Falkirk Council

Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2022

November 2022

Building a better working world

Contents

About this report

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

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary: Key Conclusions from our 2021/22 audit

We have issued an unqualified audit opinions on:

- **Falkirk Council and Group 2021/22 financial statements; and**
- **Falkirk Temperance Trust 2021/22 financial statements.**

We continued to review and update our risk assessment throughout the audit, including the materiality level applied. During the year, a national issue emerged in relation to the valuation of infrastructure assets. As a result, this was treated as a significant risk. No changes were required to the level of materiality that we applied.

Financial Statements

We have concluded our audit of the Council's financial statements for the year ended 31 March 2022. Three adjustments have been made to the financial statements since the publication of the unaudited financial statements in June 2022. We identified a further 6 unadjusted differences that we are required to communicate in Appendix E. No errors were identified in relation to the Council's Temperance Trust financial statements. The draft financial statements and supporting working papers were provided on time and were of a good quality, although some of the adjustments identified during the audit should have been addressed by management during quality review processes. We worked with management to make a number of enhancements to the financial statements, in particular to ensure that they better reflect recent good practice guidance from Audit Scotland around the disclosures.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the Annual Governance Statement reflects the requirements of the *Delivering Good Governance Framework*, and changes to the presentation of the statement were an improvement on prior years.

Best Value Follow Up

In January 2022, the Accounts Commission published Falkirk Council's Best Value Assurance Report (BVAR). The report concluded that the Council had demonstrated improvement in performance in some key services but that overall the pace and depth of improvement since the previous Best Value audit report in 2018 had not been sufficient to achieve the level of transformational change needed to address future budget gaps.

Since the publication of the report, significant work has been undertaken to respond to the key messages. Local government elections mean that there have been changes in the political make up of the Council, and 15 new councillors were elected. Changes of this type offer an opportunity to reset and establish new ways of working, but the changing financial environment means that the budget gap facing the Council is now stark.

Over a number of years, we have noted that the Council has found it difficult to build the consensus needed to make unpalatable political decisions. As a result, budgets have been balanced using non-recurring measures and any easy budget options have now been exhausted. The Council has recently agreed to replace Budget Working Groups with a new cross-party forum, a Financial Strategy Group. The group will give elected members the opportunity to work together to find political solutions that best protect the Council's priorities and commitments.

Wider Scope

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

Financial Sustainability

The Council's Financial Strategy outlines the need to deliver savings of £69 million by 2027; a further increase in the budget gap to be bridged. In order to deliver a balanced budget, challenging decisions on service priorities and expenditure commitments will be required, along with careful evaluation of any new spending commitments.

The Council of the Future transformation programme is now expected to deliver £10 million of savings from Wave 3 of the project. The programme has been further rationalised to ensure it is more realistic. Planned changes to governance arrangements, including the establishment of the Financial Strategy Group, must allow elected members to continue to scrutinise the achievement of COTF savings.

Our assessment of red reflects the level of savings required over a short period of time, along with the degree of risk and uncertainty outside the Council's control which could impact its ability to deliver services.

Financial Management

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid-19 and other financial pressures. The Council initially budgeted to use £2 million of reserves in 2021/22, but this was not required as a result of underspends against budget, and the use of financial flexibilities.

The Council reports that it delivered £4.86 million (96%) of planned savings in 2021/22. Savings in 2022/23 will be more challenging as a result of inflationary and service demand pressures. The Council has taken important steps towards the development of a realistic and affordable capital programme. We do, however, note that the Council has highlighted, like many in the sector, that key priorities such as the ambition to achieve net zero carbon emissions by 2030, may be unaffordable in the short to medium term.

Governance & Transparency

The key features of good governance remain in place at the Council.

The composition of the Council's Audit Committee has significantly changed and there is an the opportunity to review arrangements against revised best practice, ensuring that the scrutiny needs of the Council are met.

The Council has disclosed two accidents which have been investigated by the Health and Safety Executive (HSE). The HSE is considering further action and an action plan is in place to address the weaknesses identified. We have also drawn attention to a series of whistleblowing allegations over the last three years. While improvements have been made to the whistleblowing reporting arrangements to Audit Committee, we consider that underlying cultural issues have not been fully addressed.

Value for Money

The Council has reviewed its arrangements for performance monitoring, improvement and self-assessment as part of its response to the Best Value Assurance Report. Its analysis of the 2020/21 Local Government Benchmarking Framework notes that performance declined against prior year but remains higher than national averages for 50% of the indicators. The Falkirk Performs website continues to be developed but further work is needed to make performance information easily accessible and understandable.

While we note that performance reporting remains a developing area, reports are generally heavily narrative based, resulting in performance being harder to readily interpret.

Work is required to finalise future success measures targets to report performance against the Council Plan.

Best Value Strategic Action Plan

In February 2022, the Council agreed a Strategic Action Plan to respond to the recommendations within the BVAR. A number of important steps have been taken to respond to the challenges outlined in the report, including:

- A comprehensive induction programme for elected members, complemented by external support on equalities and on collaborative leadership;
- The development of the new Council Plan, based on elected member engagement and drawing on the views of communities. This is supported by the critical Financial Strategy and Workforce Plan;
- Review of the Council of the Future Transformation programme; and
- A review of the affordability of the current capital programme.

The Accounts Commission has signalled that the Council will be visited early in the next programme of Best Value reviews, likely to be in 2023. While the Council has made good progress against the planned actions, it is too early to assess whether elected members and officers will work together effectively enough to meet the scale of the financial challenge. We understand that a further update report will be considered by the Executive in December 2022 which will report on the Council's assessment of impact to date. This will remain a key area of focus for the Council's incoming external auditor, and the future Best Value audit.

Introduction

Purpose of this report

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

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

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

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

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

Our independence

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

Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Council's Audit Committee in March 2022.

Our review and reassessment of materiality

We remain satisfied that the values reported to you in our Annual Audit Plan for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £12.2 million. We considered whether any change to our materiality was required, including factors such as the continuing response to the pandemic and the Council's 2021/22 financial performance. We remained satisfied that the materiality values reported within our Annual Audit Plan were appropriate.

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

Overall Materiality	Tolerable Error	Nominal amount
£12.2 million	£9.1 million	£250,000
2% of the Council's net expenditure	Materiality at an individual account level	Level that we will report to committee

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

Financial statement audit

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

- whether they give a true and fair view of the financial position of the Group and Council as at 31 March 2022 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom.

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

Wider Scope audit

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

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

Our findings are summarised in Section 3 of this report.

Best Value

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. We outline our findings and assessment for 2021/22 on page 41.

Going Concern

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

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

2 Financial Statements audit

Introduction

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

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

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

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

Compliance with Regulation

The draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. The Council complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements by 30 June 2022.

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

Preparation of the Financial Statements

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

Recommendation 1: As part of the preparation process to develop the draft financial statements, the Council should develop a quality assurance process. This should include consideration of recent good practice guidance in relation to the management commentary and key financial disclosures.

This year we worked with management to consider guidance from Audit Scotland issued to local government bodies, following a review of the related parties disclosed within the 2020/21 financial statements of 30 Scottish councils. The disclosures of related parties were chosen for a good practice review because of potential impact of the relationships in understanding the financial statements, along with indications that the quality of disclosures were variable. Following our review and discussions with management, a number of enhancements were made to further align them with identified areas of good practice.

Group financial statements

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

- Falkirk Community Trust;
- Falkirk Community Stadium Limited;
- Central Scotland Valuation Joint Board; and
- Falkirk Integration Joint Board.

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

Audit Outcomes

We identified 8 audit differences arising from the audit, which have been summarised in the relevant sections of this report. Three have been adjusted by management in the finalised financial statements and six remain unadjusted on the grounds of materiality. Our overall audit opinion is summarised on the following page.

Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
Financial statements ▶ Truth and fairness of the state of affairs of the Group and Council at 31 March 2022 and its expenditure and income for the year then ended ▶ Financial statements in accordance with the relevant financial reporting framework	We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement. We are satisfied that accounting policies are appropriate and estimates are reasonable We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.	We issued an unqualified audit opinion on the 2021/22 financial statements for the Council and its Group. An unqualified opinion has also been issued for the Temperance Trust.
Going concern ▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting	We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis. Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.	In accordance with the work reported on page 23, our audit opinion is unqualified in this respect.
Other information ▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit	We conduct a range of substantive procedures on the financial statements. We conduct a range of substantive procedures on the financial statements and our conclusion draws upon Review of committee and board minutes and papers, regular discussions with management, our understanding of the Council and the wider sector.	We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.
Matters prescribed by the Accounts Commission ▶ Audited part of Remuneration Report has been properly prepared. ▶ Management Commentary / Annual Governance Statement are consistent with the financial statements and have been properly prepared.	Our procedures include: ▶ Reviewing the content of narrative disclosures to information known to us. ▶ Our assessment of the Annual Governance Statement against the *Delivering Good Governance* Code.	We issued an unqualified opinion.
Matters on which we are required to report by exception	We are required to report on whether: ▶ there has been a failure to achieve a prescribed financial objective, ▶ adequate accounting records have been kept, ▶ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or ▶ we have not received the information we require.	We have no matters to report.

