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Stirling Council

Planning report to the Audit Committee on the 2022/23 audit,
– Issued on 24 March 2023 for the meeting on 8 June 2023
(draft issued to Audit Scotland 31 March 2023)

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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 Committee ("the Committee") of Stirling Council ("the Council") for the 2022/23 audit. I would like to draw your attention to the key messages of this paper:

Audit plan

We have gained an understanding of the Council following a handover from your previous auditors, 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 12.

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 previous auditor, planning guidance from Audit Scotland and developments within the organisation during the year. Our wider scope significant risks are presented on pages 20 to 26. 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 2022/23, with mandatory adoption from 2024/25. This will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. Stirling Council has chosen to adopt IFRS from 2024/25 when it become mandatory. Further details are provided on page 16.

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 29 of this plan.

Pat Kenny
Associate Partner

2 Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit 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 Committee has significantly expanded. We set out here a summary of the core areas of Audit 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 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 committee

As explained further in the Responsibilities of the Audit Committee slide on page 5, the Audit 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 2021, has identified good practice as including a detailed description of the process for reviewing 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.

Determine materiality

We will use a (Council Only) materiality level of £6.260m in planning our audit. This is based on forecast gross expenditure. We will report to you any misstatements above £0.250m.

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 15.

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 • Handover from previous auditors • Discussion of the scope of the audit • Discussion of audit fees • Discussion of fraud risk assessment • Discussion of the scope of the audit	• Understanding of key business cycles • Carry out detailed risk assessments • Review of Council and Audit 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 Audit Committee • Submission of final Annual Audit Report to the Audit Committee and the Controller of Audit. • Submission of audited Annual Report and Accounts to Audit Scotland • Complete data sets
2022/23 Audit Plan	2022/23 Annual Audit Report		
February – March 2023	**March – April 2023**	**June-July 2023**	**August 2023**

Ongoing communication and feedback

6 Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined group materiality as £6.590m and performance materiality of £4.610m , 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 forecast gross expenditure as the benchmark for determining materiality and applied 70% as performance materiality. We have judged expenditure to be the most relevant measure for the users of the accounts.
- For the audit of Stirling Council (Council only), a materiality of £6.260m and performance materiality of £4.380m has been determined.

Reporting to those charged with governance

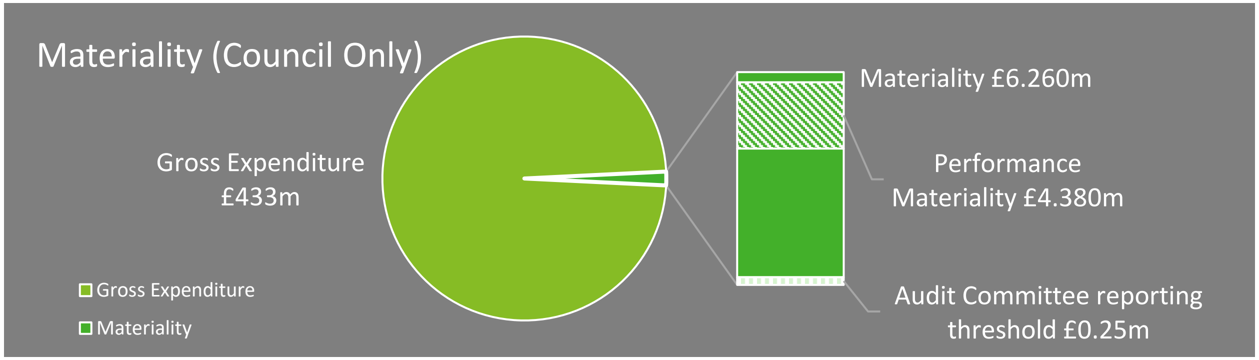
- We will report to you all misstatements found in excess of £0.250m.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance, which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to the Audit Committee must not exceed £0.250m.

