THIS PAPER RELATES TO ITEM 14 ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to: Audit and Scrutiny Committee

Date of Meeting: 24 October 2024

Subject: 2023/24 External Audit Planning Report

Report by: Chief Finance Officer

1.0 Purpose

1.1. This report presents the External Audit Planning Report which sets out the planned audit activity by the Councils External Auditors – Deloitte, in respect of the audit of the 2023/24 draft annual accounts and wider audit activity including Best Value.

2.0 Recommendations

Committee is asked to:

2.1. Comment and note the proposed external audit plan, **Appendix A**, for the audit of the 2023/24 draft annual accounts, and

2.2. Note the timetable for presentation of the Annual Report and approval of the Final Audited Accounts (table1).

3.0 Considerations

3.1. The Council is required by law to prepare a statement of accounts in accordance with 'proper practices' which set out its financial position at the end of each financial year. This is defined as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom prepared by the CIPFA/LASAAC Joint Committee.

3.2. The Local Authority Accounts (Scotland) Regulations 2014, require the Chief Finance Officer, as the Council's s95 officer, to prepare the Statement of Accounts as soon as practicable after the end of each financial year and to submit for Audit to the Council's External Auditors.

3.3. The statutory deadlines for producing the draft annual accounts and approving the audited annual accounts are 30 June and 30 September respectively. These deadlines were previously extended during COVID which has caused the ongoing delay and the Council is working to meet the statutory deadlines for the 2024/25 annual accounts. The draft timetable as agreed with the external auditors, is set out below.

3.4. Table 1 – 2023/24 Annual Accounts Timetable

Action	Date
Draft Financial Statements submitted to Council for consideration	**Council Meeting – November 2024/January 2025**
Submission date of unaudited annual report and accounts with complete working papers package to External Audit	29 November 2024
Audited Financial Statements to be considered by Council	**Council Meeting - 20 March 2024**
Independent auditor's report signed	20 March 2025

4.0 External Audit Plan

4.1. Deloitte has been appointed by the Accounts Commission as the external auditor for Clackmannanshire Council for the five year period, which commenced in 2022/23. This audit of the 2023/24 annual accounts will be the second year of the appointment.

4.2. Each year the external auditor prepares an annual plan along with the associated fee level which is submitted to Council or the appropriate Committee. The attached planning report sets out the activity in relation to the risks and planned audit work and the scope and timing of the audit. The Chief Finance officer discusses and agrees the plan prior to presentation and Committee is encouraged to discuss the plan and associated assessments and rationale with the external auditor. Following the audit, all external audit activity undertaken against this plan will be formally reported via Council or the relevant Committee as appropriate.

4.3. A new standard, IFRS 16 Leases, will become mandatory from 1 April 2024/25. Under this standard, the 2023/24 financial statements must disclose the anticipated impact of IFRS 16 on the 2024/25 accounts. While the external audit planning report suggests presenting a separate report to the Audit & Scrutiny Committee prior to finalising the draft 2024/25 accounts, the usual approach is to provide details of any major changes when the draft annual accounts are presented. Our plan is to include the specifics and implications of the change in the covering report accompanying the 2024/25 draft accounts when submitted to Council in June 2025

4.4. The plan also sets out the anticipated fees for the 2023/24 audit work which have been set at £253,130. Following conclusion of the 2022/23 audit, Deloitte have notified us of additional fees that they have incurred to carry out the audit that they intend to charge us for. These fees are currently being discussed and are yet to be agreed to. For the 2023/24 audit we have requested that Deloitte advise us of any potential additional fees as soon as they are aware of them.

5.0 Sustainability Implications

5.1 Not applicable

6.0 Resource Implications

6.1 Financial Details

6.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes ☑

6.3 Finance have been consulted and has agreed the financial implications as set out in the report. Yes ☑

6.4 Staffing

7.0 Exempt Reports

7.1 Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☑

8.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box ☑)

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all ☐

Our families; children and young people will have the best possible start in life ☐

Women and girls will be confident and aspirational, and achieve their full potential ☐

Our communities will be resilient and empowered so that they can thrive and flourish ☐

(2) **Council Policies**

Complies with relevant Council Policies ☒

9.0 Equalities Impact

9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?
Yes ☐ No ☑

10.0 Legality

10.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☑

11.0 Appendices

11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix A – Annual Audit Plan 2023/24

12.0 Background Papers

12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ☐ (please list the documents below) No ☑

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Lindsay Sim	Chief Financial Officer	2022

Approved by

NAME	DESIGNATION	SIGNATURE
Chris Alliston	Strategic Director, Partnership and Performance	[redacted]

Deloitte.

Clackmannanshire Council

Clackmannanshire Council

Planning report to the Audit and Scrutiny Committee on the 2023/24 audit,
Issued on 3 October 2024 for the meeting on 24 October 2024

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1.1 Introduction

The key messages in this report

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

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

I have pleasure in presenting our planning report to the Audit and Scrutiny Committee ("the Committee") of Clackmannanshire Council ("the Council") for the 2023/24 audit. I would like to draw your attention to the key messages of this paper:

Audit plan

We have updated our understanding of the Council, including discussion with management and review of relevant documentation from across the Council.

Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.

Key risks

We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 13.

Wider scope requirements

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks.

In carrying out our risk assessment, we have considered the arrangements in place for each area, building on any findings and conclusions from the 2022/23 audit, planning guidance from Audit Scotland and developments within the organisation during the year. Our wider scope significant risks are presented on pages 19 to 25. As part of this work, we will consider the arrangements in place to secure Best Value (BV).

1.2 Introduction (continued)

The key messages in this report (continued)

Regulatory change

Councils can voluntarily adopt IFRS 16, Leases, in 2023/24, with mandatory adoption from 2024/25. This will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. Clackmannanshire Council has chosen to adopt IFRS 16 from 2024/25 when it becomes mandatory. Further details are provided on page 17.

Our commitment to quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Added value

Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

We have also shared our recent research, informed perspectives and best practice from our work across the wider public sector on pages 26 to 30 of this plan.

Ian Howse
Lead Engagement Partner

2 Responsibilities of the Audit & Scrutiny Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit & Scrutiny Committee?

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit & Scrutiny Committee has significantly expanded. We set out here a summary of the core areas of Audit & Scrutiny Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit & Scrutiny Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Council, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate risk committee).
- Explain what actions have been or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.

3 Our audit explained

What we consider when we plan the audit

Responsibilities of management

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the audit & scrutiny committee

As explained further in the Responsibilities of the Audit & Scrutiny Committee slide on page 5, the Audit & Scrutiny Committee is responsible for:

- Reviewing internal financial controls and internal control and risk management systems (unless expressly addressed by a separate risk committee or by the Council itself).
- Monitoring and reviewing the effectiveness of the internal audit function; where there isn't one, explaining the absence, how internal assurance is achieved, and how this affects the work of external audit.
- Reporting in the annual report on the annual review of the effectiveness of risk management and internal control systems.
- Explaining what actions have been or are being taken to remedy any significant failings or weaknesses.

FRC guidance on good practice

The FRC, in its Review of Governance Reporting, issued November 2023, has identified good practice as including a clear statement describing the review undertaken, process and reporting of the outcome of the review of the effectiveness of risk management and internal control systems and clarity on what should be reported from the outcome of the review. This would include whether any weaknesses or inefficiencies were identified and explanations of what actions the council has taken, or will take, to remedy these.