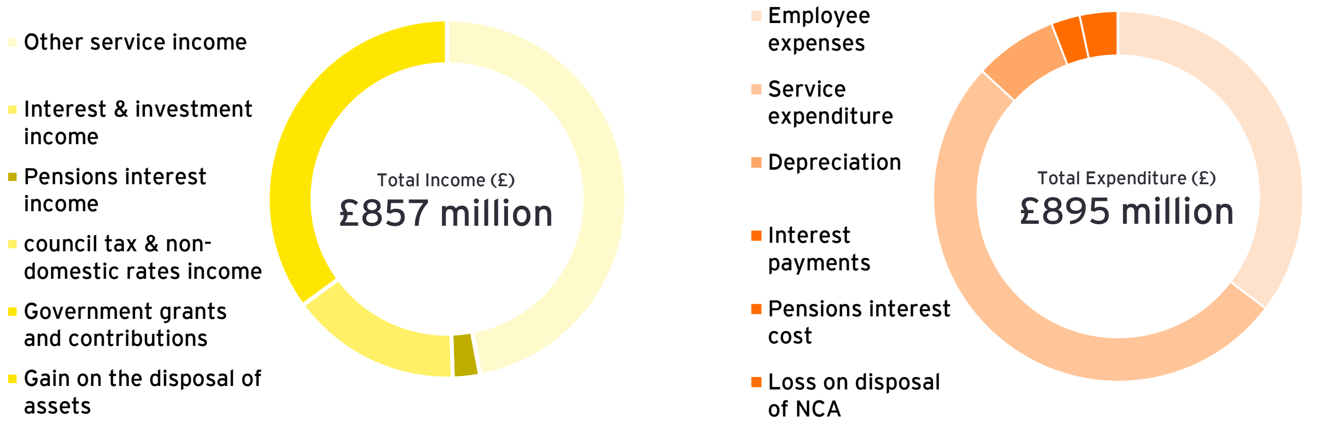
Significant and fraud audit risks

What is the Risk of Fraud in income and expenditure recognition

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

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

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



Source: 2021/22 Financial Statements: Note 8 Expenditure and Income analysed by nature

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

Our work included:

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

Our Audit of Other Income and Expenditure

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

Other audit procedures: non-significant risk areas:

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

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

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

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

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

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

Pension costs: We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on page 21. In respect of all pension transactions impacting the CIES we agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.

Audit of Covid-19 grant income and expenditure

2020/21 was the first year where income and expenditure transactions were materially impacted by Covid-19. In 2021/22, the Council received £11 million from the Scottish Government related to Covid-19 to support the Council in meeting its additional costs, local businesses and the wider public. The material nature of the additional funds created a new income stream for audit consideration in the prior year.

Additional funding continued into 2021/22 and therefore continues to be an area of focus. Our audit work focused on:

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

Our conclusions

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

Risk of Misstatement due to Fraud or Error

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

Risk of Fraud

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

Testing on Journal Entries

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

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

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

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

Our conclusions

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

Judgements and Estimates

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

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes (outlined on page 21 of this report); and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment, outlined on page 17 of this report).

Our procedures included:

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

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

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

Accounting Policies

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

Our conclusions

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

Valuation of Property, Plant and Equipment

The Council's property, plant and equipment (PPE) portfolio totals over £1.2 billion of assets (2021: £1.2 billion). The valuation of these assets requires expertise and significant estimation. To meet the requirements of the CIPFA Code of Practice, the Council values its property, plant and equipment on at least a 5-yearly cycle. A significant proportion of the Council's estate was subject to revaluation in 2020/21 and as a result, in the current year, fewer assets were due to for review in line with the Council's 5-yearly cycle. Social Work Assets (£9.5 million) were revalued and Council Dwellings (£493 million) were subject to a desktop impairment review during 2021/22.

The valuation of PPE remained an inherent audit risk, but we recognised a significant risk over Infrastructure assets as a result of a record-keeping valuation issue identified nationally.

The valuation of property, plant and equipment was assigned an inherent audit risk within our audit plan and this remained the case for our year-end audit procedures, with the exception of the significant risk identified over Infrastructure Assets (see Page 19). Our work over Property, Plant and Equipment focussed on the following areas:

- Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample testing key asset information used by the valuers in performing their valuation based on both size of asset value and our consideration of risk assigned to each valuation (e.g. floor plans to support valuations based on price per square metre).
- Auditing management's assessment of assets not subject to valuation in the year to confirm that there were no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.
- Completion of procedures designed to address the requirements of the revised ISA 540, as outlined earlier.
- We found that the value of the Council's Municipal Buildings had not been updated as at 31 March 2022 to reflect the planned demolition works to be carried out on the site. The site was subject to revaluation in August 2022 by the District Valuer on the assumption that the site will be redeveloped for affordable housing. We were satisfied that the carrying value was not materially different to the updated valuation, but understand that the fixed asset register will be updated on this basis for financial year 2022/23.
- We identified one audit difference in relation to the valuation of PPE in 2021/22, outlined in Appendix E. This related to double counting of an asset in the Fixed Asset Register resulting in a £0.8 million overstatement.

Valuation of Property, Plant and Equipment (continued)

Recommendation 2: The Council should review the communication arrangements between Property Services and the Finance Team to ensure that up to date assessments of assets are available, allowing impairment reviews to be completed where required.

We noted in previous years that the Council's overarching process for valuation of its property, plant and equipment was showing improvements. However, in 2021/22 we noted a number of areas for improvement:

- Records for capital retentions had not been adequately maintained resulting in some minor immaterial errors;
- The quality of descriptors used in the Fixed Asset Register is inconsistent, any we experienced difficulties in identifying specific assets and their corresponding net book value at year-end; and
- The process for identifying asset impairment could be improved through more regular communication between the Property Services and Finance teams. Currently, impairments are identified through the cyclical revaluation process but this does not capture impairments which take place in intervening years. Although not material (both fell below our reporting threshold), we identified two assets which had become impaired in 2019 and 2020 as a result of significant repairs being required, but which finance were not aware of until they were identified through our audit procedures.

We do, however, note that management has taken on board previous feedback and recommendations in respect of reviewing the frequency of the valuation cycle to ensure asset values do not materially change in intervening years between revaluations.

Our conclusions

- We identified two audit adjustments relating to the Council's valuation of assets in 2021/22 which the Council has chosen not to adjust.
- We concluded that management has undertaken sufficient procedures to identify any further assets which should be revalued before their cycle valuation date.
- The process for identifying asset impairment could be improved through better communication between the Property Services and Finance teams.

Recommendation 3: The statutory override is intended to be a short-term solution to issues in respect of accounting for infrastructure assets. The Council should ensure that greater detail on infrastructure assets is retained moving forward and appropriate consideration is given to disposals and replacements of infrastructure assets.

Infrastructure Assets

The CIPFA/LASAAC Code of Practice for Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost. Due to these assets being difficult to componentise and there often not being a clear linkage between spend and an identifiable asset, councils often capitalise schemes of expenditure and depreciate over an estimated economic life. Assets are removed from the financial statements ("derecognised") when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore significantly vary from their estimated life.

Local government auditors raised concerns that Code requirements were not being adhered to particularly in respect of subsequent expenditure on infrastructure assets. The Code requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component shall be derecognised to avoid double counting and the new component shall be reflected in the carrying amount of the infrastructure asset. However, largely due to data limitations, it is believed that most local authorities have been unable to comply with the requirement. Due to the information deficits in respect of infrastructure assets, further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date.

CIPFA LASAAC has been unable to find a solution that will both satisfy audit concerns and the requirement for high quality financial reporting. The Scottish Government however agreed to provide a temporary statutory override whilst a permanent solution is developed within the Code. This temporary solution has been issued with the expectation that local authorities will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a permanent solution is agreed.

The override was issued on 29 August 2022 and has two areas:

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent amendment shall be made to the carrying amount with respect to that part.

Local authorities can choose to adopt either or both of the statutory overrides.

The Council holds infrastructure assets of £140 million (2020/21: £130 million) and therefore this is a material balance within the financial balances. The Council elected to adopt both statutory overrides resulting in changes to disclosures in the financial statements in respect of infrastructure assets. The Council additionally undertook an extensive exercise to determine the records available dating back to 2010. From 2016/17, the Council has been maintaining more granular information within the fixed asset register and supporting workings.

In response to this emerging risk area, we performed the following procedures:

- Enhanced our understanding of the Council's processes for accounting for infrastructure assets, including how information is recorded on the fixed asset register and the process the Council has for identifying replacement assets.
- Performed additions testing over new infrastructure assets in year.
- Analysed the entries in the fixed asset register and reviewed supporting documentation including an analysis of spend back to 1 April 2010.
- Evaluated the continued existence of infrastructure assets at the balance sheet date through detailed testing.
- Assessed the accuracy and completeness of disclosures in respect of infrastructure assets including overrides applied.

Our conclusions

- We are satisfied that management's disclosures in respect of infrastructures assets are in line with the statutory guidance.
- We note that while management has undertaken significant work to support the existence of infrastructure assets, further information is likely to be required to support any permanent solutions and therefore management should look to build on work performed during the audit fieldwork.

Other inherent audit risks

Our Annual Audit Plan highlighted additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

Valuation of pension liabilities

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Falkirk Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2022 the net liability totalled £243.9 million (2021: £409.8 million). The pension figures included in the financial statements are those that are prepared annually for accounting purposes as required by IAS 19. The funding of the scheme and the determination of employer contributions is determined with reference to the triennial valuations carried out by the scheme actuary. The last triennial actuarial valuation, in 2020, assessed the overall funding position to be 94% (2017: 92%)

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

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

- Auditing the reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent developments in relation to the various ongoing equalisation case judgements such as the GMP, McCloud and Goodwin rulings.
- Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that our own estimate of the valuation based on those inputs was materially consistent with the actuarial reports.
- Considering the findings of the appointed auditor of the Falkirk Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2022.
- Auditing the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

Our conclusions

- The assumptions used by the actuary were reviewed by our EY actuarial team who concluded that the assumptions and methodology used are considered to be within a range which is appropriate.
- The auditor of the Falkirk Pension Fund reported no material differences in the valuation of assets held by the Fund.

