trail. The Council has also fulfilled weekly reporting to the Scottish Government.

Additional controls and reporting arrangements have been implemented to address the risks around the additional funding received due to Covid-19.

Audit Scotland National Fraud Initiative (NFI) programme

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The annual exercise produces data matches by comparing information held on public bodies' systems to identify potential fraud or error. In June 2019 we submitted an assessment of the Council's participation in the exercise to Audit Scotland, concluding that the Council has actively participated in the NFI exercise and that it is well embedded within the Council's proactive counter fraud workstream. A follow up review was completed in February 2020, with no further matters to report.

The 2020/21 NFI exercise commenced in September 2020. From 5,984 data matches identified 340 of the data matches were classed as being 'High Risk'. The deadline for completion of the 2020/21 NFI exercise is 31 March 2022. The Council is continuing to make progress and demonstrating active participation in the NFI matching exercise.

Value for Money

The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. Recent improvements have been piloted to the presentation of performance reports to support members in performing their scrutiny role effectively.

We note that performance continues to fall short of the targets set within the Council's own performance management framework although improvement has been noted in a challenging year. The Council should continue to review the targets to ensure that they are achievable and represent changing priorities.

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Recommendation 4: The Council's performance reporting should continue to be reviewed to ensure performance can be readily assessed and scrutinised including through greater use of graphics where appropriate.

Performance Management framework

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

Performance reports available publicly, including quarterly updates, continue to be heavily narrative based. We do, however, note that elected members have direct access to more detailed performance data within the Pentana Browser. Recent use was also made of a summary presentation to Cabinet in September 2021 which included a greater level of graphics and data analysis. Management should continue to review the presentation of performance reports, including seeking member feedback to ensure data is presented in an accessible manner which supports members in performing their scrutiny role effectively.

Impact of Covid-19

The Council's overall performance management framework remains in place and operating despite the impact of Covid-19 on the management priorities and additional urgent business requiring prioritisation at committees. As a result, performance reporting to Cabinet and to the Performance, Review and Scrutiny Committee was delayed until September 2020.

2020/21 Performance Outcomes

The 2020/21 Annual Performance Report outlines a number of key achievements during the year, including the changes made to service delivery as a result of the pandemic which improved partnership working. The report recognises the significant challenges that services experienced and how teams responded to the challenges that the pandemic brought. The key corporate performance indicators for 2020/21, as established and reported by the Council, demonstrate improvement despite the challenging year, although 5 of the Corporate Performance Indicators remain classified in the red category (2019/20: 8).

Accountability and delivery of improved outcomes

Key indicators within the Council's balanced scorecard provide an assessment of progress against the priorities within the Single Midlothian Plan alongside other services indicators. The final balanced scorecard for 2020/21 was presented to the Performance, Review and Scrutiny Committee in June 2021. This reports that, for those indicators where data is available in relation to the Single Midlothian Plan, 52% of indicators are on track for delivery, however, we note that data was only available for 12 indicators compared with 50 in the equivalent report for the prior year. The lack of available data results in challenges in meaningfully assessing the Council's performance. While we note that the Council relies on partners to provide data, the timescale under which the annual balanced scorecard is produced and reported should be reviewed to ensure it includes meaningful data that can be used to evaluate the Council's performance.

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

Statutory Performance Indicators

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

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

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

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

This includes reporting of the most recently available LGBF results to the relevant committees and to the public. At the time of drafting this report, the LGBF reporting has not been finalised for reporting for 2019/20.

We note that while the Council continues to publish performance reports regularly on the Council website, the Public Performance report for 2020/21 is yet to be published at the time of writing. We will continue to monitor and consider the adequacy of reporting against the revised requirements in 2021/22.

Community and Staff Engagement

The Council recognised that the pandemic has significantly changed the working practices of staff with service delivery constantly evolving to meet the requirements of the Midlothian community as well as remain compliant with government guidance and ensure staff welfare is maintained.