Our response

As stakeholders tell us they wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

4 An audit tailored to you

Overview of our audit plan

Identify changes in your business and environment

The Council continues to face significant financial pressures, with rising costs not being matched by increased funding. This is considered further on page 20.

Scoping

Our scope is in line with the Code of Audit Practice issued by Audit Scotland. More detail is given on page 10.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report.

Identify changes in your business and environment → Determine materiality → Scoping → Significant risk assessment → Conclude on significant risk areas → Other findings → Our audit report

Determine materiality

We will use a materiality level of £3.390m in planning our audit. This is based on forecast gross expenditure. We will report to you any misstatements above £0.169m.

Further details on our materiality considerations are provided on page 9.

Significant risk assessment

We have identified significant audit risks in relation to the Council. More detail is given on pages 13 to 16.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of the Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

5 Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

Planning	Interim and wider scope	Year end fieldwork	Reporting
• Introduction and Planning meetings • Discussion of the scope of the audit • Discussion of fraud risk assessment	• Understanding of key business cycles • Carry out detailed risk assessments • Review of Council and Audit and Scrutiny Committee papers and minutes • Review of the work performed by Internal Audit • Complete wider scope procedures	• Audit of Annual Report and Accounts, including Annual Governance Statement • Year-end audit field work • Year-end closing meetings	• Reporting of significant control deficiencies • Final Council meeting • Submission of final Annual Audit Report to the Council and the Controller of Audit. • Submission of audited Annual Report and Accounts to Audit Scotland • Complete data sets
2023/24 Audit Plan	2023/24 Annual Audit Report		
September - October 2024	September - October 2024	December - January 2025	March 2025

Ongoing communication and feedback

6 Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined group materiality as £3.390m and performance materiality of £2.030m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the Annual Report and Accounts.
- We have used 1.5% of 2022/23 year-end gross expenditure (as management has not yet provided the draft accounts for March 31, 2024), as the benchmark for determining materiality compared to 1% in the prior year. We have applied 65% as performance materiality, up from 60% in the prior year, as the issues identified during the 2022/23 audit were not considered material. We have judged expenditure to be the most relevant measure for the users of the accounts.
- For the audit of Clackmannanshire Council (Council only), a materiality of £3.051m and performance materiality of £1.980m has been determined.

Reporting to those charged with governance

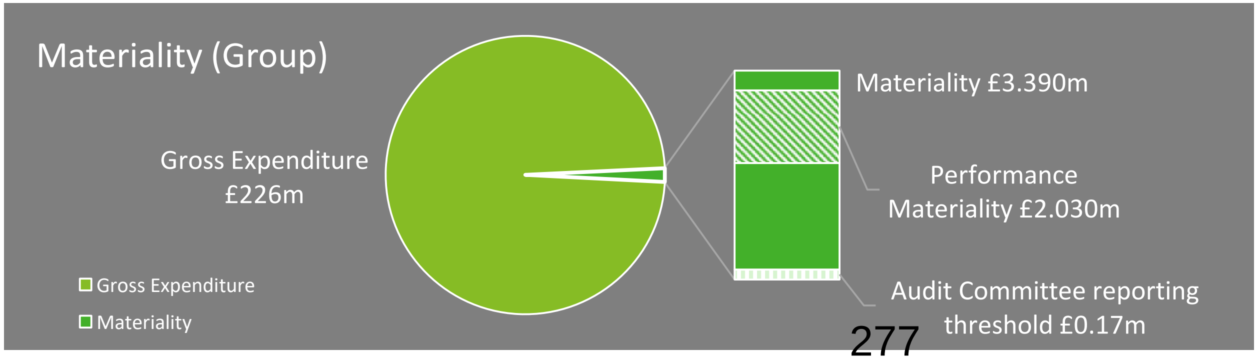
- We will report to you all misstatements found in excess of £0.169m for the Group and £0.152m for the Council.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance.

Our Annual Audit Report

We will:

- Report Group and Council only materiality, and the range we use for component materiality;
- Provide comparative data and explain any changes compared to prior year;
- Explain any normalised or adjusted benchmarks we use; and
- Explain the concept of performance materiality and state what percentage of materiality we used for the group and parent audits, with our rationale.



Although materiality is the judgement of the audit partner, the Audit & Scrutiny Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

7.1 Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Auditors activity	Planned output	Proposed reporting timeline to the Committee/ Council	Audit Scotland/ statutory deadline
Audit of Annual Report and Accounts	Annual Audit Plan Independent Auditor's Report Annual Audit Report	24 October 2024 20 March 2025 [2] 20 March 2025 [2]	31 March 2024 [1] 30 September 2024 30 September 2024
Wider-scope areas	Annual Audit Plan Annual Audit Report	24 October2024 20 March 2025 [2]	31 March 2024 [1] 30 September 2024
Consider and report on Best Value arrangements	Annual Audit Plan Annual Audit Report Thematic Review – Management Report	24 October 2024 20 March 2025 [2] 20 March 2025 [2]	31 March 2024 [1] 30 September 2024 30 September 2024
Audit of approved claims and returns	Annual Audit Plan Auditor certificate of housing benefit Auditor certificate of non-domestic rates return	24 October 2024 N/A N/A	31 March 2024 [1] TBC TBC
Provide assurance on specified returns	Annual Audit Plan Assurance Statement on Whole of Government Accounts (WGA) return	24 October 2024 N/A	31 March 2024 TBC

[1] The annual audit plan was not submitted by the Audit Scotland deadline, as the 2022/23 annual accounts were signed on 29th August 2024.

[2] The date for approval of the Annual Accounts and hence the Auditor's Report and Annual Audit Report of 20 March 2025 has been agreed with management. This is beyond the Audit Scotland's deadline due to the delay in providing the unaudited accounts which is unavailable until 29 November 2024 and delays in completing the audit plan and associated impact on the finance team as noted above.

7.2 Scope of work and approach

Our approach

Liaison with internal audit and local counter fraud

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work where necessary. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We use and continually update International Financial Reporting Standards ("IFRS") disclosure checklists in conjunction with the requirements of the Code to support the Council in preparing high quality drafts of the Annual Report and Accounts, which we would recommend the Council complete during drafting.

Other reporting prescribed by the Accounts Commission

In addition to the opinion on the Annual Report and Accounts, we are also required to provide an opinion on the following:

- Whether the audited part of the Remuneration Report has been properly prepared; and
- Whether the Management Commentary and Annual Governance Statement are consistent with the financial statements and have been properly prepared.

8.1 Your control environment

High-level impact on our approach

Your control environment	Your risk assessment process	Your information systems and communication	Your control activities	Your monitoring of controls

Pre-planning knowledge	In the 2022/23 year end audit we identified an adjustment in relation to the valuation of Alva Primary School and Alva Academy where the values were subsequently revised downwards in an updated valuation report. This had an impact on the desktop valuation performed on assets not formally revalued in the year, with the total impact being a £57.3m reduction in net assets. In addition, in the prior year we identified wider scope issues such as lack of financial capacity, as the finance team continues to be overstretched leading to delays in providing the audit team with required information / supports as well as lack of robust medium-to-long term planning arrangements to ensure the council can manage its finances sustainably and deliver services effectively. We will take consideration of this factor in both the main audit and wider scope work, analysing implications and changes to processes as a result.
Impact on our audit approach	**Performance materiality:** We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality with reference to factors such as the quality of the control environment and the historical error rate. Where we are unable to rely on controls, we may use a lower level of performance materiality. Refer to page 9 for full consideration of how performance materiality has been calculated. **Reliance on controls:** We will not be taking a controls reliance approach; however, we will be testing the design and implementation of the controls over significant risk areas and key estimates.