Financial flexibilities

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

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

The capital receipts and loans repayment holiday are only to be used for the purposes of addressing Covid-19 related costs, whereas the change to PPP accounting may provide a wider flexibility. Local authority Directors of Finance and COSLA have been liaising with the Scottish Government to clarify the practicalities of the flexibilities. The revised legislation for capital receipts and loans repayments was considered by the Local Government and Communities Committee in February 2021 where there was committee support. In May 2022, the Scottish Government agreed to extend the loans fund repayment deferral flexibility for a further year.

The options in respect of flexibilities have been reported to Council throughout the year, as guidance has developed. The latest position on flexibilities was reported to Council in August 2022 which noted that the loans fund repayment holiday was used in 2021/22. In respect of the service contract concessions, the Council is reviewing the latest statutory guidance in place to fully evaluate the accounting treatment and any associated financial provisions that may be used to support the budget position in 2023/24.

We worked with the Council to ensure appropriate financial statement disclosures were in place with respect of planned and actual use of financial flexibilities.

Going concern

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

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the CIPFA Code of Practice on Local Government Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, the ongoing cost of living crisis and inflationary pressures, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to October 2023. We note that the going concern period extends beyond the period for which an agreed financial plan is in place and therefore, we have focused on the assumptions made by management in the period between April 2023 and October 2023.

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

Our conclusions

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

Looking ahead

The implementation of IFRS 16 has been delayed until 1 April 2024 however early adoption is permitted.

The Council finance team has previously performed an initial assessment of the impact of the change on the Council's financial statements which will be revisited once an adoption date is agreed.

CIPFA/LAASAC Code for 2022/23

Local authorities are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The most significant change to the Code for 2022/23 relates to IFRS 16.

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

Implementation of IFRS 16 has been delayed on a number of occasions in local government financial statements for various reasons. Most recently, CIPFA/LASAAC conducted an emergency consultation on the Code for both 2021/22 and 2022/23 in March 2022. This resulted in a further deferral to the implementation of IFRS 16 until 1 April 2024. However early adoption will be permitted from either 1 April 2022 or 1 April 2023.

While implementation has been further delayed, the Code strongly encourages early adoption and therefore all finance teams are encouraged to continue their preparations for implementation and to ensure that they are ready to adopt the standard in the next three years.

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

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

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

We have discussed progress in preparing for the implementation of *IFRS 16 Leases* standard with the finance team over the course of the past few audits and are satisfied robust arrangements were being established to assess the impact of the changes for inclusion in the financial statements.

Best Value and Wider Scope dimensions

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

Introduction

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

During 2021/22, we have considered the Council's progress against the improvement plan it developed in response to the Best Value Assurance Report, published by Audit Scotland in January 2022.

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

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

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

Financial Sustainability

Our overall assessment: Red

The Council considered a revised Council Plan and Financial Strategy in September 2022. The Financial Strategy outlines the need to deliver savings of £69 million by 2027, a significant increase from the previous estimate of £52 million in March 2022. The assumptions underpinning all forecasts will require regular review as inflationary forecasts are updated and pay award settlements finalised. These factors are likely to increase existing budget gaps identified and increase the requirement for robust saving plans.

In order to deliver a balanced budget, challenging decisions on service priorities and associated expenditure commitments will be required, along with careful evaluation of new spending commitments. The Council of the Future transformation programme is expected to deliver £10 million of savings from Wave 3 of the project. Planned changes to governance arrangements, including the establishment of the Financial Strategy Group, must allow elected members to continue to scrutinise the achievement of COTF savings.

Our assessment of red reflects the level of savings required over a short period of time, along with the degree of risk and uncertainty outside the Council's control which could impact its ability to deliver services.

Context for Local Government Financial sustainability

The Scottish Government's 'Resource Spending Review' was published on 31 May 2022 and sets out the high level parameters for resource spend within future budgets to 2026-27. The plan is focused on how the Scottish Government will allocate funding to achieve their strategic outcomes and priorities:

- Tackling child poverty;
- Addressing the climate crisis;
- Securing a stronger, fairer, greener economy; and
- Delivering excellent public services.

The review sets out that there will be no increases to core local government funding for the next 3 years. The local government budget is forecast to decline in real terms by 7% between 2022/23 and 2026/27. While the spending review is not a finalised budget, it provides the sector with an indication of likely funding allocations.

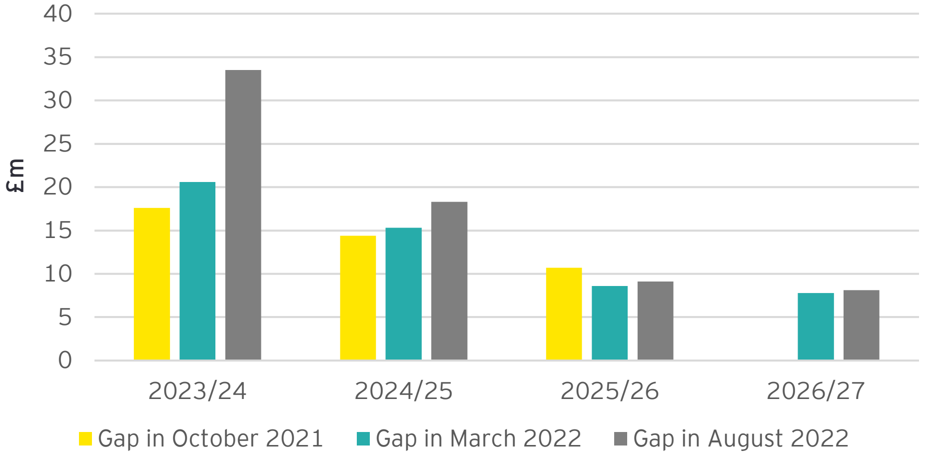
As part of its pre-budget setting scrutiny for 2023/24, the Scottish Parliament's Finance and Public Administration Committee launched a call for views on Scotland's public finances and the impact of both the cost of living crisis and public service reform in August 2022. This consultation seeks views on the priorities within the Resource Spending Review and how the Scottish Government should respond to inflationary pressures and the cost of living crisis within its 2023-23 budget.

The decline in funding for 2022-23 onwards in real terms occurs at a time when the UK is facing an unprecedented cost of living crisis.

Financial Strategy

Like all councils in Scotland, the impact of the Covid-19 pandemic and inflationary pressures continue to create significant financial pressure in 2022/23. The Council considered an updated Financial Strategy in September 2022 which further increased the budget gap over the period to 2026/27. As Exhibit 2 highlights, the budget gap has increased significantly, from £52 million in March 2022, to £69 million in August 2022.

Exhibit 2: The Council's budget gap continues to rise. The latest forecast as at August 2022 is a gap of £69 million in the period to 2026/27, but significant risks and uncertainties mean that this is likely to increase



Source: Falkirk Council Financial Planning 2021-2022

The Financial Strategy highlights additional risks and uncertainties that may further increase the budget gap including:

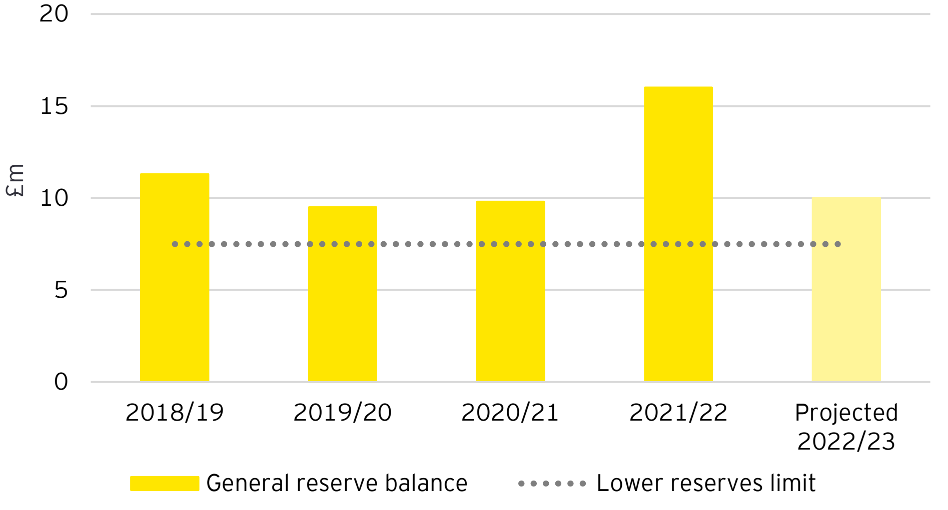
- Inflationary pressures – to date, £4.9 million of costs have been identified in respect of energy cost inflation alone, but the strategy highlights ongoing risks in relation to energy prices and contractual inflation embedded in contracts such as the Public Private Partnership and school transport contracts. The current projected rise in inflation would add over £3 million in costs associated with the schools PPP contracts.
- Pay pressures – 2022/23 pay claims for all of the local government bargaining groups have yet to be concluded at the time of writing. The current projections would add additional costs of £4 million. While the Scottish Government has committed to providing additional funding, it is not expected to fully meet the cost of the current pay offers.
- Cost pressures – the strategy acknowledges the likely increase on service demand as a result of the impact of inflation and other measures on household budgets. One new and emerging pressure for the budget that has not yet been costed is the National Transfer Scheme for unaccompanied asylum-seeking children. Funding available for these "looked after" children to be placed in foster care, but where places are unavailable higher cost residential spaces may have to be used.

Council reserves

In prior years we have highlighted the significant impact of failing to deliver savings and make sufficient budget saving decisions on the Council's reserves. In 2022/23, the Council was able to increase the General Fund balance as a result of the use of the loans fund repayment holiday fiscal flexibility (£7 million). As in prior years, this allowed the Council to maintain reserves within the target range of £7.5 - £11 million, but was a one-off, non-recurring measure.