Our Annual Audit Report

We will:

- Report group and Council only materiality, and the range we use for component materialities.
- Provide comparative data and explain any changes compared to prior year
- Explain any normalised or adjusted benchmarks we use
- 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 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	Audit Scotland/ statutory deadline
Audit of Annual Report and Accounts	Annual Audit Plan Independent Auditor's Report Annual Audit Report	8th June 2023* 24th August 2023 24th August 2023	31 March 2023 30 September 2023 30 September 2023
Wider-scope areas	Annual Audit Plan Annual Audit Report	8th June 2023* 24th August 2023	31 March 2023 30 September 2023
Consider and report on Best Value arrangements	Annual Audit Plan Annual Audit Report Thematic Review – Management Report	8th June 2023* 24th August 2023 24th August 2023	31 March 2023 30 September 2023 30 September 2023
Audit of approved claims and returns	Annual Audit Plan Auditor certificate of housing benefit Auditor certificate of non-domestic rates return	8th June 2023* N/A N/A	31 March 2023 TBC TBC
Provide assurance on specified returns	Annual Audit Plan Assurance Statement on Whole of Government Accounts (WGA) return	8th June 2023* N/A	31 March 2023 TBC

*Draft report agreed with management by 31 March 2023 to meet Audit Scotland deadline.

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 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	⚠	✗	13
Risk 2 – Property valuations	✓	DI	⚠	✓	14
Risk 3 – Capital expenditure	✓	DI	⚠	✓	15

Level of management judgement

⚠ Limited management judgement

⚠ A degree of management judgement

⚠ Significant management judgement

Controls approach adopted

DI Assess design & implementation

8.2 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 test 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 accounting estimates for biases that could result in material misstatements due to fraud and perform testing on key accounting estimates as discussed above. • 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.

8.3 Significant risks (continued)

Risk 2 – Property Valuation

Risk identified	The Council held £578.823m of property assets (council dwellings and land and buildings) at 31 March 2021 which increased to £612.156m as at 31 March 2022, due to upwards revaluations as a result of the Council undertaking a mixture of full valuations and desktop valuations for schools, campus' and housing stock. In 2022/23 the Council plan to carry out a combination of asset valuations as part of the 5-year rolling programme and a desktop valuation of schools and housing stock. 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 test the design and implementation of key controls in place around the property valuation. We will engage early with the Council, using our valuation specialists to challenge the assumptions applied by management in the valuations. 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 use our valuation specialists, Deloitte Real Asset Advisory, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's Land and Buildings. We will challenge management's assessment for material changes in value for those property assets not subject to a full valuation during the year.

8.4 Significant risks (continued)

Risk 3 – Capital Expenditure

Risk identified	The Council has a significant capital programme, and has budgeted £37.190m for capital works during 2022/23 (2021/22: £29.297m). Key projects include investment in the education estate, roads infrastructure improvements and expenditure associated with the Active Travel project as part of the City Region Deal. 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. The Council has a significant assets under construction balance for current ongoing capital projects (£14.996m as at 31 March 2022). The timing in which projects are completed and assets are brought into use directly impacts the level of depreciation incurred by the Council and as such is an area that we judge could be open to management override
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 test 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 test the design and implementation of controls around the transfer of assets out of assets under construction and into use and test completed projects on a sample basis to ensure depreciation is charged from the correct date. 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 regards to these projects, for example the capitalisation of staff costs and other project development costs, to ensure they comply with relevant accounting requirements.

9.1 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 2022/23. The introduction of IFRS 16 will have a significant impact on the balance sheet and on recorded capital expenditure for the Council. Stirling Council has chosen to adopt IFRS 16 from 2024/25 when it become mandatory. The impact of the implementation of IFRS 16 was disclosed in the 2021/22 financial statements and audited during the prior year audit. IFRS 16 disclosures will need to be updated in a new note in the Annual Accounts to capture the expected impact of any new leases entered into this year and to include PFI arrangements which were not covered in previous disclosures. We recommend that an accounting paper is presented to the Audit Committee on the transition for review and approval as part of the Council's governance over financial reporting.
Deloitte response	We will request from management an accounting paper on the implementation of IFRS 16 (including the controls in place over reporting under the standard, and any additional judgements identified in transition and in-year application).