The Council recognised that while the last 18 months have been challenging, it's an opportunity to deliver real change. Working with Nesta, the Council conducted interviews with Council staff within different areas of the organisation to understand their experiences during the pandemic and the experience can be learned from to shape the future Midlothian Council. Insights from the report, which has been published on the Council website, were shaped into 5 themes:

- ▶ Valuing Community
- ▶ Remote/Flexible working
- ▶ Digital First
- ▶ Leading new ways of working
- ▶ Education

The report was approved by Cabinet in September 2020 with recommendations being incorporated within service plans accordingly and have been reported on within the Council's Annual Performance Report. Key developments during the year include the approval of the Council's Digital Strategy in June 2021. The strategy sets out how over the course of the next 3 years, local outcomes will be improved by delivering digital services to digitally connected communities.

The Council was recently recognised for significant innovations in improving public services for the #kindnessmidlothian campaign which was launched at the start of the pandemic to ensure communities were supported through the challenging time through the IESE Public Sector Transformation Awards.

The Council has demonstrated commitments to engage and gather feedback from both local communities and staff to shape the delivery of future services.

Best Value

Our Best Value Follow Up work was postponed in 2019/20 to allow the Council to reflect on learning and implications of the recovery from the pandemic. In 2020/21, Audit Scotland supported our work to carry out a focused review of the progress that the Council has made against the recommendations made within the Best Value Assurance Report published in July 2019. We have drawn upon these judgements, along with our wider scope and other work to conclude on the Council's approach to Best Value. We note through work undertaken in the year that the Council has a number of key characteristics of Best Value in place, including an effective approach to strategic planning post-pandemic and improved financial planning arrangements.

Our work this year and in the extended year 6 of our appointment will finalise all areas of our consideration around Best Value in the appointment period.

Forming our judgement

As appointed auditor, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities. In forming this judgement, we draw upon the work conducted in response to our wider scope responsibilities as outlined in this report. This includes drawing upon the work we complete around the Best Value coverage areas outlined on page 45 of this report, and our wider understanding of the Council's arrangements through the year. In particular this year we have considered the work supported by Audit Scotland to consider progress against the recommendations within the BVAR. We note that Audit Scotland was content with the progress made by the Council despite the challenging period since the publication of the report.

Looking ahead

In 2019/20 we reported that the Council had rightly focused on the immediate impact and required work resulting from the global pandemic. We noted that, as the immediate impact of Covid-19 transitions to assessing its longer term impact on the Council, its service users and wider public as well as other public bodies, it is important that the Council continues to reassess its own arrangements for Best Value in this changing environment. This should include both the Council's delivery of Best Value as services and priorities evolve and its own internal arrangements for ensuring its priorities are focused correctly and monitored and reported.

Our Best Value work planned for the remainder of our appointment period, as outlined on page 45, will allow the opportunity to observe how the longer term impact of Covid-19, in addition to the other more established risks and challenges facing local government generally and the Council specifically, will be considered as the Council works towards developing an updated corporate plan supported by its next medium term financial plan.

Exhibit 5: Our assessment of progress against Best Value Assurance Report recommendations




Best Value Assurance Report Recommendation and Commentary	Our Assessment
<p>1. As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the council's transformation plans (paragraphs 28, 64-65, 73-74, 130-132).</p>	
<ul style="list-style-type: none"> ▶ The Council agreed its Medium Term Financial Strategy in June 2019. There was cross party recommendations made to Council in February 2021 to implement a corporate solution for the 2021/22 budget, ensuring the need for no additional service reductions at an already challenging time for communities. A similar corporate solution will be progressed for the 2022/23 budget. ▶ As a result of the Covid-19 pandemic, the Council developed a new strategic approach to transformation in the form of the Midlothian Route Map through and out of the crisis which was approved by Council in June 2020. ▶ In April 2021 the council agreed a revised remit of the Business Transformation Board (BTB) and supporting governance arrangements to drive the strategic route out of the Covid-19 pandemic at pace. 	
<p>2. The council needs to develop and sustain more constructive relationships between members and between members and officers. It needs to implement effective cross-party governance arrangements to ensure that it delivers the medium-term financial strategy and transformation plans (paragraphs 22-25, 28, 74, 131-132).</p>	
<ul style="list-style-type: none"> ▶ Elected member oversight of transformation plans and financial strategy is provided by the Business Transformation Steering Group. This is led by the council leader and comprises a cross party forum. ▶ Additional cross party groups have been established for Education, and recently agreed for Digital and Place. ▶ The Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of regular reporting arrangements throughout the pandemic. 	
<p>3. The council needs to ensure that workforce planning reflects the medium-term financial strategy (paragraph 86).</p>	
<ul style="list-style-type: none"> ▶ The workforce strategy was approved by Council in December 2019 but the impact of the pandemic has led the Council to revise its strategic approach to workforce planning. The Council's important work with NESTA included consultation with staff and communities in July 2020 to achieve consensus about future priorities. The feedback identified five guiding priorities: <ol style="list-style-type: none"> 1. Valuing Community 2. Remote/Flexible Working 3. Digital First 4. Leading New Ways of Working 5. Education ▶ The Council has prioritised workforce gains by setting up a workstream of the business transformation programme focused on workforce deployment. The remote working board has been established to lead progress in this area. It's purpose includes, providing strategic leadership over the delivery of strands of work which are identified as being required to deliver sustainable remote working outcomes for the delivery of services. Initial areas of activity include: <ul style="list-style-type: none"> • A Digital Route Map to support a sustainable Remote Working hub and spoke placed service delivery • Property Route Map to support Remote Working • Development of a vision for how locality based assets can support remote working/hub and spoke placed service delivery, including opportunities for office rationalisation. 	