The outlook for 2023/24 is, however, now stark. Exhibit 3 highlights that in the most recent financial forecast, reserves are projected to fall to £10.0 million at March 2023, despite the use of fiscal flexibilities and earmarked reserves balances, including Covid and Falkirk Community Trust reserves. The Council currently anticipates making use of the final available fiscal flexibility measure, relating to extending the payments relating to PPP schools over the life of the asset in 2023/24. This will provide a final, one-off to support the reserves position in 2023/24. At this stage, a budget gap of £28 million requires to be bridged.

Exhibit 3: The Council's reverses are anticipated to fall by £6 million during 2022/23. The unprecedented level of savings required in 2023/24 means that there is a significant risk that the Council's reserves strategy limit will be breached in 2023/24.



Source: Financial Council Financial Statements and Forecasting Reports

> **Recommendation 4: As we have outlined over a number of years, as a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council's transformation plans.**

Medium Term Financial Planning

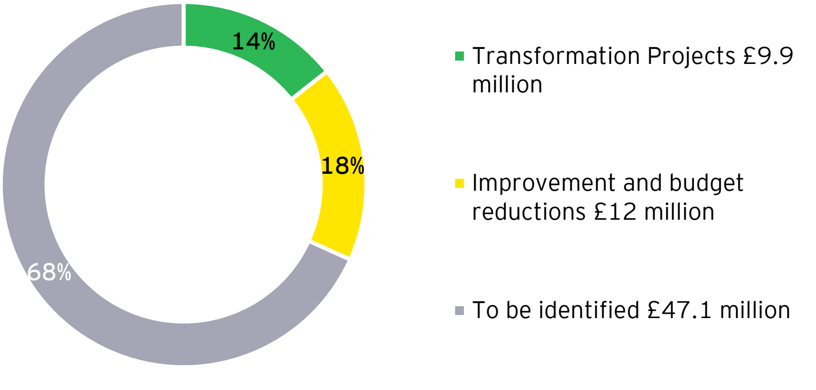
The Financial Strategy presented to the Council in September 2022 set out outline plans to address the scale of the financial challenge ahead. A series of key measures included:

- A revised, Wave 3, programme of COTF transformation savings, totalling £10 million;
- Other service reductions and improvement activity estimated at achieving savings of £12 million over the next four years;
- The consideration of changes to the capital programme to allow a reduction in borrowing requirements; and
- A council tax strategy to move the Council towards parity with other Scottish councils over the next four years.

At the September 2022 meeting, the Council rejected the council tax strategy, although we understand that this will continue to be considered as a key option for the newly formed Financial Strategy Group as they develop 2023/24 budget proposals.

Exhibit 4 highlights the scale of the challenge facing the Council over the next four years. The rejection of the council tax strategy means that at this stage, the remaining, unplanned, budget gap to 2026/27 is £47.1 million, with the likelihood that the gap will continue to grow as the projections are updated to take into account the latest inflation and economic pressures.

Exhibit 4: The Council urgently needs to agree how to meet a budget gap of £47.1 million, including savings of £28.4 million in 2023/24 alone.



Source: Financial Council Financial Strategy, September 2022

Recommendation 5: The Financial Strategy Group must develop indicative budgets and plans over the medium term to provide a shared roadmap and vision to financial sustainability.

Audit Scotland's Local Government Financial Overview Report, published in March 2022, noted that many Scottish councils have agreed multi-year indicative budgets to provide a framework for navigating the challenge ahead. In four councils (Aberdeen, Aberdeenshire, Scottish Borders and Stirling) these outline budgets cover the next five years. The inability to agree a on plans to address the budget gaps but work in this area is ongoing. The strategy explains that it is inconceivable that service reductions will be avoided as the Council responds to the financial challenge ahead. While elected members recognise that difficult decisions lie ahead and that they need to work together to bridge the budget gap, there is not yet a consensus about where savings be achieved. The Budget Working Groups which fostered some cross-party working prior to the budget setting meeting will shortly be replaced by a Financial Strategy Group. This group will be chaired by the Chief Executive and will include Group leaders and Finance spokespersons from each of the political groups. We do not underestimate the difficulty of decisions that lie ahead. There are no easy options left and it is likely that a multi-year strategy will be required to find savings that exceed current projections.

The closure of Falkirk Town Hall was the first of what are likely to be many difficult decisions that lie ahead, but demonstrated that elected members are able to work together to find solutions. Officers must now be supported, but held to account, to deliver a sustainable replacement.

Council of the Future Transformation (COTF) Programme

It is widely accepted that transformation is the optimal way to meet the financial challenges the councils face. Transformation should allow councils to drive out areas of inefficiency, and find better ways to work to improve services while cutting costs. Falkirk's Best Value Assurance Report (BVAR), published in January 2022 noted that the COTF had yet to make a significant impact on services and savings. In our 2020/21 report, we noted that it was not yet clear how the Council would address some of the opportunities for improvement, including:

- The disproportionately low savings achieved within Children's Services;
- Cross cutting projects being limited to the Transport Zero Based Budgeting project; and
- The need to formally review the return on investment from the Change Fund to allow any lessons to be learned.

The Council agreed a Strategic Action Plan to respond to the BVAR in February 2022. This included an action to conduct a Best Value Review of the change programme. The outcomes of the review was reported to the Council's Executive in August 2022 and outlined a number of changes to the governance processes. This includes:

- An officer-only COTF Board, with elected member briefings to provide updates as required;
- Three Directorate Boards will report into the COTF Board; and
- A new set of criteria for transformation projects, including probability of success.

Scrutiny of savings

At the time that the BVAR was prepared, the savings to be delivered from the COTF programme had fallen from £23.6 million (projected in May 2019) to £14.9 million, accounting for around a third of the overall budget gap. Further savings of £6.8 million were expected to be delivered from zero-based budgeting (ZBB) projects.

Two ZBB pilot projects were established in 2021/22, with support from the Programme Management Office, including allocated accountancy support. The anticipated savings were revised down from £1.8 million per year to £0.5 million as a result of double counting with other savings measures. The Council has recently considered a report on the ZBB review of transport which estimates achievable savings of £0.54 million, with future additional savings likely as a result of improved safety measures impacting insurance premiums. However, £0.45 million of attributed savings represent service reductions and are therefore subject to difficult choices for elected members. Further savings may be possible but require review and action from Children's Services. A second ZBB pilot in relation to Secondary Education has not yet been reported and no savings have yet been attributed to it.

Recommendation 6: The Council should ensure that members receive timely, robust information on COTF projects to allow them to scrutinise progress and value for money.

The revised Wave 3 COTF reduces projected transformation savings to £10 million over the next four years, around 14% of the budget gap. It is therefore increasingly important that the reduced number of projects deliver as planned. Under the revised governance arrangements outlined in the Council Plan, the COTF programme will be reported to elected member only when decisions are required. The Financial Strategy Group will therefore play a key role in scrutinising the delivery and achievability of savings.

Under the performance framework reported in the Council Plan, success measures will be reported six-monthly for scrutiny. In our view, the proposed success measures (Exhibit 5) do not reflect success, or the full urgency or scale of financial pressure that the Council currently faces.

Exhibit 5: The Council's success measures in relation to financial sustainability do not support effective scrutiny

FINANCIAL SUSTAINABILITY			
We will...	**Success Measure**	**Baseline**	**Target**
Have short, and long term, financial stability.	Support services as a % of total gross expenditure. Scotland Value is 4.06%.	3.61%	TBC
	The cost per dwelling of collecting Council Tax Scotland Value is £6.64.	£4.88	TBC
	Gross rent arrears (all tenants) as at 31 March each year as a percentage of rent due for the reporting year. 9.43% - 2022/23.	9.83%	TBC

COTF: TRANSFORMATION & IMPROVEMENT			
We will...	**Success Measure**	**Baseline**	**Target**
Deliver the COTF change programme.	Projects will have clear benefits which can be measured.	NEW	100%
	Projects will be monitored and reported.	NEW	100%
	Projects will be delivered on time and on budget.	NEW	70%

Source: The Council Plan 2022-2027

Financial Management

Our overall assessment: Amber

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid-19 and other financial pressures. The Council initially budgeted to use £2 million of reserves in 2021/22, but this was not required as a result of underspends against budget, and the use of financial flexibilities.

The Council reports that it delivered £4.86 million of savings in 2021/22. Savings in 2022/23 will be more challenging as a result of inflationary and service demand pressures. The Council has taken important steps towards the development of a realistic and affordable capital programme but key priorities may be unaffordable in the short to medium term.

Financial position

The Council continued to receive detailed financial position reporting throughout 2021/22. The financial statements record a surplus of £6.7 million, which meant that reserves were increased during the year. This represents a significant improvement on the budgeted position, where the Council expected to use £2 million of reserves to balance the budget. We do, however, note that this would not have been possible without the use of one-off financial flexibilities allowed by the Scottish Government as part of a package of measures to support the recovery from the pandemic. The loans fund repayment holiday allowed the Council to reduce repayments by £7 million in 2021/22. Other improved movements included:

- A reduced payment to the Falkirk Community Trust (£1.2 million);
- Lower than forecast teachers pay settlement (£0.9 million); and
- Increased revenue support grant (£2 million)

Delivery of savings

The financial forecast reports also included clear, RAG rated reports on the delivery of planned savings, summarised by service and workstream. The summary of savings in 2021/22 notes that £4.86 million of planned £5.04 million (96.5%) were achieved. This represents a significant improvement on prior years.

The Council has, however, indicated that savings in 2022/23 are more challenging. Planned savings of £1.5 million from the Council's Closer to Home COTF programme are not expected to be achieved due to the cost pressures associated with residential care for looked after children and the costs of continuing care. The most recent financial forecast indicates that 68.5% of savings will be achievable in 2022/23.