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 handover from previous auditor, there is no history of errors or audit adjustments. 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.

9.2 Other areas of audit focus (continued)

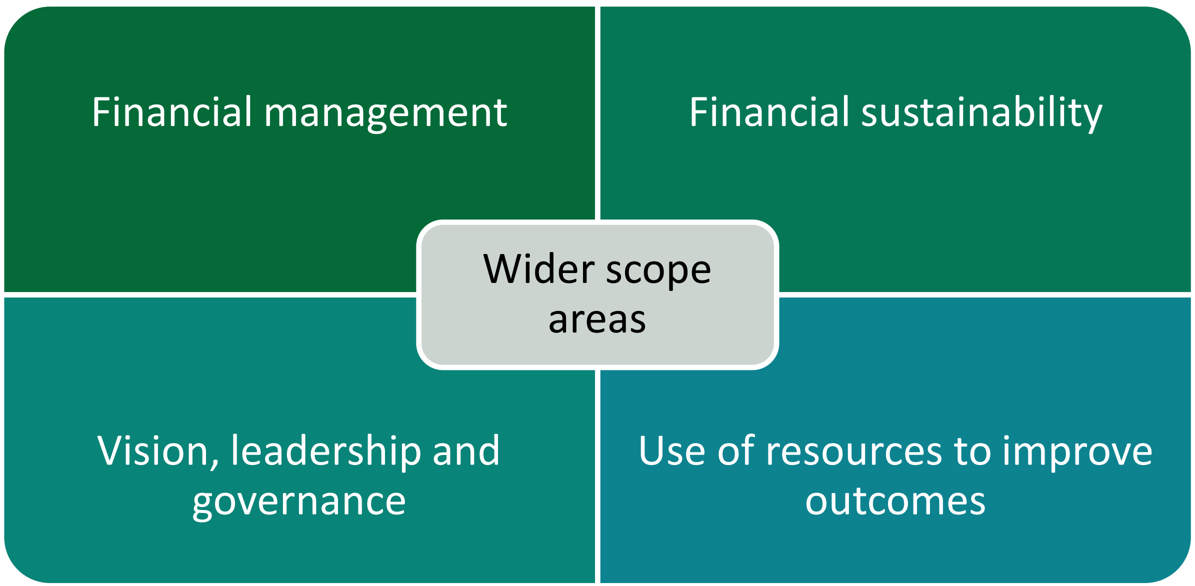
We have identified the below areas of audit interest, although do not consider these to be significant risks (continued)

Risk identified	Pension Liability
Summary	The Council participates in two defined benefits schemes: • Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and • The Falkirk Pension Fund, administered by Falkirk Council. The net pension liability decreased from £313.883m in 2020/21 to £204.887m in 2021/22. The increase was a combination of an increase in the fair value of the assets and an increase in the liabilities as a result of demographic changes and financial assumptions. The liability also continues to be affected by the McCloud and Goodwin legal cases. 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 and challenge the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and • Review the disclosures within the accounts against the Code.

10.1 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 undertaken 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 19 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.

10.2 Wider scope requirements (continued)

Significant risks

Area	Significant risks identified	Planned audit response
Financial management	There is an ongoing risk with the finance team capacity, in particular as a result of the work being done to prepare for the implementation of the new ledger system early in 2023/24. From our planning work and handover from the previous auditors, we have, however, not identified any significant risks in relation to financial management.	We will continue to review the financial management arrangements in place, including the capacity of the finance team.
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: • The 2022/23 revenue budget is projecting an overspend which has impacted on the balances held as general reserves, which are projected to be below the recommended range set out in its reserves strategy. • Pressures on expenditure including public sector pay costs and inflationary pressures not being met by increased income, resulting in a net budget gap in 2023/24 of £17.648m before agreeing savings options. • Indicative gaps of £24.405m and £29.262m identified for 2024/25 and 2025/26 respectively.	We will assess the development of the 2022/23 budget and the impact on the medium and longer term financial outlook. We will also review the updated medium term financial plan and associated savings plans when prepared to 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 plans set out within its 10-year strategy "Thriving Stirling".