9.1 Significant risks

Significant risk dashboard

Risk*	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Page no.
Risk 1 – Management override of controls	✓	DI	⚠	✗	14
Risk 2 – Property valuations	✗	DI	⚠	✓	15
Risk 3 – Capital expenditure	✓	DI	⚠	✓	16

Level of management judgement

- ⚠ Limited management judgement
- ⚠ A degree of management judgement
- ⚠ Significant management judgement

Controls approach adopted

- DI Assess design & implementation

*In accordance with ISA (UK) 240, we assessed revenue fraud risk by analysing key income streams and concluded that it is not a significant risk and therefore we have rebutted the presumed risk of fraud in revenue recognition.

9.2 Significant risks

Risk 1 – Management override of controls

Risk identified	In accordance with ISA (UK) 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the Annual Report and Accounts as well as the potential to override the Council's controls for specific transactions. The key judgements in the Annual Report and Accounts are those which we have selected to be the significant audit risks – valuation of the Council's estate and recognition of capital expenditure. These are inherently the areas in which management has the potential to use their judgment to influence the Annual Report and Accounts.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will consider the overall control environment and 'tone at the top'; • We will review the design and implementation of controls relating to journals and accounting estimates; • We will make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; • We will test the appropriateness of journals and adjustments made in the preparation of the Annual Report and Accounts. We will use Spotlight data analytics tools to select journals for testing, based upon identification of items of potential audit interest; • We will review retrospective accounting estimates for biases that could result in material misstatements due to fraud and perform testing on key accounting estimates as discussed above; and • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

9.3 Significant risks (continued)

Risk 2 – Property Valuation

Risk identified	The Council held £343.997m of property assets (council dwellings and land and buildings) at 31 March 2022 which increased to £345.894m as at 31 March 2023, due to additions and upwards revaluations as a result of the Council undertaking a valuation of a sample of their assets across categories. The Council has engaged an external valuer to undertake a revaluation of a sample of assets for the 2023/24 financial statements. This will be a combination of a desktop exercise and site visits covering 14% of General fund Assets . The five yearly valuation of all Council assets and housing stock is due to be undertaken in 2024/25. The Council is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with its modern equivalent asset. The valuations are by nature significant estimates which are based on specialist and management assumptions, and which can be subject to material changes in value.
Our response	• We will review the design and implementation of key controls in place around the property valuation. • We will engage early with the Council, using our valuation specialists from Deloitte Real Asset Advisory, to review and challenge the assumptions used by management in determining the year-end valuation of the Council's Land and Buildings. • We will test the inputs to the valuation and the key asset information provided by the Council to the valuer back to supporting documentation. • We will challenge management's assessment for material changes in value for those property assets not subject to a full valuation during the year. • Assess the adequacy of management's review of those assets not subject to revaluation in the year. • We will assess the completeness and accuracy of property valuation disclosures in the financial statements by performing thorough tie-through procedures.

9.4 Significant risks (continued)

Risk 3 – Capital Expenditure

Risk identified	The Council has a significant capital programme and has budgeted £17.76m for capital works during 2023/24 (2022/23: £19.551m). Key projects include investment in the education estate, roads infrastructure improvements and expenditure associated with the Wellbeing Hub. Where the Council develops properties as part of its capital programme, determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards. The increasing pressures on the revenue budgets increases the risk of amounts being incorrectly capitalised.
Our response	• We will review the Council's capital plans as part of the planning process and discuss with management potential risks or issues identified. • We have requested management prepare accounting papers in respect of any areas of judgement in the application of accounting standards to determine whether costs should be capitalised, in particular in respect of the additions, disposal, depreciation, revaluation and impairment of fixed assets. • We will review the design and implementation of controls around the capitalisation of costs and test spending on a sample basis to confirm that it complies with relevant accounting requirements. • We will evaluate completeness of disposals or impairments of existing assets on completion of the above key projects. We will challenge any significant judgements made by management in regard to these projects, for example the capitalisation of staff costs and other project development costs, to ensure they comply with relevant accounting requirements.

10.1 Other areas of audit focus

We have identified the below areas of audit interest, although do not consider these to be significant risks

Risk identified	**IFRS 16**
Summary	IFRS 16 is effective for local government bodies from 1 April 2024, but can be voluntarily adopted from 2023/24. The introduction of IFRS 16 will have a significant impact on the balance sheet and on recorded capital expenditure for the Council. Clackmannanshire Council has opted to adopt IFRS 16 from 2024/25 when it becomes mandatory. The Council will be required to disclose the future impact of IFRS 16 in the 2023/24 accounts, as well as its decision not to adopt the standard from 1 April 2023. We recommend that an accounting paper is presented to the Audit & Scrutiny Committee on the transition for review as part of the Council's scrutiny over financial reporting.
Deloitte response	We will request from management an accounting paper on the work being done to prepare for implementation of IFRS 16.

Risk identified	**Expenditure recognition**
Summary	In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.
Deloitte response	We have considered this risk for the Council, and based on the prior year audit, there is no history of errors or audit adjustments in relation to expenditure recognition. This has therefore not been assessed as a significant risk area but will continue to be an area of audit focus in line with Practice Note 10. We will consider this further as part of our detailed risk assessment.

10.2 Other areas of audit focus (continued)

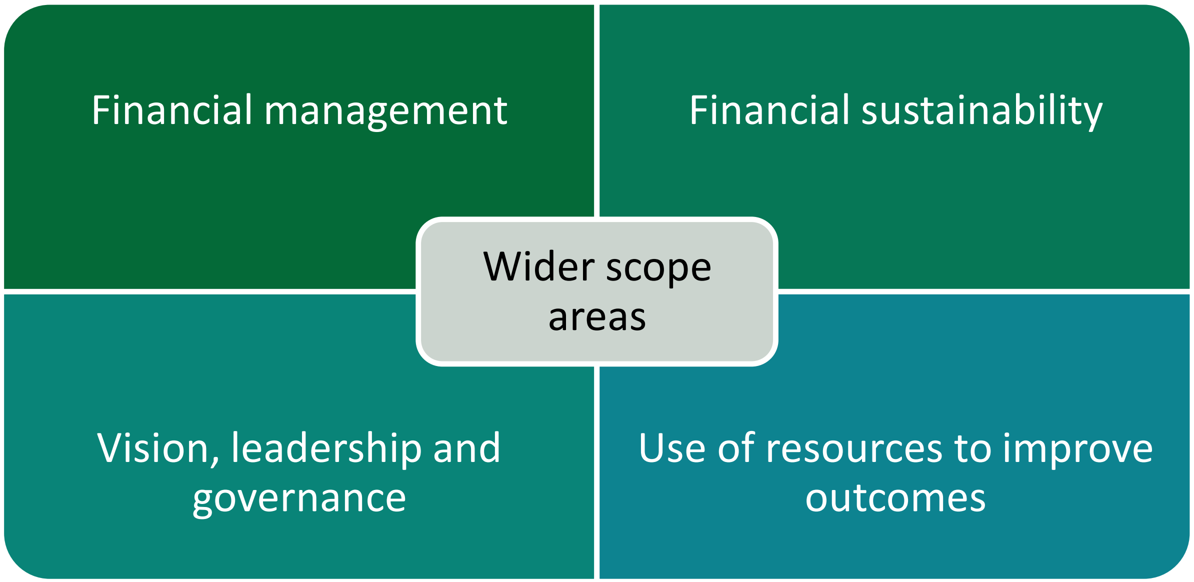
We have identified the below areas of audit interest, although do not consider these to be significant risks (continued)