Exhibit 5 continued




Best Value Assurance Report Recommendation and Commentary	Our Assessment
<p>4. The council should undertake a review of its capital programme, to ensure that the timeframes for delivery are achieved going forward and that monitoring and reporting mechanisms are enhanced to drive more accurate analysis and planning around capital work (paragraphs 80-82).</p> <ul style="list-style-type: none"> ▶ The capital programme has been accelerated in line with the Midlothian Route Map Through and Out of the Crisis which was approved by Council in June 2020. Supporting capital projects were approved by Council in June and August 2020. Two new Heads of Development have been appointed to take forward the ambitious programme at pace. The latest iteration of the capital plans, including pipeline progress sets out investment of circa £0.8bn over the period. ▶ The Council has revised its approach to capital programmes through establishing a capital strategy board underneath the BTB. The purpose of the group is to ensure a joined up approach to deliver the strategic objectives of the Corporate Asset Management Strategy and Capital Investment Strategy. It's terms of reference, set out in April 2021, includes consideration Outline Business Cases for significant projects emerging from Asset Management Plans. 	
<p>5. The council need to continue to implement financial planning arrangements to address budget gaps, underpinned by robust financial budgeting and monitoring arrangements (paragraphs 75-79)</p> <ul style="list-style-type: none"> ▶ As noted above, the Medium Term Financial Strategy was approved by Council in June 2019 with cross party recommendations made to Council in February 2021 to implement a corporate solution for the 2021/22 budget, ensuring the need for no additional service reductions at an already challenging time for communities. ▶ Our wider scope work noted that good financial management arrangements and control of the in-year budget are in place, including understanding of the ongoing impact of Covid-19 ▶ The Finance Team has led a discussion about the current format of financial monitoring reports with the Corporate Management Team to ensure that the reports meet the changing requirements of the Council. 	
<p>6. The council should refine its vision in light of the outcome of consultation work through the Services with Communities transformation workstream and to ensure that it focuses its activity most effectively (paragraph 19).</p> <ul style="list-style-type: none"> ▶ As noted above and in our 2019/20 Annual Audit Report, the Council acted quickly to learn the lessons from the pandemic and to underpin future strategic planning. The Routemap through and out of the crisis outlines priority interventions in: <ul style="list-style-type: none"> • Economic Renewal • Accelerated Capital programme for Housing and the School Estate • Education Recovery Plan • Hub and Spoke Place Service Delivery • Health and Social Care Transformation • Digital by default, Remote working and Carbon Neutral by 2030 approaches to the workplace and active travel. 	