10.3 Wider scope requirements (continued)

Significant risks (continued)

Area	Significant risks identified	Planned audit response
Vision, leadership and governance	In 2021/22, the previous auditors concluded that the Council had appropriate governance arrangements in place and that there was effective scrutiny. Challenge and informed decision making. Following the local government elections in May 2022, the new Council administration agreed its 10 strategic priorities in December 2022. These set out the overarching principles which will guide the Council's future decision making over the coming years. There is a risk that robust plans are not in place underling these priorities to ensure they are delivered.	As part of the Best Value (BV) thematic work, discussed on page 23, we will assess the effectiveness of Council leadership (officers and elected members) in developing new local strategic priorities.
Use of resources to improve outcomes	In 2021/22, the previous auditors concluded that the Council had an appropriate and effective best value framework in place. Given the financial challenges faced by the Council and the changes in priorities noted above, there is a risk that the Council is unable to demonstrate that resources are being used effectively with a focus on continuous improvement.	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 23. This will incorporate consideration of the effectiveness and appropriateness for preparing and publishing the Statutory Performance Information considered further on page 24.

10.4 Wider scope requirements (continued)

National risks

In its planning guidance, Audit Scotland has highlighted the following national or sectoral risks that the Audit General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audit.

Area	Risk	Audit response
Climate change	Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.	Public audit has an important and clear role to play in: • Helping drive change and improvement in this uncertain and evolving area of work • Supporting public accountability and scrutinising performance • Helping identify and share good practice The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we are required to provide responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body.
Cyber security	There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber-security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operations of an organisation.	As discussed further on page 34, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission has confirmed that these additional requirements is likely to be sufficient consideration of cyber security in 2022/23 and therefore there is no additional work specified by Audit Scotland

10.5 Wider scope requirements (continued)

Other requirements

Under the new Code of Audit Practice, the **audit of Best Value** in councils is fully integrated within he 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. We have included the significant risks identified on page 19, 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 2022/23 (and for each subsequent year). 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 2022/23 requires us to carry out an overview of the effectiveness of council leadership (officers and elected members) in developing new local strategic priorities following the elections in May 2022.	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 prior to the conclusion of the 2022/23 audit. A summary of the findings and conclusions will be reported in our Annual Audit Report.

10.6 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 report will be prepared by for the Controller by Performance Audit and Best Value (PABV) staff and will be a summary of information and judgements reported by each auditor. The latest Annual Report will be presented to the Commission with the Controller's 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.

10.7 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 while. 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 2022/23 NFI exercise. Participating bodies should have received matches for investigation from January 2023 and these require to be investigated by 30 September 2023. We will monitor the bodies participation and progress during 2022/23 and, where appropriate, include reference to NFI in our Annual Audit Report
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.
Current issues returns	Timely communication by auditors of intelligence is important in helping Audit Scotland to maintain a good level of awareness across the local government sector and to keep the Controller of Audit and Accounts Commission informed. We are therefore required to submit quarterly “Current Issues Returns” to Audit Scotland.

10.8 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 2022/23 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 2022/23 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.

11.1 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.

11.2 Reporting hot topics (continued)

Climate related risks

Deloitte view

The expectations of corporate reporting are increasing. While the focus is primarily on corporates, we highlight these areas where improved disclosures would help meet stakeholder expectations. This is also an area of interest from the Auditor General and Accounts Commission as discussed on page 17.

Accounting for and reporting of climate-related risks – Considerations

Stakeholder expectations

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

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

Climate thematic reports

In 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 highlighted five broad areas for improvements in climate-change reporting in their thematic review:

- giving more **granular and company 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; and
- 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 companies' 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.

11.3 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 LG bodies, 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.