Financial forecasting for 2022/23

The impact of inflation means that every service faces effectively real term budget cuts in 2022/23. The non-delivery of savings contributes to a projected overspend of £4.4 million within Children's Services in 2022/23. The Council currently expects to record a deficit of £6.45 million in 2022/23. This represents a net overspend against a budgeted deficit of £5 million.

Capital programme

In previous reports, we have noted that the Council has been unable to deliver the planned capital programme within the respective financial year. In our 2020/21 Annual Audit Report, we observed that the £66.8 million planned capital budget for 2021/22 was unrealistic and unlikely to be delivered. The revised 2021/22 budget was £70.1 million, of which £42.4 million (60%) was achieved. The corresponding reduction in revenue costs associated with borrowing contributed to the Council's surplus in 2021/22.

The Council has accepted that a review of the capital programme is required to ensure that it remains affordable in the context of medium term financial planning. Refer to Recommendation 11.

In September 2022, the Council considered the outcome of a review of the capital programme. This important review allows the Council to reconsider capital plans against strategic priorities and the context of inflationary pressures on materials costs and equipment. The review acknowledges that priorities, including the aim to invest to deliver Net Zero by 2030 are not fully funded within the programme. The cost to deliver sufficient carbon savings are estimated at £75 million, some £65 million above the current funding in the capital programme. The annual revenue costs associated with additional borrowing are estimated at £8.1 million, which appears unaffordable.

The capital programme plays a crucial role in the Council's route map both to financial sustainability, and to delivery of the strategic priorities within the Council Plan. We therefore welcome the review while recognising the difficulty of decisions ahead.

CIPFA financial management code

Recommendation 7: The Council should conduct a self-assessment against the CIPFA Financial Management Code. The Audit Committee should play a key role in scrutinising implementation.

The CIPFA Financial Management Code comes into effect for all councils in 2021/22. It is intended to support good practice in financial management, assist in demonstrating a local authority's financial sustainability, and set out standards of financial management. The standards are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services; and
- manage unexpected shocks in their financial circumstances.

In response to our recommendation in 2020/21, the Council noted that it considered that it conformed to the requirements of the FM Code in all major aspects. However, a more detailed evaluation has not yet been completed. We consider that a full self-assessment should be undertaken and reported to the Council's Audit Committee.

Finance Team Capacity

In April 2022, a new Chief Finance Officer was appointed following the retiral of the previous postholder. We are satisfied that the Council adheres to the principles laid out within CIPFA's Statement on the role of the Chief Financial Officer in Local Government.

In 2020/21 we drew attention to concerns about the lack of capacity both within Finance and the Internal Audit function. Good progress was made to address the vacancies within internal audit in 2021/22. We also noted that the responsiveness to audit queries generally improved. A strong finance function remains essential to navigate the unprecedented financial pressures outlined in the Financial Strategy. We note, in particular, the need to:

- Identify and respond to potential corporate accounting solutions; and
- The key monitoring role in applying financial control measures, such as the recent vacancy freeze.

In our view, the Council continues to demonstrate financial capacity below the level we expect in councils of a similar size.

Governance and Transparency

Our overall assessment: Amber

The key features of good governance remain in place at the Council. The composition of the Council's Audit Committee has significantly changed and there is an the opportunity to review arrangements against revised best practice, ensuring that the scrutiny needs of the Council are met.

The Council has disclosed two accidents which have resulted in action from the Health and Safety Executive (HSE). An action plan is in place to address the weaknesses identified. We have also drawn attention to a series of whistleblowing allegations over the last three years. While improvements have been made to the whistleblowing reporting arrangements to Audit Committee, we consider that underlying cultural issues have not been fully addressed.

Local Code of Corporate Governance

The Council uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement. For 2021/22, the Council has considered the effectiveness of its arrangements against the CIPFA framework for *Delivering Good Governance in Local Government*. Code review informed the annual assurance process including completion of the Annual Governance Statement.

The governance statement for 2021/22 concluded that *"largely satisfactory risk, control, and governance systems are in place within Falkirk Council. This Statement also demonstrates that we have met our legal and statutory obligations to our residents; and we are committed to completing the actions identified in 2022/23."*

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. The statement continues to set out key areas for improvement in governance arrangements to enhance the Council's Local Code of Corporate Governance and to demonstrate best value. We worked with the Council to ensure that each significant area of improvement was reflected within the action plan for 2022/23.

Overall, we concluded that the 2021/22 Annual Governance Statement represented a significant improvement on prior years regarding the explanation of key sources of assurance and the actions planned to secure improvement in future years.

Internal audit activity

The internal audit team continued to report challenges in delivering against the work planned for the year 2021/22. The internal audit team continued to face capacity restraints throughout the year as a result of vacancies and turnover.

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

Openness and transparency

The Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers in usual circumstances, and agendas and papers are available in advance of each meeting. The Council has continued to hold meetings using hybrid arrangement following the Covid-19 pandemic with minutes of meetings, including key decisions, publicly available via the Council website after the meetings. Key Council and committee meetings can be viewed via livestream or video broadcasting.

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

Audit Committee arrangements

The composition of the Audit Committee has changed significantly as a result of the local government elections. We note that the Council is satisfied that a member of the opposition should chair the committee, rather than try to replace the independent chair arrangements that were in place until 2020/21. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value.

Recommendation 8: The Audit Committee should use updated guidance from CIPFA to conduct a self-assessment against good practice arrangements, and identify further training requirements.

We understand that plans are in place to provide training for audit committee members on their important scrutiny role. In October 2022, CIPFA released updated Audit Committee guidance, including resources to support committees' development. There is an opportunity to conduct a self-assessment against the good practice guidance available from CIPFA as part of the induction arrangements. This could include the use to the CIPFA Skills and Knowledge Toolkit to support new and continuing members to identify training requirements.

A comprehensive induction programme was developed to support members in undertaking their new roles.

Elected Member Induction Programme

Following the local government elections in May 2022, the Council established an elected member induction programme to ensure members had appropriate training and support to deliver their responsibilities. The programme covered key areas including standing orders and governance; local government finance and capital strategy and treasury management. The Council should continue to engage with members on ongoing training and development requirements.

A comprehensive induction programme was developed to support members in undertaking their new roles.

Arrangements to prevent fraud and corruption

The consideration of financial management also includes evaluating the Council's arrangements for fraud and corruption. CIPFA's *Code of Practice on Fraud and Corruption* notes that leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations. The Council's reviewed its Whistleblowing Policy, Anti-Fraud and Corruption Strategy and Procedure for the Investigation of Corporate Fraud referrals in January 2022.

The Fraud Risk Assurance Statement and Corporate Fraud Update reports were presented to the Audit Committee in March 2022, setting out the counter fraud work undertaken during the year. The Corporate Fraud Update notes the development of a reporting framework to brief elected members about whistleblowing arrangements in a way that reflects the inherent sensitivities of the investigation of allegations. We are satisfied that the Council had appropriate arrangements in place to prevent fraud and corruption during 2021/22 with appropriate reporting of activity and associated outcomes.

Whistleblowing and non-compliance

In 2019/20 we requested that our forensics team conduct additional work in relation to whistleblowing allegations to allow us to conclude the audit. During our audit fieldwork in 2021, we were informed by the Council of further allegations relating to procurement decisions and awarding of contracts within the same department. A series of recommendations have been made in previous annual audit reports, and by the Council's Corporate Fraud Team which aim to strengthen internal controls within the individual service. These recommendations are subject to regular follow up work by the Council's internal audit team.

Recommendation 9: The number and nature of concerns expressed about the culture within individual services present a reputational risk to the Council. A review of the control environment should be undertaken and monitored by the Audit Committee.

Late in September 2022, the Council received a further whistleblowing allegation in relation to potential procurement anomalies within the same service. As a result, additional procedures were required to allow us to conclude the 2021/22 financial statements audit, including involvement of our forensics specialists.

Our forensics specialists have reviewed the work undertaken by the Corporate Fraud Team to date, along with the proposed workplan to conclusion. We were satisfied with the scope and focus of the procedures. We do, however, understand that the work undertaken to date has highlighted internal control weaknesses that mean there is an increased risk of theft or collusion. Continued priority to address these matters is required by officers and members.

During 2021/22 we were informed of two accidents which have resulted in action by the Health and Safety Executive (HSE). The HSE has issued a number of notices of contravention and improvement notices and are likely to issue fines in due course. The Council's own investigation has highlighted a number of concerns in relation to the culture and working practices and a cross-service working group has been established to respond at pace.

Value for Money

Our overall assessment: Amber

The Council has reviewed its arrangements for performance monitoring, improvement and self-assessment as part of its response to the Best Value Assurance Report. The Falkirk Performs website continues to be developed and improved but further work is needed to finalise performance measures to support scrutiny against the Council Plan.

While we note that performance reporting remains a developing area, reports to both the Scrutiny Committee and publicly available, continue to have too much information, and are heavily narrative based, resulting in performance being harder to readily interpret.

Work is required to finalise future success measures targets to report performance against the Council Plan.

Performance Management framework

Throughout 2021/22, the Council's performance management arrangements to aligned with the three priority areas of the Corporate Plan – Communities, Enterprise and Innovation. Unlike in prior years, there was no progress report against the Corporate Plan.

Recommendation 10: The Council's performance reporting arrangement should continue to be reviewed to ensure performance can be readily assessed and scrutinised. This should include greater use of graphics where appropriate.

The performance reports contain a range of information including:

- Progress against Corporate Plan actions;
- Key achievements;
- A COTF dashboard including project savings; and
- Key Performance Indicator information, which is based on the Local Government Benchmarking Framework.

The reports rely heavily on narrative reporting and too many out of date performance indicators and do not, therefore, support effective scrutiny. Following the local government elections, management should continue to review the presentation of performance reports, including seeking member feedback to ensure data is presented in the most accessible manner which supports members in performing their scrutiny role effectively.