Risk identified	**Pension Liability**
Summary	The Council participates in two defined benefits schemes: • The Falkirk Pension Fund, administered by Falkirk Council • The Scottish Teachers' Pension Scheme administered by the Scottish Public Pension Agency The net pension liability decreased from £88.859m in 2021/22 to an asset of £29.149m in 2022/23. The decrease was a combination of an increase in the fair value of the assets and a decrease in the liabilities as a result of demographic changes and financial assumptions. Hymans Robertson LLP are the Council's appointed actuary, who produce a detailed report outlining the estimated liability at the year-end along with the associated disclosure requirements. The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared by a reputable actuary using standard methodologies and no significant changes in the membership of the scheme or accrued benefits are expected in the current year. As a result, we have not identified this as a significant risk.
Deloitte response	We will perform the following procedures to address the risk: • Assess the independence and expertise of the actuary supporting the basis of reliance upon their work; • review and challenge the assumptions made by Hymans Robertson LLP; • Obtain assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary; • Assess the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund annual accounts; • Review the disclosures within the accounts against the Code.

11.1 Wider scope requirements

Overview

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



In local government, public audit includes the audit of arrangements for, and performance of, the audited body's duties for Best Value and community planning. In accordance with Audit Scotland planning guidance, we are required to undertake this duty in a way that is proportionate to the size and type of body. Our work on the wider-scope areas, discussed on pages 20 to 25 will contribute to our consideration of how the council demonstrates that it is meeting its Best Value responsibilities.

As part of our risk assessment, we have considered the arrangements in place for the wider-scope areas and have summarised the significant risks and our planned response on the following pages.

11.2 Wider scope requirements (continued)

Significant risks

Area	Significant risks identified	Planned audit response
Financial management	In 2022/23 we concluded that a number of areas in relation to financial management and internal control, which increase the risk that sufficient controls are not in place to manage finances appropriately. This included: • The capital budget process should be reviewed to ensure realistic budgets, clear timelines, and alignment with Council priorities. • A lack of finance team resources. From our planning work and understanding from the prior year audit, we have, however, not identified any significant risks in relation to financial management.	We will review the business processes and controls in place at the Council across its key system and assess whether the internal control arrangements are sufficient and appropriately resourced. In particular, we will follow up on the recommendations made in the prior year 2022/23 audit in relation to finance team capacity, and capital budget setting and monitoring arrangements review to ensure that realistic budgets are set with clear timelines and a clear linkage to Council priorities.
Financial sustainability	While the Council has historically achieved financial balance, there remains a potential risk that robust medium to long term planning arrangements are not in place to ensure that the Council can manage its finances sustainably and deliver services effectively. This is based on a number of factors, including: • In line with the whole public sector, pressures on expenditure including public sector pay costs and inflationary pressures not being met by increased income, resulting in an initial budget gap in 2024/25 of £11.561m before agreeing savings options. • Indicative gaps of £5.723m and £4.683m identified for 2025/26 and 2026/27 respectively for the General Services budget.	We will assess the development of the 2024/25 budget and the impact on the medium and longer-term financial outlook. We will also review the associated savings plans assess whether there are robust plans in place to reduce the funding gap. This will include consideration of the progress with the Council's transformation programme set out within its "Be the Future" plan. As part of the Best Value (BV) thematic work, discussed on page 22, we will assess the best value theme of workforce in 2023/24 in line with the planning guidance.

11.3 Wider scope requirements (continued)

Significant risks (continued)

Area	Significant risks identified	Planned audit response
Vision, leadership and governance	In 2022/23 we concluded that the Council demonstrated its commitment to conducting its business in an open and transparent manner through the recording of committee meetings and availability of information on its website. Following the local government elections in May 2022 the Council agreed a number of changes to its decision-making framework This recognised the size of the Council, being the smallest mainland Council in Scotland, with 18 elected members. The aim of the changes were to maximise participation of all elected members in decision making, sustain maximum transparency over the Council's decision making, streamline the administration of Council business and to enhance the effective scrutiny of Council activity and decisions. While intended to enhance efficiency and transparency, the changes to the decision-making framework introduce a risk to the control environment.	We will review the work of the Council to assess whether the governance arrangements are operating effectively, including assessing whether there is effective scrutiny, challenge and informed decision making.
Use of resources to improve outcomes	In 2022/23, we concluded that the Council continued to make positive progress addressing the recommendations contained in the Best Value Assurance Report published in January 2018 and the Subsequent Progress Report published in June 2019. Given the financial challenges faced by the Council, there is a risk that the Council is unable to demonstrate that resources are being used effectively with a focus on continuous improvement, ensuring that all roles are performed as required.	We will review the performance reports presented at the Council to assess the extent to which they demonstrate a focus on continuous improvement, as discussed further on page 22. This will incorporate consideration of the effectiveness and appropriateness for preparing and publishing the Statutory Performance Information considered further on page 23.

11.4 Wider scope requirements (continued)
Other requirements

Under the new Code of Audit Practice, the **audit of Best Value** in councils is fully integrated within the annual audit work. We are required to evaluate and report on the performance of councils in meeting their Best Value duties. There are four aspects to our work:

Considering Best Value (BV) arrangements	Reporting requirements
1. *Follow-up and risk-based work* – following up on Accounts Commission findings, Controller of Audit recommendations and any outstanding improvement actions reported in Best Value Assurance Reports (BVAR) and Annual Audit Reports.	We will report our judgement on the pace and depth of improvement in our Annual Audit Report, including follow up of the Accounts findings from September 2024. We have included the significant risks identified on pages 20 & 21 and will report our conclusions in our Annual Audit Report.
2. *Service improvement and reporting –* Councils should be able to demonstrate a trend of improvement over time in delivering their strategic priorities.	We will assess annually how effectively the Council demonstrates this improvement and report in the Annual Audit Report for 2023/24. We will also report in the Annual Audit Report a summary of the information the Council reports publicly on its service performance, drawing upon the information that the Council is required to report on by the Accounts Commission's Statutory Performance Information Direction. This takes forward the service assessments previously reported in the BVAR on the Council.
3. *Thematic reviews –* we are required to report on Best Value or related themes prescribed by the Accounts Commission. The thematic work for 2023/24 requires us to carry out review of workforce innovation.	We will report our conclusions in a separate management report on this work, using a template provided by Audit Scotland. This will be reported to those charged with governance in the Council at the conclusion of the 2023/24 audit. A summary of the findings and conclusions will be reported in our Annual Audit Report.

11.5 Wider scope requirements (continued)

Other requirements (continued)

Considering Best Value (BV) arrangements (continued)	Reporting requirements
4. Contributing to Controller of Audit reports – The Controller of Audit will report to the Accounts Commission on each council's performance in meeting its Best Value duties at least once over the five-year appointments.	The controller of audit report has already been presented to the commission in September 2024. We will follow up on the findings of the report.