11.4 Reporting hot topics (continued)

Cyber risk

Area	Management actions	Impact on the financial statements and annual report	Impact on our audit
Cyber risk	The Council has invested in advanced cyber security hardware and software. In addition they have carried out a Cyber security audit with BT.	Cyber risk is an increasing area of focus, including a focus for the Auditor General and Accounts Commission as discussed on page 21. We we recommend considering whether any additional disclosure or explanations are appropriate, including discussion of principal risks and uncertainties, or in the Annual Governance Statement. The AGS requires disclosure of how risks to data security are managed and controlled, as well as of any serious information governance incidents.	We will obtain an understanding the Council and its internal controls in relation to cyber as part of our understanding of the Council's IT environment. We will make specific enquiries to identify whether a cyber breach has occurred during the period, and evaluate the impact of any cyber incidents, including any potential liabilities arising or impacts on compliance with laws or regulation. We will review the disclosures made for consistency with our understanding from our audit work.

12.1 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 Pat Kenny (Associate 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.

12.2 Audit quality (continued)

FRC Audit Quality Inspection and Supervision report

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2022 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2021/22 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, we are pleased that both the overall and FTSE 350 inspection results for our audits selected by the FRC as part of the 2021/22 inspection cycle show an improvement. 82% of all inspections in the current cycle were assessed as good or needing limited improvement, compared to 79% last year. Of the FTSE 350 audits reviewed, 91% achieved this standard (2020/21: 73%). This reflects our ongoing focus on audit quality, and we will maintain our emphasis on continuous improvement as we seek to further enhance quality.

We welcome the breadth and depth of good practice points identified by the FRC particularly those in respect of the effective challenge of management and group audit oversight, where the FRC also reports findings.

We are also pleased that previous recurring findings relating to goodwill impairment and revenue were not identified as key finding in the current FRC inspection cycle, reflecting the positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high quality audits.

All the AQR public reports are available on its website: https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2021/22 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 82% compared with 79% in the previous year and 80% on average over the past five years. It is also encouraging that none of the audits we inspected were found to require significant improvements.

The area which contributed most to the audits requiring improvement was the audit of estimates of certain provisions. There were also key findings in relation to group audits, the review and challenge by the Engagement Quality Control Review (EQCR) partner and the application of the FRC Ethical Standard."

13 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 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.

P. Kenny

Pat Kenny

for and on behalf of Deloitte LLP

Glasgow | 24 March 2023

Technical and sector developments

14.1 Revisions to auditing standards coming into effect

ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement

The International Auditing and Assurance Standards Board (IAASB) issued a revised risk assessment standard in December 2019, that takes effect for periods commencing on or after 15 December 2021. For most Scottish public sector bodies, this will be March 2023 year ends and later. The FRC has adopted the standard in the UK with minimal additions.

The revision was made to respond to challenges and issues with the current standard and requires a more robust risk identification and assessment. We had already incorporated many of the changes into our methodology in advance of the standard being introduced, but we summarise on the next few slides some of the areas where this may impact our audit.

> *"The IAASB recognizes the importance, and also the complexity, of the auditor's risk assessment process"*
>
> IAASB's basis for conclusions, ISA 315

Area of change	Impact on our audit	Impact on the entity
New requirement to evaluate the 4 entity-level components of internal control	Whilst we have always been required to gain an understanding of the entity and its environment, including its internal controls, the new standard is more prescriptive on the need to go further and evaluate the 4 entity level controls components: the entity's control environment, risk assessment process, monitoring of internal control, and information system. This could lead to an increase in the number of relevant controls.	You will need to consider the adequacy of your entity-level controls, and documentation thereof. You should also expect more granular inquiries regarding the control environment.
Enhanced consideration of the types of relevant controls	Overall we expect to identify an increased number of relevant controls, particularly for controls designed to address risks at the higher end of the spectrum of inherent risk and controls over reconciliations. Where new relevant controls are identified, we may also identify control deficiencies and need to consider the effect of these.	You should expect more challenge of controls, particularly over complex accounting estimates, financial reporting and complex or highly automated business processes.