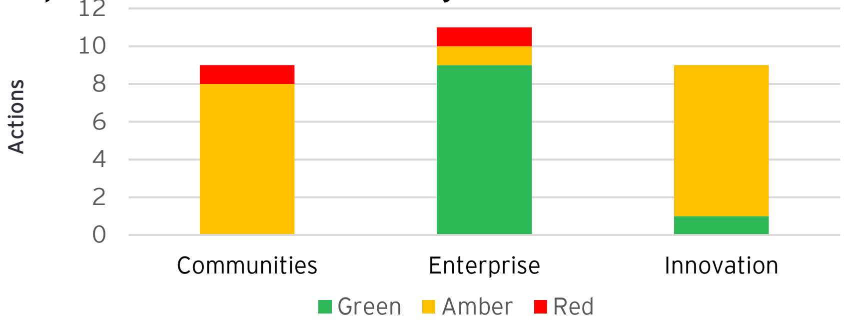
The Council has outlined future success measures to report performance against the Council Plan, but a number of areas do not yet have agreed targets. We do, however note that elected members have access to additional, and more up to date performance data within the Pentana performance management system.

Falkirk Performs is the performance reporting area of the Council's website. The website is difficult to navigate and does not yet provide a user-friendly, accessible source of performance information for members of the public.

2021/22 Performance Outcomes

Each Council service is expected to report a monthly performance review statement, which is available on Falkirk Performs. Exhibit 6 highlights that the March 2022 reports outlines that 19 actions were not on track for delivery. The reports recognises the ongoing challenges associated with Covid-19 recovery.

Exhibit 6: The Council reported that 10 (34%) of the actions within the Corporate Plan were assessed as "green" at March 2022.



Source: Performance Review Statements, March 2022

Local Government Benchmarking Framework

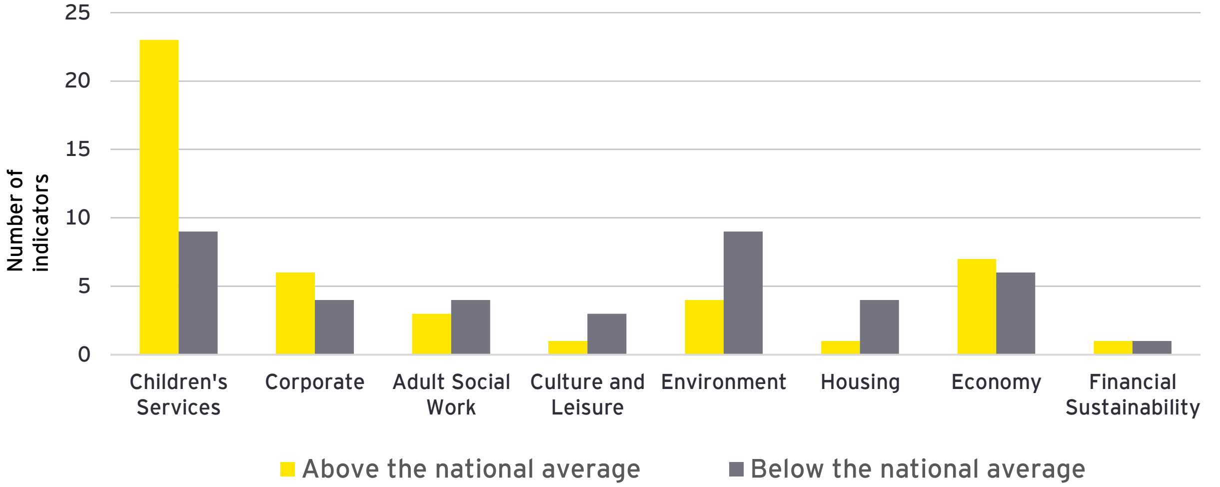
The Council's Scrutiny Committee considered performance against the Improvement Service's 2020/21 Local Government Benchmarking Framework (LGBF) results in September 2022. The Council notes that 57% of the indicators deteriorated in performance between 2019/20 and 2020/21 but that 50% of indicators exceed the national average.

Our analysis, within Exhibit 7, shows that performance continues to be mixed against peers but key services, including Education perform strongly. The Council also performed in the top quartile for 23 of the LGBF indicators, including:

- The percentage of pupils gaining 5 or more awards at Level 5
- The percentage of pupils living the in the most deprived areas gaining 5 or more awards at Level 5
- The number of the council's homes that meet energy efficiency standards
- The percentage of total household waste that is recycled
- Sickness absence days per teacher; and
- The proportion of properties receiving superfast broadband.

Areas of poor performance include the cost per visit to libraries, museums and galleries, the cost per attendance at sport and leisure facilities and delayed discharge rates. We also note that the area wide emissions rate is the worst in Scotland, reflecting the petrochemical centre at Grangemouth.

Exhibit 7: Service performance remains mixed, with around half exceeding national averages in 2020/21



Source: Local Government Benchmarking Framework, 2020/21

Statutory Performance Indicators

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

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

The Council continues to report a range of performance information to the Scrutiny Committee and the public to demonstrate the relative value and effectiveness of Council services. Falkirk Performs is the performance reporting area of the Council's website. The website is difficult to navigate and does not yet provide a user-friendly, accessible source of performance information for members of the public. We recognise that this remains an area of planned development for the Council.

Best Value

Our overall assessment: Amber

Forming our judgement

As appointed auditor, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities. In forming this judgement, we draw upon:

- The findings of Audit Scotland's Best Value Assurance Report (BVAR), which was published in January 2022;
- The Council's improvement plan which was developed in response to the BVAR and was approved in February 2022; and
- The programme of work that we have conducted throughout our appointment to consider each area of Best Value. Our specific area of focus in 2021/22 is in relation to the Council's approach to sustainability. We also take into account our wider scope responsibilities and reporting.

The Council's Response to the Best Value Assurance Report

The BVAR concluded that the Council has demonstrated improvement in performance in some key services but that overall the pace and depth of improvement since the previous Best Value audit report in 2018 has not been sufficient to achieve the level of transformational change needed to address future budget gaps.

The Accounts Commission has indicated that the Council will be visited early in the next programme of Best Value reviews, likely to be in 2023. As a result, our Best Value work in 2021/22 has focused on following up the achievement of the improvement plan that was agreed in February 2022.

As Exhibit 8 highlights, we reviewed the progress against actions that were due to be completed by September 2022. The Council considered a progress update in August 2022 which indicated that the majority of the actions due for completion at that time were complete or on track. We have reviewed the actions due and while the significant work plan was completed, in most instances we were unable to conclude that the required impact has been demonstrated to date:

- Within our conclusions on Financial Sustainability, we note that the Council faces an unprecedented financial challenge. The ability of elected members and officers to work together on the Financial Strategy Group to deliver savings in a planned and prioritised way will define the success or failure of the Council in supporting its communities.
- Within Value for Money we note that there remains significant scope for improvement on public performance reporting.

Further Best Value Follow Up work will be the focus of the Council's incoming external auditor, Audit Scotland. We will meet with the newly appointed auditor to share information and evidence in a handover meeting planned in November 2022.

Exhibit 8: Our assessment of progress against the Council's February 2022 Strategic Action Plan

Theme and Agreed Actions	Timescale	Our overall assessment	Commentary
1. Elected members and senior officers need to work more constructively together to lead the council more effectively and decisively.			
▸ Ensure a comprehensive induction programme is developed for all members. ▸ Develop a cross-Council understanding of what 'collaborative leadership' means for officers and elected members ▸ Define what is required by members and officers to deliver Best Value ▸ Develop a new Corporate Plan and supporting Business Plan.	Sept 2022		The Council has pursued a range of actions to develop closer working across leadership groups, including support from external parties. The Council Plan has been developed and approved in line with timescales but there is not yet plan in place to deliver financial sustainability. At this stage, it is too early to assess whether collaborative working and leadership is sufficiently developed to achieve the level of savings required.
2. It is crucial that the council makes far greater progress in delivering its transformation programme and in making savings, given the scale of the challenge it faces.			
▸ Review the transformation programme and identify elements that are working. Remove the elements that do not significantly add value, find solutions to the barriers that have previously emerged, and create a faster delivery and decision-making framework ▸ Harness the resources of the PMO and Change Fund to support priority projects ▸ Review and improve the milestones used to monitor progress within each project ▸ Review and strengthen the way transformation projects are reported to Council ▸ Review additional areas that are suitable for transformation.	Sept 2022		We have noted within Financial Sustainability that the COTF programme has been subject to review and significant change. While the PMO has been reduced, no assessment has been made of the return on investment of the Change Fund. While likely to be more realistic, the savings planned to be delivered from transformation continue to reduce and now represent only 14% of the budget gap. It is too early to assess the impact of the updated governance structure, including the role of the Financial Strategy Group.
3. The council should continue to improve its approach to reporting performance to elected members and the public to support more effective scrutiny.			
▸ Review and refresh performance indicators to reflect what's in the new Corporate and Business Plans ▸ Remove duplication of reporting and make sure all Council reporting is meaningful, clear and simple to understand.	Sept 2022		While significant work has been undertaken to prepare the Council Plan, and associated performance measures, we note in Value for Money that further improvement is required. In our view the structure of reports to report on performance do not support effective scrutiny.