Councils' Statutory Performance Information	Reporting requirements
The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibilities, under their Best Value duty, to report performance to the public. The Accounts Commission issued a new Statutory Performance Information Direction in December 2021 which applies for the three years from 2022/23.	We have a statutory responsibility to satisfy ourselves that the Council has made proper arrangements for preparing and publishing the statutory performance information in accordance with the Direction. We will conclude in our Annual Audit Report on: • the effectiveness and appropriateness of the arrangements in place for complying with the new Direction, including the balance and timeliness of reporting to members along with its accessibility for citizens and communities; and • The progress on implementing previous recommendations and any recommendations for further improvement in the arrangements.

11.6 Wider scope requirements (continued)

Other requirements (continued)

Area	Requirements
Shared Risk Assessment and Joint Scrutiny Planning	The Shared Risk Assessment (SRA) process is the vehicle for scrutiny bodies to share intelligence and agree scrutiny risks at Councils. Each council area has a Local Area Network (LAN) which comprises representatives from the main local government scrutiny bodies. As the appointed auditor, we are the LAN leads and are required to: • Engage with LAN members in other agencies to collect information on performance and scrutiny risks to inform risk assessment discussions • Work with other scrutiny bodies to facilitate engagement with the council and between each member • Discuss planned scrutiny with the council • Advise the Operational Scrutiny Group of any planned scrutiny activity
National Fraud Initiative	The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. All councils are participating in the 2024/25 NFI exercise. We will monitor progress throughout the audit.
Sectoral annual reports	The Accounts Commission has in previous years published two reports covering the local government sector. We will be required to complete a brief dataset containing some important information to assist in preparation of these reports.

11.7 Wider scope requirements (continued)

Other requirements (continued)

Area	Requirements
Anti-money laundering	We are required to ensure that arrangements are in place to be informed of any suspected instances of money laundering at audited bodies. Any such instances will be advised to Audit Scotland.
Fraud returns	We are required to prepare and submit fraud returns to Audit Scotland for all frauds at audited bodies: • Involving the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control • Over £5,000.
Whole of Government Accounts	We are required to provide assurance on Whole of Government Accounts (WGA) returns prepared by local government bodies where these are over a prescribed threshold.
Certification of grant claims and returns	We are required to provide certificates on specified grant claims and similar returns prepared by a audited bodies as part of the audit appointment, where they have been approved by Audit Scotland. The two approved claims/ returns for 2023/24 relate to housing benefit subsidy and non-domestic rates. As a change in principle from previous years, no other grant claims or similar returns may be certified in 2023/24 under the audit appointment. However, we may be permitted to undertake this work as a non-audit service rather than as core annual audit activity.

12.1 Reporting hot topics

Ongoing macro-economic uncertainty

Reporting in times of uncertainty

Businesses face unprecedented uncertainty from a variety of sources, including stresses arising from energy supply and costs, inflation, foreign exchange volatility, commodity availability and pricing, global supply chain disruption, labour shortages and the impacts of climate change. Many of these issues are exacerbated by the ongoing conflict between Russia and Ukraine.

High-quality, transparent reporting that clearly explains the impact of these uncertainties on the Council's financial position, performance and cash flows, as well as the Council's response to these risks, remains as important as ever.

Impact of ongoing macro-economic uncertainty – Considerations

The current macro-economic uncertainty and the resulting challenges have a pervasive impact on the financial statements and need to be considered comprehensively across all account balances and disclosures, in particular those involving estimation or judgement.

Sources of uncertainty likely to impact Council's operations and corporate reporting include:

- **High energy costs and risk of energy shortages**
- **Rising interest rates**
- **Rising levels of inflation**
- **Supply chain disruptions**
- **Continued pressures on labour supply and wages**

Impact of ongoing macro-economic uncertainty – Action

We expect all Council's to have undertaken a comprehensive, evidence-based assessment of the risks relating to macroeconomic conditions including for example, higher energy costs, supply chain disruption, rising levels of inflation, commodity availability and labour shortages. Consideration should be given to how those risks affect both the operations of the Council and the impact on the annual report and financial statements as a whole.

We expect Councils to have considered the pressures throughout the value chain(s) in which they operate, including an assessment of the risks relating to suppliers and operations.

12.2 Reporting hot topics (continued)

Climate and sustainability-related risks

Climate-related risks – Considerations

Investor expectations

Investors and other stakeholders are clear that climate-related risks could be material to businesses in all sectors. In particular, investors ask for clear, specific and quantified information that describes:

Whether the council's climate-related commitments and targets are 'Paris-aligned', how the council will deliver on those and how the commitments and targets have been reflected in the financial statements.

How the impacts of physical and transition risks have been considered in preparing the financial statements.

What climate-related assumptions and estimates were used to prepare the financial statements, how they are Paris-aligned, or an explanation of why not, together with sensitivity analysis showing the impact of using Paris-aligned assumptions and estimates.

How Paris-alignment impacts dividend-paying capacity.

Whether narrative reporting on climate risks and the accounting assumptions are consistent, or an explanation for any divergence.

Investors also look to the auditor to explain comprehensively how climate-related matters have been considered in the audit and to alert shareholders to potential inconsistencies.

Regulator expectations and climate thematic reports

In its Annual Review of Corporate Reporting 2022/23, the FRC made clear that it would be more likely to enter into substantive correspondence with councils that do not meet the expectations set out in both its 2022 Thematic review on TCFD disclosures and climate in the financial statements and 2023 Thematic review on climate-related metrics and targets. This will particularly be the case when climate is considered significant to the council, and when the council does not provide the recommended disclosures that are 'particularly expected' by the Listing Rules. July 2022, the FCA and FRC published **thematic reviews of TCFD disclosures and climate-related impacts** reported in premium listed entities' financial statements. This follows up on the FRC's 2020 thematic review of climate-related considerations.

The FRC's 2022 thematic review was published alongside the FCA's own findings from its review of the first climate-related financial disclosures made in line with the Listing Rules for TCFD disclosures. Both reviews highlighted discrepancies between the level of consistency of disclosures against the TCFD framework and that claimed by councils. The FRC and FCA cautioned councils to ensure that all relevant TCFD guidance as set out in the FCA's Listing Rules (LR 9.8.6C G), including all-sector guidance and, where appropriate, the supplemental guidance for the financial sector and for non-financial groups, is considered when making the TCFD 'statement of consistency'.

12.3 Reporting hot topics (continued)

Climate and sustainability-related risks

Regulator expectations and climate thematic reports (continued)

Councils in scope of the FCA Listing Rules should consider the TCFD guidance as updated in 2021 when preparing their disclosures, including the publication [TCFD Guidance on Metrics, Targets and Transition Plans] (October 2021), to ensure disclosures related to net zero commitments are not misleading.

The FCA also reiterated their expectation that entities retain records to support both the statement of compliance with TCFD and entities' detailed assessment of consistency of disclosures against the TCFD framework. The full FCA review is available on their website here.

The five key areas for improvements in climate-change reporting highlighted in the FRC's thematic review remain relevant:

- Giving more **granular and council specific information** about the effects of climate change on different businesses, sectors and geographies.
- Ensuring that the discussion of climate-related risks and opportunities is **balanced**.
- **Linking climate-related disclosures**, such as the output of climate-related scenario analysis, with other relevant narrative disclosures in the annual report, such as the business model or strategy.
- Explaining how **materiality** has been applied in deciding which climate-related information should be disclosed.
- Ensuring **connectivity between TCFD disclosures and the financial statements** to help investors understand the relationship between climate-related matters and judgements and estimates applied in the financial statements – for example, explaining clearly how different climate-related scenarios and the councils' own net zero commitments have been reflected in the financial statements.