14.2 Revisions to auditing standards coming into effect (continued)

ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement (continued)

Area of change	Impact on our audit	Impact on the entity
Enhanced understanding of IT and General IT controls	As we identify more relevant controls, it is likely there will be more relevant IT controls (e.g. automated controls) which themselves rely on underlying General IT Controls (GITCs). We may need more IT specialist involvement to gain an enhanced understanding of IT controls and GITCs, particularly where there are a high volume of automated transactions in the entity. Similarly, where new IT systems come into scope, the likelihood is that there will be an increase in the number of deficiencies identified and action will be needed to determine the appropriate response.	You should expect more challenge over the effectiveness of your GITCs, including how these are monitored.
New approach to scoping account balances, classes of transactions and disclosures	We may now identify some account balances as "material but not significant" where we do not identify a risk of material misstatement, but where we are required to perform some substantive testing.	We may need to perform more substantive testing on balances, where previously there was no separate category of material but not significant.
Revised definition of a significant risk, focused on risks at the upper end of a spectrum of inherent risk	We do not anticipate there being a significant increase in the number of significant risks identified, but where there are more material judgements or estimates being made and a significant risk has not been identified previously, we may conclude there is a significant risk.	You should expect more challenge on audits where before there were no significant risks beyond management override of controls.
Stand back requirement and increased focus on professional scepticism	Our audit approach already acknowledges that risk assessment is an iterative process as well as emphasising the importance of professional scepticism. We will use this as an opportunity to challenge ourselves on the evidence that professional scepticism has been applied through the risk assessment processes, including as part of the stand back assessment.	You should expect more challenge of the evidence provided in respect of our risk assessment, including revisiting this towards the concluding stage of the audit.

14.3 Revisions to auditing standards coming into effect (continued)

ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The Financial Reporting Council (FRC) issued a revised fraud standard in May 2021, that takes effect for periods commencing on or after 15 December 2021 (i.e. March 2023 year ends for most Scottish public sector bodies).

Many of the revisions provide increased clarity as to the auditor’s obligations and codify existing expectations or best practice. The updates to the ISA do not include any changes relating to proposals in the Government’s White Paper regarding auditor reporting on a statement by directors on the steps they have taken to prevent and detect material fraud.

We summarise on the next few slides how this will impact our audit.

Area of change	Impact on our audit	Impact on the entity
Fraud inquiries	In addition to the pre-existing required enquiries, we are now explicitly required to make inquiries of management or others at the entity who handle whistleblowing. We also required to discuss the risks of fraud with those charged with the governance, including those risks specific to the entity’s business sector.	You should expect further challenge in relation to who we speak to in relation to fraud at the entity, including more focus on entity/sector specific risks.
Engagement team discussions	The revised ISA (UK) emphasises that the pre-existing audit team fraud discussion should explicitly include an exchange of ideas about fraud, incentives to commit fraud, and how management could perpetrate and conceal fraud. There is also an explicit requirement for the engagement partner to consider whether further fraud discussions should be held at later stages of the audit.	You should expect increased challenge of the controls and processes in relation to the entity’s own fraud risk assessment and the documentation of that assessment.

14.4 Revisions to auditing standards coming into effect (continued)

ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Area of change	Impact on our audit	Impact on the entity
Identified or suspected fraud by a key member of management	The revised ISA (UK) clarifies that if we identify or suspect fraud by a key member of management this may be qualitatively material.	Further challenge in relation to identified or suspected fraud by a key member of management.
Involvement of specialists	We are explicitly required to determine whether the engagement team needs specialised skills and knowledge: • To perform the fraud risk assessment procedures, to identify and assess the risk of material misstatement due to fraud, to design and perform audit procedures to respond to those risks or to evaluate the audit evidence obtained; or • Where a misstatement due to fraud or suspected fraud is identified.	There is likely to be more interaction with fraud specialists as part of our planning procedures.
Journal entry testing	We were already required to test the appropriateness of journal entries and other adjustments made in the preparation of the financial statements and make inquiries of personnel. The revised ISA (UK) clarifies that our selection process should consider specifically both automated and manual journals, consolidation adjustments (in the preparation of group financial statements), and post-closing entries. The standard also emphasises that when making inquiries about inappropriate or unusual activity relating to the processing of journal entries and other adjustments, we should make inquiries of individuals with different levels of responsibility in the financial reporting process.	You should expect more challenge on GITCs over the identification and classification of automated and manual controls, especially where there are IT deficiencies. There will also be more inquiries with people at different levels of responsibility at the entity.