Theme and Agreed Actions	Timescale	Our overall assessment	Commentary
4. The Council needs to better manage its capital programmes to deliver planned projects.			
‣ Undertake a comprehensive review of the Capital Plan to ensure proposals are free of optimism bias. ‣ Review Council-wider governance arrangements for the Capital Programme ‣ Identify and develop projects within the Capital Plan that can be accelerated to mitigate against unexpected slippage ‣ Create and embed the Invest Falkirk service area to deliver on major capital programmes	Sept 2022		The Council has undertaken significant work, both to reprofile the capital plan and to establish the Strategic Asset Modernisation Board. The Council also considered the need to review the Capital Strategy and Plans in the context of the financial challenge set out in the Financial Strategy. While this remains a challenging area, the work to date provides the groundwork to help the Council to develop a robust and achievable capital programme in future years.
8. The council needs to ensure that hit can deliver the benefits envisages from bringing the services provided by the Falkirk Community Trust in-house.			
‣ Building on the positive joint work over recent months of the Programme Management Group, ensure that Falkirk Community Trust staff, services, projects and assets are successfully integrated into the Council ‣ Ensure that the potential opportunities and benefits of integration are used as a basis for transformation	Sept 2022		While difficult decisions remain ahead, we were satisfied that the integration has been managed well to date.
9. The council should act to fully embed equalities across the council and comply with statutory requirements.			
‣ Refresh existing equalities working group with identified equalities leads for each directorate ‣ Establish strategic leadership at all levels across the council ‣ Develop an ambition to address inequality in every aspect of our work and undertake benchmarking to learn from other organisations. ‣ A refreshed approach to equalities practice, including training and performance monitoring.	Sept 2022		Work is underway to strengthen the Council's approach to equalities, but we were unable to conclude that each planned action had yet been delivered. A refreshed Equalities Group is in place, co–Chaired by the Chief Officer of Falkirk IJB, and the Council's Chief Governance officer.

Climate Change and Sustainability

The Scottish Government has set a target to be net-zero by 2045; 5 years ahead of the UK target.

Falkirk Council has committed to an ambitious target to achieve net zero on its buildings, energy and transport emissions by 2030.

In October 2021, the Council published the Falkirk Plan 2021-2030, which sets out a vision framework for all community planning partners. The vision reflects the area's current status as a major contributor to emissions, due to the location of the significant petrochemical plant in Grangemouth. As a result, the partnership has recognised that co-ordinated action is required at pace to deliver Falkirk's contribution to the Scotland Government's target to be net-zero by 2045.

The Falkirk/Grangemouth growth deal is expected to help make a significant contribution to the Partnership's plans for a 'Just Transition.' Proposals include a programme of investment for a Carbon Dioxide Utilisation Centre, Bioeconomy Accelerator Pilot Plant to help chemical industry change reliance on fossil fuels to the use of renewable resources and waste streams.

Further investment in a sustainable transport hub, including a centre for excellence in green bus technology and community owned solar energy aims to drive inclusive and sustainable growth for communities.

Climate Emergency Action Plan

The Council declared a Climate Emergency in August 2019. It set an ambitious target to be net-zero by 2030 for its own activities. During 2021/22, the Council reviewed current legislative targets and how they apply to Council service delivery. An updated Climate Emergency Action Plan 2022-30 was prepared and approved by the Executive in February 2022. In October 2022, the Council outlined plans to develop a new Climate Emergency Strategy, which recognised the scale of the challenge ahead.

As a result of the recent intense focus on climate change and sustainability we noted a number of areas of good practice including:

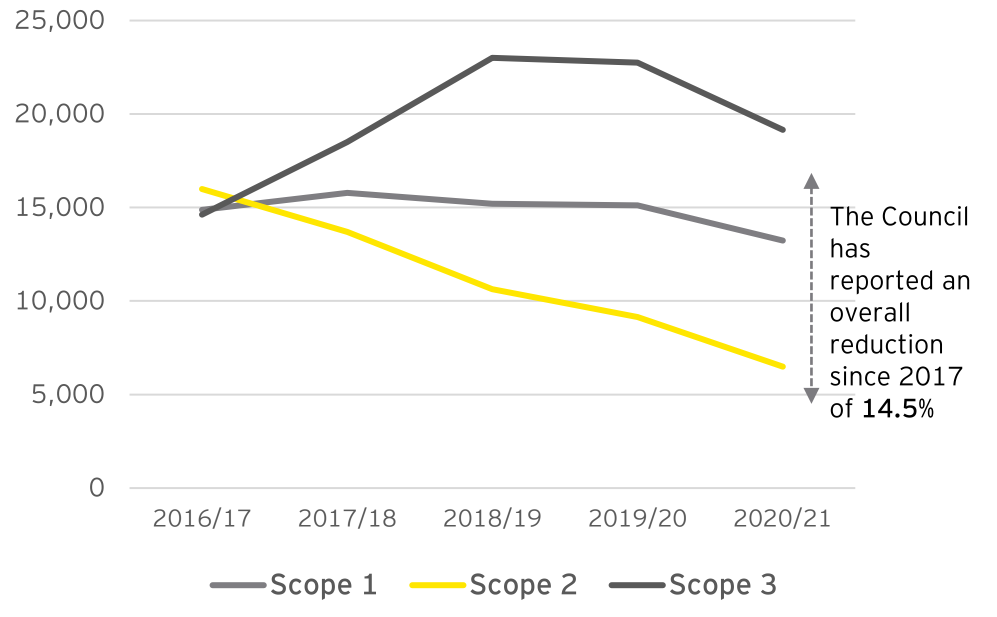
- The appointment of a Portfolio Holder with a specific focus on Climate Change;
- An updated report template for decision papers presented to Council and Committees, which includes the quantification of the carbon impact of each decision;
- The introduction of carbon budgeting to allocate and monitor emissions allowances by service area;
- A focus on climate change throughout the Capital Strategy, including a review of the vehicle replacement programme to a sustainable fleet, and energy efficiency measures throughout schools and in council offices and dwellings.

Measuring and reporting emissions, including via carbon budgeting, is essential to help the Council to reduce its greenhouse gas emissions.

This is an area where measurement standards and reporting requirements will continue to develop.

- Scope 1 emissions are direct emissions that are released into the atmosphere from sources that are owned or controlled by the Council.
- Scope 2 emissions are indirect emissions from the generation of purchased energy, which for most organisations are primarily emissions released during the generation of the electricity it uses.
- Scope 3 emissions are all other indirect emissions that occur because of an organisation's activities but from sources not owned or controlled by the Council.

Exhibit 7: The Council reports within its annual climate duties report that it has reduced emissions by over 14% since 2017



Source: Annual Report on Compliance with Climate Change Duties submitted to the Scottish Sustainability Network

While the Council has met its public duty to report to the Sustainable Scotland Network, we note that there are not yet any arrangements to validate or peer review the levels of emissions reported. The Council reports on a number of aspects of climate action within regular reporting to the Executive. However, it is difficult for elected members to assess the progress against the 2030 carbon neutral target, and therefore whether it is likely to be achievable based on current levels of investment.

Recommendation 11: The Council should ensure that the updated Climate Emergency Strategy provides a realistic plan to achieve the Scottish Government's emissions targets.

We do, however, note that the Council has recognised that current projects will be insufficient to meet its target by 2030. The Capital Strategy notes that the required level of investment necessary to deliver target is £75 million, against a current investment level of £10 million. Recent changes to planned scrutiny activity, and the decision to remove climate change from the COTF programme present a further risk to delivery of the targets by 2030.

Looking ahead: Sustainability Reporting

Significant advances have been made in sustainability reporting in the corporate sector and central government sectors over a number of years. There are not yet any mandatory emissions measurement and reporting requirements for local government, although it is an area many local authorities are exploring.

Mandatory requirements are likely to be required in the coming years. In March 2022, the International Sustainability Standards Board issued an Exposure Draft consultation, on requirements for the disclosure of climate-related matters. The proposals in the exposure draft set out requirements for identifying, measuring and disclosing climate-related risks and opportunities based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The consultation closed on 29 July 2022. In Appendix E we set out the key reporting areas of TCFD disclosures, along with annotations in green boxes with recommendations of good practice from other sectors.

Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit Committee

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

E – Adjusted errors identified during the audit

F – Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit, risk and governance committees or equivalent) in monitoring these arrangements.
Financial Statements and related reports	Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. • maintaining proper accounting records. • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. • Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: • such financial monitoring and reporting arrangements as may be specified • compliance with any statutory financial requirements and achievement of financial targets • balances and reserves, including strategies about levels and their future use • how they plan to deal with uncertainty in the medium and longer term • the impact of planned future policies and foreseeable developments on their financial position.
Best Value	Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

Appendix B: Independence and audit quality

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

Matters that we are required to communicate	The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.
Confirmations	We are not aware of any inconsistencies between the Council's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy. We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard. We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

Audit Fees

	2021/22	2020/21
Component of fee:		
Total agreed auditor remuneration	£202,270	£198,050
Additional audit procedures (see below)	£41,150	£72,000
Section 106 Trust	£2,500	£2,000
Audit Scotland fixed charges:		
Pooled costs	£21,080	£18,830
Performance audit and best value	£99,920	£99,680
Audit support costs	£10,800	£10,890
Total fee	£377,720	£401,450

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

Through the 2021/22 audit cycle we have discussed with management areas of the audit which required additional work beyond that usually expected for the Council. These areas related to the additional procedures in respect of infrastructure assets £12,950, inefficiencies (£800) and additional work to respond to whistleblowing allegations (£27,400). For these areas we have agreed the fee noted in the table above with management and Audit Scotland, based on the additional time required at the contracted Audit Scotland rates.