The FRC report also includes disclosure examples and detailed expectations and can be found on the FRC's website here. https://www.frc.org.uk/getattachment/65fa8b6f-2bed-4a67-8471-ab91c9cd2e85/FRC-TCFD-disclosures-and-climate-in-the-financial-statements_July-2022.pdf.

12.4 Reporting hot topics (continued)

Climate and sustainability-related risks

Climate-related risks - Action

The impacts of climate change are a strategic issue that should be on the council agenda and integrated into decision making. We expect entities to have:

Reviewed their governance, processes and controls for identifying, and responding to, climate-related issues.

Completed a robust climate assessment including all physical and transition risks, not only for the organisation as a whole but for individual business units.

Assessed the climate change assumptions used in judgements and estimates in the financial statements.

Assessed scoping requirements for UK CFD and EU CSRD regulations for all entities in the group.

Evaluated the appropriateness and consistency of information in the financial statements and narrative disclosures.

Regarding financial statement disclosures, we expect entities to consider the transparency of information about the climate-related judgements and assumptions used in cash flow forecasts and other estimates that underpin the recognition and measurement of assets and liabilities. Information should be entity-specific and avoid boilerplate explanations.

The financial statements should clearly disclose:

- What climate-related assumptions have been used in preparing the financial statements.
- How significant climate risks or net zero transition targets have been taken into account in preparing the financial statements.
- Whether the assumptions used are consistent with the entity's climate-related commitments and targets, the Paris Agreement and the UK goal to achieve net zero GHG emissions by 2050, and if not an explanation of why not.
- Which climate-related scenarios have been considered in sensitivity analysis of climate-related assumptions and how they affect judgements and estimates in the financial statements.

12.5 Reporting hot topics (continued)

Climate related risks

Accounting for and reporting of climate-related risks - Action

Governance

The impacts of climate change are a strategic issue that should be on the Council's agenda and integrated into decision making. We expect entities to have:

- Reviewed their governance, processes and controls for identifying, and responding to, climate-related issues;
- Completed a robust climate assessment including all physical and transition risks;
- Assessed the climate change assumptions used in judgements and estimates in the financial statements;
- Evaluated the appropriateness and consistency of information in the financial statements and narrative disclosures; and
- Prepared a management paper setting out management's climate risk assessment and consideration of the impacts of climate change on the financial statements.

Financial statements

Regarding financial statement disclosures, we expect entities to consider the transparency of information about the climate-related judgements and assumptions. Information should be entity-specific and avoid boilerplate explanations.

The financial statements should clearly disclose:

- What climate-related assumptions have been used in preparing the financial statements;
- How significant climate risks or net zero transition targets have been taken into account in preparing the financial statements;
- Which climate-related scenarios have been considered in sensitivity analysis of climate-related assumptions and how they affect judgements and estimates in the financial statements.

For Councils, the most common area affected is assumptions around property valuations, particularly Modern Equivalent Asset assumptions, but this may impact other balances.

Narrative reporting

We expect the narrative accompanying the financial statements to include the following:

- An explanation of how climate is assessed as a strategic issue.
- Clarity of whether climate change represents a principal or emerging risk and how it is being managed.
- For climate-related targets and metrics, an explanation of how those targets and metrics fit into strategic targets/approach.

13.1 Audit quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on material issues and significant judgements by using our expertise in the sector and elsewhere to provide robust challenge to management.

We will obtain a deep understanding of your business, its environment and of your processes in income and expenditure recognition, payroll expenditure and capital expenditure enabling us to develop a risk-focused approach tailored to the Council.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve property specialists to support the audit team in our work on the valuation of property assets, IT specialists to support the audit team in our understanding of IT controls, pension specialists to support the audit team in our work on the pension liability.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills, delivered by Ian Howse (Lead Audit Partner).

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach.

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

13.2 Audit quality (continued)

FRC 2023/24 Audit Quality Inspection and Supervision report

Audit quality shapes our vision of the business we want to be, driving our priorities and defining our successes.

In July 2024, the Financial Reporting Council (“FRC”) issued individual reports on each of the six largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2023/24 cycle of reviews. We value the observations raised by both the FRC Supervision teams and the ICAEW Quality Assurance Department ("QAD"), both in identifying areas for improvement and also the ongoing focus on sharing good practice to drive further and continuous improvement.

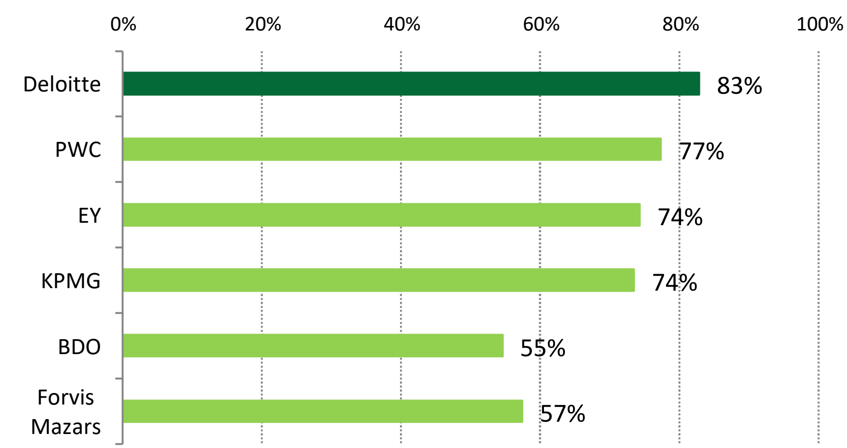
We are proud that the results of our FRC inspections show that 94% (2022/23: 82%) of our public interest audits were rated as ‘good’ or ‘limited improvements’ and that 100% (2023: 100%) of our audits reviewed by the ICAEW’s QAD were assessed as good or generally acceptable.

These sets of results reflect the continuous investment we are making and our commitment to acting in the public interest to deliver confidence and trust in business through our high-quality audits. We recognise we still have more we want to do to ensure that we consistently meet the high standards we expect of ourselves. We take inspection, system of quality management ("SoQM") and supervision focus areas seriously and place a significant level of resource and effort into understanding how we continually improve going forward.

We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year’s cycle.

We welcome the breadth and depth of good practice points raised by the FRC and ICAEW, particularly in respect of effective group oversight, contract accounting and the challenge of management, where we have continued to take action to support the high-quality execution of audit work.

All the AQR public reports are available on the FRC's website.
https://www.frc.org.uk/auditors/audit-firm-specific-reports-tier-1



13.3 Audit quality (continued)

Our commitment to audit quality and our system of quality management

Audit quality is at the heart of everything we do and our system of quality management (SQM) supports our execution of quality audits.

The FRC recently promulgated ISQM (UK) 1, a standard that sets out a firm's responsibilities to design, implement and operate a system of quality management for audits, reviews of financial statements, and other assurance or related services engagements.

Led by senior UK leadership, Deloitte UK's ISQM (UK) 1 implementation activities reached successful completion on 15 December 2022.