Exhibit 5 continued

Best Value Assurance Report Recommendation and Commentary	Our Assessment
<p>7, Elected members need to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities (paragraphs 25, 59-62).</p> <ul style="list-style-type: none"> ▶ The Council provides a variety of opportunities for elected members to receive training and learn more about specific parts of Council services. Tailored training has been provided to meet the needs of councillors, included a well-attended training session on Treasury Management. ▶ Alongside the new ways of working during the pandemic, the Council has recently introduced personal development plans for elected members. The Council intends that following an induction programme for elected members following the next elections, individual members will take ownership for completing the plans and identifying areas where they wish to see more development opportunities. 	
<p>8. The council should continue to build on positive elements of community empowerment. It should look to increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress (paragraphs 113-117).</p> <ul style="list-style-type: none"> ▶ The Council's work with NESTA on the Listen and Learn programme highlighted the value of working together with communities. A neighbourhood services co-design project was brought together to shape and test new ways of working in partnership with communities. ▶ The Council's business transformation programme has established a workstream concerned with a Place Based Solutions Board, looking at the development of a Hub and Spoke model. Its intentions are to form a more joined-up, collaborative, and participative approach to services, land and buildings, across all sectors within a place, enables better outcomes for everyone and increased opportunities for people and communities to shape their own lives. ▶ In addition, the Council and Midlothian's community and third sector organisations updated their compact agreement in October 2020. This outlines the principles they will work to: <ul style="list-style-type: none"> • Togetherness • Respect • Accountability • Creativity • Kindness ▶ These form the TRACK values and aim to ensure that the relationships between partners develop and evolve in ways which ensure the best outcomes for local communities, yet fostering respect, accountability and challenge. The Council and its partners have set out plans to evaluate the impact of the compact, including evaluation of specific cross-sector events and training activities, case studies of good practice and impact, collective impact of joint working, finances attracted, efficiencies created and outcomes improved. 	

Future best value audit work

In our Annual Audit Plan for 2020/21 we reported that our Best Value work for the year was to be agreed with Audit Scotland in April. The areas of focus subsequently agreed and reported in our finalised plan are highlighted below. This included some areas which had been deferred from 2019/20 as reported last year to allow management to focus on key operational priorities during the lockdown and recovery period, and allowed our audit to prioritise the financial statements audit requirements to ensure we were flexible and pragmatic in the current circumstances.

We outline previously the sources from which our conclusion around the Best Value arrangements at the Council this year are formed. Below is an updated summary of our Best Value work delivered to date over the initial five years of our appointment.

Five year Best Value Audit Coverage						
	16/17	17/18	18/19	19/20	20/21	21/22
Vision and Leadership						
Sound Governance and Accountability						
Effective Use of Resources						
Partnership and collaborative working						
Community responsiveness						
Sustainability						
Fairness and equality						
Performance outcomes and improvement						

Following the extension of our appointment by Audit Scotland to include the 2021/22 financial year audit, we will engage in discussions with management and Audit Scotland to agree the planned schedule of work for the 2021/22 audit, which we will report to the Council's Audit Committee in March 2022. This will be designed to ensure we complete any outstanding areas of Best Value focus not yet completed during our appointment period, including any deferred from 2019/20 and not subsequently reviewed this year. It will also be designed to address those areas of focus most relevant to the Council, particularly as it turns its attention to its new corporate and medium term financial planning arrangements.



Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

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

E - Adjusted errors identified during the audit

F - Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit, risk and governance committees or equivalent) in monitoring these arrangements.

Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified
- ▶ compliance with any statutory financial requirements and achievement of financial targets
- ▶ balances and reserves, including strategies about levels and their future use
- ▶ how they plan to deal with uncertainty in the medium and longer term
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

Appendix B: Independence and audit quality

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

Matters that we are required to communicate

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

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

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

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

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

Audit Fees

	2020/21	2019/20
Component of fee:		
Total agreed auditor remuneration	£148,890	£144,550
Additional audit procedures (see below)	£27,300	£45,110
Audit Scotland fixed charges:		
Pooled costs	£14,160	£14,140
Performance audit and best value	£66,860	£64,560
Audit support costs	£8,190	£8,740
Total fee	£265,400	£277,100

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

Through the 2020/21 audit cycle we have discussed with management areas of the audit which required additional work beyond that usually expected for the Council. These areas related to the audit of the Treasury Management (£14,800) as part of our wider scope procedures, the audit of the Council's Covid-19 grant income accounting arrangements (£4,900), and the additional costs related to undertaking the audit fully remotely (£5,700) in 2020/21 due to the impact of Covid-19, together with additional PFI specialist involvement in relation to the Millerhill financial model (£1,900). For these areas we have agreed the fee noted in the table above with management and Audit Scotland, based on the additional time required at the contracted Audit Scotland rates.

Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2020 UK Transparency Report can be accessed on our website at https://www.ey.com/en_uk/who-we-are/transparency-report-2020. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our Audit Quality Report.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the Council since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix C: Required communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>Annual Audit Report</p>

Required communication	Our reporting to you
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>No significant matters have been identified.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Annual Audit Plan</p> <p>This Annual Audit Report - Appendix B</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p>Subsequent events</p> <p>Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	<p>Annual Audit Report or as occurring if material.</p>
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	<p>Annual Audit Plan</p> <p>This Annual Audit Report</p>

Appendix D: Action Plan

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

New recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty.	<p>The completion in 2020/21 of the revaluation of the major aspects of the Council's assets, would be an opportunity for the Council to consider its approach going forward as a matter of good practice. This review may include:</p> <ul style="list-style-type: none"> ▶ Reducing the time between full valuations for all major individual asset classes; ▶ Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations; and ▶ Ensuring up-to-date condition surveys are in place for all assets. <p style="text-align: right;"><i>Grade 2</i></p>	<p>Response: Accepted. A review of the asset valuation arrangements will be undertaken in preparation for the 2021/22 year end. Changes arising will be reflected in the formal engagement with the internal valuation team and in the final accounts project plan.</p> <p>Responsible officer: Chief Officer, Corporate Solutions</p> <p>Implementation date: 31 March 2022</p>
2	We noted there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement.	<p>While the Annual Governance Statement is in line with current requirements, there is an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Response: Accepted. In preparation for the 2021/22 Annual Governance Statement a review of the structure will be undertaken and changes reflected in the draft Annual Governance Statement for 2021/22</p> <p>Responsible officer: Chief Internal Auditor/Legal Services Manager</p> <p>Implementation date: May 2022</p>

Classification of recommendations

	Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
3	<p>We note that the role and membership of the Audit Committee should be considered by the new Council, following local government elections in May 2022. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value.</p>	<p>The Council should review audit committee arrangements post-election to ensure that governance arrangements reflect the political and strategic environment.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Response: Accepted. The review will form part of the review of Standing Orders and the Scheme of Delegation in preparation for the next term of Council.</p> <p>Responsible officer: Executive Director Place</p> <p>Implementation date: May 2022</p>
4	<p>Quarterly and annual performance reports presented to Cabinet and Performance, Review and Scrutiny Committee are heavily narrative based.</p> <p>Council officers have been exploring alternative formats for presenting data including the introduction of graphics such as charts, trend analysis however Committee reports, which are also publicly available, continue to contain significant narrative analysis.</p>	<p>Officers should work with members to ensure performance reports are presented in a manner which supports effective challenge and scrutiny, including through the use of more graphical presentations.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Response: Accepted. Work is underway to progress dashboards which will supplement quarterly reporting data currently available to elected members via 'Pentana Browser'. In addition these will be publicly available ensuring more timely and accessible performance information is published on the Council's website. The intention is to introduce dashboards as part of improvements for the performance management cycle for 2022/23.</p> <p>Responsible officer: Continuous Improvement Manager</p> <p>Implementation date: September 2022</p>

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
1	<p>Our review of the valuation report provided by the Council's in house Property and Investment management team identified a number of errors and inaccuracies. To comply with best practice, it is recommended that the Council employs an external valuer on a cyclical basis to review valuations performed by the in-house team.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>As part of a de-brief on 2018/19 year end processes the Council will consider options to enhance management review activity in respect of asset valuations.</p> <p>Responsible officer: Head of Finance & ISS</p> <p>Implementation date: 31 March 2020</p>	<p>While we noted one error in relation to a calculation of a valuation, we continue to note improvements in the quality of working papers and responses to audit queries.</p> <p>Our assessment: Complete</p>
2	<p>Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis. The Council must continue to develop a balanced MTFP in the medium to long term.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Agreed, Officers continue to support BTSG to recommend measures to council to achieve a balance MTFS.</p> <p>Responsible officer: BTSG</p> <p>Implementation date: 11 February 2020</p>	<p>While plans are in place for the 2021/22 and 2022/23 budgets, the Council is relying on one-off measures. Significant work is required to develop a revised MTFS for the next administration.</p> <p>Our assessment: Ongoing</p>