14.5 Revisions to auditing standards coming into effect (continued)

ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Area of change	Impact on our audit	Impact on the entity
Representations from those charged with governance	We will request an additional representations from those charged with governance regarding their responsibilities for the prevention and detection of fraud.	You should expect updated representations from those charged with governance that they believe they have appropriately fulfilled their responsibilities to design, implement and maintain internal control to prevent and detect fraud.

15.1 Sector developments

The State of the State report 2022/23 – From the pandemic to a cost of living crisis

Background and overview

The 11th edition of Deloitte and Reform's report on the UK public sector was launched in November 2022. 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 deeply affected by the cost of living crisis, pessimistic for the future and passionate about climate change.

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 messages:

- The public are split on the right balance between taxes, borrowing and public spending;
- The public's message to government: deal with the crises, but don't neglect net zero;
- Our survey data found that the Scottish and Welsh Governments, as well as the NHS, are among the most trusted parts of the public sector but trust has slipped overall;
- Public sector leaders are eager for reform and calling for bold decisions about the future of government and public services.

Next steps

The full report is available at [The State of the State 2022/23 (deloitte.com)]

15.1 Sector developments (continued)

Good practice in annual reporting – National Audit Office (NAO)

Background and overview

Effective annual reporting in the public sector is more important than ever. The COVID-19 pandemic and, more recently, the energy price crisis have resulted in extraordinary public spending interventions by the government to support the public and the economy. Making government spending transparent and understandable to those who fund it – taxpayers – is therefore critical. Annual reports must clearly tell the 'story' of how these monies have been spent and what has been achieved. Crucially, annual reports and accounts must give assurance on how effective outcomes are being secured and how the risk of fraud and loss to the public purse is being appropriately managed and controlled.

Good reporting equips stakeholders with information they can use to hold organisations to account. This is why high-quality annual reports and accounts are fundamental to effective accountability.

The NAO has published a guide setting out good practice principles that it believes underpin good annual reporting. These principles are grouped under: **Supporting accountability**, **Transparency**, **Accessibility**, and the need for the report to be **Understandable**. Against these principles, the guide highlights examples which demonstrate attributes of good-practice reporting, including:

- Joined-up reporting.
- A frank and balanced assessment of risks and opportunities facing an organisation.
- Understandable non-financial information.
- Linkage between financial and non-financial information.
- Accessibility considerations.

Next steps

The full guide has been shared with management for consideration as part of the preparation for the 2022/23 Annual Report and Accounts and is available at Good practice in annual reporting - National Audit Office (NAO) insight

Appendices

16 Prior year audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the prior year audit:

		Credit/(Charge) to the CIES £'m	Increase/ (Decrease) in net assets £'m	Increase/ (Decrease) in Reserves £'m
Factual misstatements				
Pension Liability	[1]		2,295	
Other Comprehensive Income	[1]	(2,295)		
Total		**(2,295)**	**2,295**	

(1) The auditors of Falkirk Pension Fund advised that there was an error in the pension data used to prepare Stirling Council unaudited accounts. The impact of this for the Stirling Council accounts would have reduced the value of the pension liability by £2.295 million and increased Other Comprehensive Income by the same amount. This was not amended in the Stirling Council audited accounts and was not judged to be a material issue by the prior year auditors.

Written representations were obtained from the Council confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the Annual Report and Accounts taken as a whole, no adjustments were required.

17.1 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.

17.2 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.

18 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 Committee for the year ending 31 March 2023 in our final report to the Audit Committee.
Fees	The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

	£
Auditor remuneration	228,370
Audit Scotland fixed charges:	
• Pooled costs	0
• Contribution to PABV costs	57,320
• Audit support costs	8,660
• Sectoral cap adjustment	(5,210)
Total expected fee	**289,140**

In addition to the above, there will be a fee for the audit of the charitable trusts which will be agreed and discussed with management.

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.