Deloitte UK performed its first annual evaluation of its system of quality management as of 31 May 2023. This evaluation was conducted in accordance with ISQM (UK) 1 and we concluded our SQM provides the firm with reasonable assurance that the objectives of the SQM are being achieved as of 31 May 2023.

For further details surrounding the conclusion on the operating effectiveness of the firm's SQM, including results of the monitoring activities performed, please refer to the disclosures within Appendix 5 of our publicly available [transparency report].

14 Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the Annual Report and Accounts audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

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

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Use of this report

This report has been prepared for the Audit & Scrutiny Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

Ian Howse

for and on behalf of Deloitte LLP

Cardiff | 3 October 2024

Technical and sector developments

15.1 Climate and Sustainability reporting landscape in the Public Sector

Currently, there are a number of reporting frameworks that are being adopted by the public sector. However the climate and sustainability reporting landscape is changing and with change comes challenge and complexity. A summary of the **current status** of the reporting landscape in the public sector, and the likely **future** of reporting against sustainability and climate-related matters, including the challenges and next steps to consider, is noted below.

Current status → **Future landscape**

HM Treasury

In June 2021, the Financial Reporting Advisory Board (FRAB) as independent advisory board to HM Treasury, established a sustainability subcommittee (SSC) to consider how public sector annual reports and accounts can best reflect climate disclosure reporting matters.

In the March 2023 meeting, FRAB-SCC recommended that HM Treasury (HMT) ensure existing resources are publicised across the Public Sector, including **roll out of Taskforce for Climate-related Financial Disclosures (TCFD)-aligned reporting in a 3-phase approach.**

Phase 1 Application Guidance **applicable for 2023/24** annual reports and accounts – Governance disclosures, high level overview on Strategy, Risk Management and Metrics and Targets.

Phase 2 Application Guidance **applicable for 2024/25** annual reports and accounts) – qualitative focus on risk management with existing metrics and targets recommended disclosures with TCFD elements.

Phase 3 Application Guidance applicable for 2025/26 annual reports and accounts) - quantitative focus with strategy with expanded metrics and targets. The inclusion of scenario analysis and recommended disclosures with TCFD element and to align with the next round of greening government commitments 2025/30 (where possible).

2022 — 2023 — 2024

IPSASB / CIPFA

In 2022, **the IPSASB led a global consultation on advancing public sector specific sustainability reporting.** IPSASB has analysed the responses to the consultation and aims to publish the initial guidance by the end of 2023. IPSASB are looking to develop their guidance to follow the same approach as the International Sustainability Standards Board (ISSB), utilising the TCFD framework.

At its December 2022 meeting, the IPSASB commenced the scoping of public sector specific sustainability reporting. To do this, IPSASB set out to establish **Sustainability Task Force** to focus prioritise research on Sustainability-related, Climate-related & Natural Resources disclosures.

In April 2023, CIPFA **published a report on sustainability reporting in the public sector providing guidance, best practice and advice.** These recommendations draw on standards and frameworks already developed such as TCFD, GRI and ISSB as well as the work ongoing by IPSASB.

The IPSASB **aims to publish** initial guidance by the **end of 2023.**

What next?

- *It is likely that the TCFD framework will be the first sustainability reporting standard implemented for the public sector, notably for Central Government.*
- *Other relevant bodies (E.g. CIPFA and Department of Health & Social Care) to set their own reporting requirements for their respective sectors.*
- *Expect further clarity later this year when the IPSASB guidance is published.*

What about assurance?

In its March 2023 meeting, FRAB recognised the complexity of introducing formal assurance requirements, with plans to implement this only under early consideration by the National Audit Office (similar in the private sector). We recommend that public sector bodies develop a plan to meet the expected reporting requirements and consider what oversight and assurance will be required ahead of year-end.

Next steps

Based on the experiences of existing TCFD reporters, implementation of sustainability reporting frameworks and standards is known to be challenging and early planning is essential to help meet expected reporting requirements. Some key considerations in anticipation of increased focus for the public sector include:

- ***Granularity** – The need for more detail, specificity and granularity was a key theme from the regulator this year. Going beyond the headline of each recommended disclosure is now common practice.*
- ***Connectivity** – Within and between the narrative and financial statement disclosures. In the example of TCFD disclosures, significant focus has been placed on financial quantification of climate impacts and ensuring front and back half disclosures are consistent with each other.*
- ***Access to data** – All sustainability and climate reporting will require additional data, both in terms of quantity and crucially, quality of what is collected and reported. Currently some data may not be readily available or complete, and/or require challenge and oversight to obtain, measure and report.*

15.2 FRC's corporate reporting highlights

Findings of FRC monitoring work

The FRC's Annual Review of Corporate Reporting 2022/23 provides detail on the areas that gave rise to the highest number of queries during the Corporate Reporting Review (CRR) team's monitoring work. The Highlight section summarises the top 10 issues and included below are those issues with most relevance to Local Government

Area	Companies should ensure that…
Impairment of assets	**...key inputs and assumptions applied in impairment testing have been disclosed and explained**, including the relevant values and sensitivity analysis, where required. Additional disclosures are required where headroom is low, and heightened uncertainties over inflation, consumer demand and interest rates may drive a wider range of reasonably possible outcomes for future cashflows and discount rates. Users should be able to understand how assumptions are consistent with discussion of uncertainties elsewhere in the report. **...impairment testing methodology complies with IFRS**, particularly that the grouping of assets into cash generating units (CGUs) is appropriate, the treatment of inflation in the discount rate and cashflows is consistent; and cashflows in 'value in use' calculations reflect the current condition of assets, before any future enhancement expenditure.
Judgements and estimates	**...all significant judgements, including those applied in performing the going concern assessment, have been described.** It is not sufficient to list the matters requiring judgement. **...disclosures about estimates include values, sensitivities and explain significant changes.** Sources of estimation uncertainty with a significant risk of resulting in a material adjustment within one year should be clearly distinguished from other estimates. **...disclosures are reassessed every year** to confirm all relevant matters are captured, immaterial issues are not rolled forward and the assumptions and ranges of reasonably possible outcomes remain appropriate in the company's current circumstances.
Cash flow statements	**...a robust pre-issuance review has been performed.** We found fewer 'routine' errors this year but continue to identify many issues from basic consistency checks, comparing the cash flow statement to other information in the financial statements. Other common errors we find through our desktop reviews relate to classification, netting, and reporting non-cash movements in the cash flow statement.

15.3 FRC's corporate reporting highlights (continued)

Findings of FRC monitoring work

Area	Companies should ensure that…
Strategic Report	**...the strategic report provides a fair, balanced and comprehensive review** of the company's development, position, performance and future prospects. This should include unbiased discussion of positive and negative aspects of performance, a clear articulation of the effects of economic uncertainty on the business, and should address significant movements in the financial statements, including those in the cash flow and balance sheet
Financial instruments	**...material risks arising from financial instruments are adequately disclosed,** along with how these are managed. In particular, this includes risks driven by inflation and rising interest rates, and related hedging arrangements. **...information about banking covenants is provided** unless the likelihood of any breach is considered remote.
Revenue	**...accounting policies are provided for all significant revenue streams** and describe the methodology applied, including the timing of revenue recognition, the basis for recognising any revenue over time, and any significant judgements made in applying those policies. **...they describe inflationary features in customer contracts** and the corresponding accounting treatment.
Provisions and contingencies	...they provide **clear and specific descriptions of the relevant exposure,** including the basis for determining the best estimate of the relevant outflow, and the timeframe over which it is expected to crystallise. **...the calculation and presentation comply with IFRS.** Provisions should not be presented net of any reimbursement asset and a consistent approach should be taken in reflecting the effects of inflation in cash flows and discount rates.
Presentation of financial statements	**...company-specific information about material accounting policies and transactions** is disclosed. It is important that these explain how the policies apply to the company's particular circumstances. **...the financial statements are carefully reviewed.** Common issues we found this year included errors in the classification of intercompany receivables balances between current and non-current, and failure to disclose material impairments of receivables on the face of the income statement.
Fair value measurement	...fair value measurements use market participants' assumptions, and provide high quality disclosures. We find most issues in the disclosure of recurring Level 3 measurements, for which the significant unobservable inputs should be quantified and a sensitivity analysis given. **Companies should consider the need for specialist third party advice** where no internal expertise.