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
3	<p>The Council continues to experience timing and data accuracy issues in relation to feeder financial information systems</p> <p>The Council must ensure that services apply greater rigour to feeder financial systems to support improved reporting.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed. As part of the review of the 2018/19 year end an issue and lessons learnt report is being prepared which will set out recommendations for future improvement required for 2019/20 year end.</p> <p>Responsible officer: Head of Finance & ISS</p> <p>Implementation date: 31 March 2020</p>	<p>Within Financial Management, we noted that the level of variation in financial monitoring reports noted in prior years did not occur, signalling improved financial forecasting and control.</p> <p>Our assessment: Ongoing</p>
4	<p>The Best Value Assurance Report highlighted that there is scope to be clearer about priority indicators and targets to track the Council's performance. The Council should ensure that performance reporting arrangements support elected member scrutiny.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Responsible officer: Quality & Scrutiny Manager</p> <p>Implementation date: 31 March 2020</p>	<p>While significant improvements have been made to the Council's performance reporting capability, we note within the Value for Money section that there is scope to refine key performance measures and targets.</p> <p>Our assessment: Ongoing</p>

Appendix E: Adjusted errors identified during the audit

This appendix sets out the significant adjustments processed as part of finalisation of the financial statements. There were two unadjusted audit differences identified above our reporting threshold.

Adjusted differences			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's
1	<i>Accumulated Absences Accrual - correction of formula used to calculate accrual.</i>	Dr Expenditure 596	Cr Creditors 596
2	<i>Millerhill Residual Waste (PPP) - recognition of updated model.</i>	Cr Depreciation 115	Dr PPP Liability 598 Cr Cash 483

Unadjusted differences			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's
1	<i>Burnbrae Early Years Facility - error in the calculation of the valuation</i>	Dr Surplus on Revaluation of PPE 424	Cr PPE - Buildings 424
2	<i>Reclassification of Credit Balances within Debtors</i>		Dr Debtors 353 Cr Creditors 353

Appendix F: Timing and deliverables of the audit

We delivered our audit in accordance with the timeline set by the Council, in accordance with the annual audit planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2020/21 audit cycle, including the remaining areas of work with completion deadlines subsequent to this report.

JAN	Audit Activity	Deliverable	Timing
FEB	<ul style="list-style-type: none"> Onsite fieldwork, documentation and walkthrough of key accounting processes 	Annual Audit Plan	Finalised and submitted to Audit Scotland April 2021
MAR	<ul style="list-style-type: none"> Scoping of wider scope work for year 		
APR	<ul style="list-style-type: none"> Review of current issues impacting the Council Review of reported frauds 	Quarterly current issue return submission Quarterly fraud return submission	Quarterly throughout the audit cycle
MAY	<ul style="list-style-type: none"> Education Maintenance Allowance (EMA) grant claim testing 	Certified EMA return	Submitted to Audit Scotland July 2021
JUN	<ul style="list-style-type: none"> Submit minimum dataset return to Audit Scotland 	Return for financial overview	Submitted to Audit Scotland September 2021
JUL			
AUG	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements 	Whole of Government Accounts assurance statement to NAO (as required)	Financial statements audit and annual audit report submitted September 2021.
SEP	<ul style="list-style-type: none"> Conclude on results of audit procedures Issue opinion on the Council's financial statements 	Certify Annual Financial Statements Issue Annual Audit Report	WGA guidance and further minimum dataset return requests awaited.
OCT		Submit minimum dataset return to Audit Scotland	
NOV	<ul style="list-style-type: none"> Completion of Non-Domestic Rates return testing 	Certified Non-Domestic Rates return	On course for completion October 2021
DEC	<ul style="list-style-type: none"> Completion of Housing Benefits claim testing 	Certified Housing Benefit subsidy claim	On course for completion January 2022

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