16.1 Sector developments

The State of the State report 2024 – Increased demand and lower funding

Background and overview

The 12th edition of Deloitte and Reform's report on the UK public sector was launched in January 2024. Since 2012, we have aimed to create an annual snapshot of what's happening across government and public services to serve as an evidence base for informed discussion.

This year's State of the State finds public attitudes are concerned with NHS waiting lists, immigration and the country's infrastructure – alongside the increased cost of living crisis from prior years.

After years of reacting to crises, the latest State of the State report finds officials across the public sector eager for reform and calling for bold decisions about the future of government and public services.

Some key findings:

- The public expects big government to continue – but could be in for a shock
- Government needs to prioritise, so its aspirations match its resources
- People want public services they can access and complain to when things go wrong
- Digital maturity comes with mature digital problems

Next steps

Full report is available at: [The State of the State 2024 | Deloitte UK]

16.2 Sector developments

Audit Scotland: Local Government Budgets 2024/25

Background and overview

Scotland's councils are facing a significant gap in the money needed to deliver local services and the money they have available. This means councils will have to make increasingly difficult decisions about how councils are run, how they can deliver services and what services can continue.

Key Messages:

- In real terms, the 2024/25 Scottish Budget allocation of total revenue funding to local government has increased by 5.7 percent, however funding remains constrained as most of the increase is directed funding to deliver Scottish Government priorities and agreed pay deals.
- At the time of setting budgets, councils identified a difference of at least £585 million between their anticipated expenditure and the funding and income they expect to receive (the 'budget gap') for 2024/25, representing an estimated 3.5 per cent of councils' total revenue budget.
- Councils have had to make difficult budget setting decisions for 2024/25, and most worked with their communities to inform or consult on the challenges faced.
- Budget setting processes vary across councils, partly reflecting differences in organisational structures and local priorities.

Next steps

The full report is available at [Local Government Budgets 2024/25 (Audit Scotland)]

16.3 Sector developments

Audit Scotland: Delivering for the future – why leadership matters

Background and overview

Each year the Commission selects a particular thematic area of Best Value to focus on, recognising the risks and challenges councils face. The theme this year is the 'Leadership of the development of new strategic priorities'.

The Commission reported that councils are operating in a complex and increasingly volatile environment, which requires strong leadership from councils to make difficult decisions about where and how to spend highly pressured resources.

Next steps

The full report is available at [Delivering for the Future (Audit Scotland)]

16.4 Sector developments

Audit Scotland: The important role of a CFO

Background and overview

As the challenges across the public sector intensify, the role of CFOs is increasingly in the spotlight. As CIPFA highlight, with existing frameworks on governance and decision-making being pushed to their limits, with public services becoming more complex, the CFO is expected to take an active leadership role, not just within the finance function, but across their organisation, sector and public services as a whole.

When budgets tighten, Audit Scotland highlight that often corporate, or 'back office' functions face the hit, to avoid immediately impacting front line services. Against this background, it is important that in the pursuit of back-office efficiencies, the effectiveness of the financial function is not put at risk.

This is an area of interest for Audit Scotland, and in this report it is outlined that they will be taking an interest in auditor conclusions on the resourcing of the finance function as part of their consideration of the 2023/24 annual accounts.

Next steps

The full report is available at [The Important Role of a CFO (Audit Scotland)]

16.5 Sector developments

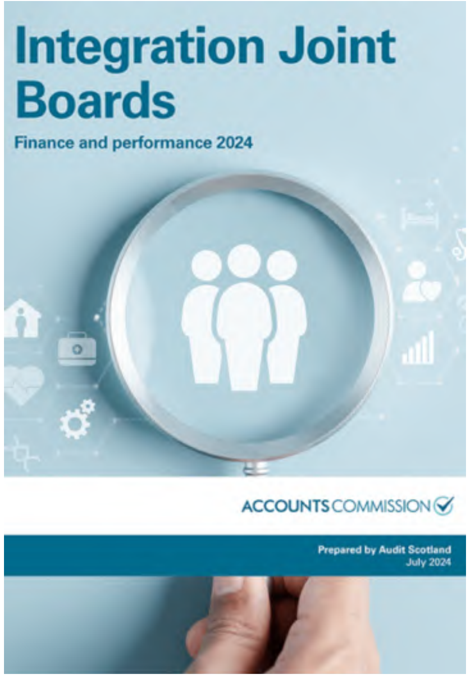
Audit Scotland: Integration Joint Boards' Finance and performance 2024

Background and overview

Audit Scotland highlight that community health and social care faces unprecedented pressures and financial uncertainty. The report outlines that community health and social care faces rising unmet need and managing the crisis is taking priority over prevention due to the multiple pressures facing the bodies providing these services.

Key messages:

- Audit Scotland have not seen significant evidence of the shift in the balance of care from hospitals to the community intended by the creation of IJBs.
- IJBs operate within complex governance systems that can make planning and decision making difficult, and cannot address the issues across the sector alone.
- The workforce is under immense pressure reflecting the wider pressures in the health and social care system.
- Data quality and availability is insufficient to fully assess the performance of IJBs and inform how to improve outcomes for people who use services with a lack also of joined up data sharing.
- Current commissioning and procurement practices are driven largely by budgets, competition, and cost rather than outcomes for people.



Next steps

The full report is available at [Integration Joint Boards (Audit Scotland)]

Appendices

17 Prior year audit adjustments

Uncorrected misstatements

No uncorrected misstatements were identified in relation to the prior year audit.

18.1 Our other responsibilities explained

Fraud responsibilities

Your Responsibilities:

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

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified risks of material misstatement due to fraud in property valuations, capital expenditure and management override of controls.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

18.2 Our other responsibilities explained (continued)

Fraud responsibilities (continued)

We will make the following inquiries regarding fraud and non-compliance with laws and regulations:

Management and other personnel:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to risks of fraud.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries, in particular the Chief Executive.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity, including those specific to the sector.

19 Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit & Scrutiny Committee for the year ending 31 March 2024 in our final report to the Audit & Scrutiny Committee.
Fees	The expected fee for 2023/24, as communicated by Audit Scotland in December 2023 is analysed below:

	£
Auditor remuneration	222,070
Audit Scotland fixed charges:	
• Contribution to PABV costs	53,480
• Audit support costs	8,090
• Sectoral cap adjustment	(30,510)
Total expected fee	**253,130**

The final fee may be higher than the above as a result of the significant risks identified throughout the audit plan which will impact on the audit work required. We will discuss this with management as the audit progresses.

There are no non-audit fees.

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.