Matters that we are required to communicate	International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The EY 2021 UK Transparency Report can be accessed on our website at EY UK 2021 Transparency Report | EY UK. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our Audit Quality Report. The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it. Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ). Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures. Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report	Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission. We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland. The most recent audit quality report which covers our work at the Council since appointment can be found at: Quality of public audit in Scotland annual report 2021/22 (audit-scotland.gov.uk)

Appendix C: Required communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Annual Audit Plan
Significant findings from the audit ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Annual Audit Plan Annual Audit Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Annual Audit Report
Misstatements ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Annual Audit Report
Fraud ▸ Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Annual Audit Report

Required communication	Our reporting to you
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: - Non-disclosure by management - Inappropriate authorisation and approval of transactions - Disagreement over disclosures - Non-compliance with laws and regulations - Difficulty in identifying the party that ultimately controls the entity	No significant matters have been identified.
Independence Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: - The principal threats - Safeguards adopted and their effectiveness - An overall assessment of threats and safeguards - Information about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan This Annual Audit Report – Appendix B
Internal controls Significant deficiencies in internal controls identified during the audit	This Annual Audit Report – no significant deficiencies reported
Subsequent events Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Material inconsistencies Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Annual Audit Report
Consideration of laws and regulations - Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off - Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Annual Audit Report or as occurring if material.
Group audits - An overview of the type of work to be performed on the financial information of the components - An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components - Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work - Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted - Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Annual Audit Plan This Annual Audit Report

Appendix D: Action Plan

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

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
1	As part of our review of the annual report and accounts, we consider the draft disclosures within the management commentary against good practice guidance and disclosure requirements. We note that a number of areas of improvement that we highlighted have not been adopted, including recommendations made in Audit Scotland's Local Government Financial Overview report to: ▸ Disclose the outturn against budget position for the year, along with the reasons for significant variances; and ▸ Report progress against agreed savings plans.	As part of the preparation process to develop the draft financial statements, the Council should develop a quality assurance process. This should include consideration of recent good practice guidance in relation to the management commentary and key financial disclosures. *Grade 2*	**Response**: As part of the new audit cycle, officers will look to refresh the overall presentation of the accounts and the quality assurance process. **Responsible officer**: Senior Corporate Finance Manager **Implementation date**: June 2023
2	Audit procedures in respect of valuations continued to note a number of errors and areas for improvement: ▸ Errors in relation to the failure to identify assets that should be subject to impairment and ▸ Supporting evidence for valuation not being readily available.	The Council should review the communication arrangements between Property Services and the Finance Team to ensure that up to date assessments of assets are available, allowing impairment reviews to be completed where required. *Grade 2*	**Response**: Overall arrangements will be reviewed, including introducing new procedures to identify any surplus and unused assets **Responsible officer**: Accountancy Services Manager (Capital) and Asset Management Manager **Implementation date**: March 2023

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
3	The statutory override in respect of infrastructure assets is intended to be a short-term solution to issues in respect of accounting for infrastructure assets.	The Council should ensure that greater detail on infrastructure assets is retained moving forward and appropriate consideration is given to disposals and replacements of infrastructure assets. *Grade 2*	**Response**: Arrangements will be reviewed to ensure compliance with the Code as appropriate. **Responsible officer**: Senior Corporate Finance Manager **Implementation date**: March 2023
4	The Council's Financial Strategy has outlined an unprecedented financial challenge over the next four years, including an outstanding budget gap of £28 million in 2023/24.	As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council's transformation plans. *Grade 1*	**Response**: The newly established Financial Strategy Group will oversee the work to further develop our Financial Strategy and to ensure financial sustainability. This will include oversight of savings from our transformation programme. **Responsible officer**: Chief Executive **Implementation date**: March 2023
5	Many Scottish councils have been able to agree multi-year indicative budgets to provide a framework for navigating the challenges ahead.	The Financial Strategy Group must develop indicative budgets and plans over the medium term to provide a shared roadmap and vision to financial sustainability. *Grade 1*	**Response**: The Financial Strategy Group will keep indicative budgets under review, and consider options to bridge the budget gaps, with the aim of ensuring financial sustainability. **Responsible officer**: Chief Executive **Implementation date**: March 2023

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
6	Recent changes to governance arrangements mean that we are unable to conclude on the effectiveness of arrangements to track the costs, benefits and delivery of the revised COTF programme.	The Council should ensure that members receive timely, robust information on COTF projects to allow them to scrutinise progress and value for money. *Grade 2*	**Response**: The Financial Sustainability Group will receive updates on COTF projects including delivery of projected net savings. Reports will be submitted to Executive and other Committees as appropriate. Briefings will be provided to Members on specific projects at appropriate stages in the development. **Responsible officer**: Senior Corporate Finance Manager and Change Manager **Implementation date**: March 2023
7	Despite our recommendation in 2020/21, the Council has not yet conducted a self - assessment against the CIPFA Financial Management Code. This became a requirement for all local government bodies in 2021/22.	The Council should conduct a self-assessment against the CIPFA Financial Management Code. The Audit Committee should consider the self-assessment and scrutinise implementation. *Grade 1*	**Response**: A self-assessment will be undertaken and submitted to Committee as appropriate. **Responsible officer:** Chief Finance Officer **Implementation date:** June 2023
8	The Audit Committee composition has significantly changed following the local government elections. Revised guidance from CIPFA may provide helpful training materials on the important role of the audit committee.	The Audit Committee should use updated guidance from CIPFA to conduct a self-assessment against good practice arrangements, and identify further training requirements. *Grade 2*	**Response:** Arrangements for this work to be undertaken will be put in place. **Responsible officer:** Internal Audit Manager **Implementation date:** June 2023

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
9	There is scope to learn wider lessons from whistleblowing and emerging cultural issues within individual services as they could impact the trust and reputation of the Council. Any review should be overseen by the Audit Committee as part of its governance and risk management role.	The number and nature of concerns expressed about the culture within individual services present a reputational risk to the Council. A review of the control environment should be undertaken and monitored by the Audit Committee. This should include additional controls around the verification that works have been completed. *Grade 1*	**Response**: Actions are being implemented by services to review the culture change referred to, and to take positive steps. This will be reviewed by Internal Audit and reported as required. **Responsible officer**: Internal Audit Manager **Implementation date:** June 2023
10	While we acknowledge that performance reporting remains under development, reporting does not yet provide a user-friendly, accessible source of performance information for members of the public.	The Council's performance reporting arrangement should continue to be reviewed to ensure performance can be readily assessed and scrutinised. This should include greater use of graphics where appropriate. *Grade 2*	**Response:** The corporate group reviewing the Council's performance reporting framework will progress this action ensuring positive changes to the information provided to Members and to the public. **Responsible officer:** Change Manager **Implementation date:** June 2023
11	The Council has acknowledged that the level of investment in climate change is not sufficient to deliver its 2030 target. Updated, realistic plans are needed to deliver the Scottish Government's target in the context of the Financial Strategy.	The Council should ensure that the updated Climate Emergency Strategy provides a realistic plan to achieve the Scottish Government's emissions targets. *Grade 2*	**Response:** A Climate Emergency Strategy is being prepared for Member consideration and will take this into account. **Responsible officer:** Head of Growth, Planning and Climate **Implementation date:** By December 2023

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
1	The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty. A session has been planned for January 2022 to discuss arrangements in more detail with management. *Grade 1*	Agreed, Management are pleased that the improvements made during 2020/21 have been acknowledged by Audit but recognise that more work is required. A meeting is scheduled with Audit in January 2022 to ensure that the Council has a better understanding of the Audit requirements. A more detailed plan will be put in place following this meeting. **Responsible officer**: Capital & Treasury Manager **Implementation date**: 31 March 2022	**Our assessment:** Improving As we note within page 18, management has taken on board previous feedback and recommendations in respect of reviewing the frequency of the valuation cycle to ensure asset values do not materially change in intervening years between revaluations. We did, however, note that valuers could be better informed by drawing on property services knowledge. We also note the continuing audit focus in this area means that the Council are likely to require additional external valuations. A more cost effective solution may be to explore a shared service for internal valuations with another council.
2	As we have highlighted for a number of years, the Council will be required to adopt IFRS 16 in 2021/22. Early preparation should assist an efficient preparation and audit of the financial statements. *Grade 2*	Agreed. Preparations are currently ongoing and arrangements will be put in place to comply with the Code and reporting requirements. **Responsible officer**: Corporate Finance Manager **Implementation date**: 31 March 2022	**Our assessment:** Ongoing As we note within page 24, the implementation of IFRS 16 has been delayed until 1 April 2024.

Follow up of prior year recommendations

Classification of recommendations

Grade 1	Grade 2	Grade 3
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
3	We note that the Council has developed a draft Improvement Plan to response to the Best Value Assurance Report, which includes an updated and refreshed Business Plan. The updated Plan must support robust and transparent scrutiny of planned transformation to deliver the pace and depth of change that the Council envisages. *Grade 1*	Agreed. The Council will hold collaboration sessions with officers and elected members during January 2022 to firm up the strategic action plan in response to the Best Value Assurance Report (BVAR). The strategic action plan will run till the end of 2022/23, taking into account ramped up activity to support a new Council, post-election in May 2022. The strategic action plan will hold officers and members to account via the identification of clear owners, timescales and governance of the plan. This will be established as part of the collaboration sessions. A request will be made to the council's audit partner to support this. Kick off sessions took place w/c 13/12/21 with members and officers to review the BVAR Audit Scotland findings and begin building on the draft improvement plan already on place. The Council's full response to the BVAR will be reported to Council in February 2022. A range of tactical plans will also be developed to deliver the strategic action plan. These plans will weave into an update on the Council's business plan, married with the Council's budget report, that will go to Council on 02 March 2022. This update will include an update on the Change Fund. Post-election, work will be done on a new corporate / business plan that will refresh the COTF programme, which, in turn, will impact savings and state any Change Fund investment required to support the transformation of Falkirk Council against a new corporate priority framework. This will necessarily involve Children's Services' savings and projects which, alongside the business plan, will be subject to support and scrutiny through the COTF governance framework. **Responsible officer:** R McDonald/K Algie **Implementation date:** March 2023	**Our assessment:** Ongoing As we note within page 41, the Council has taken significant steps to progress the Best Value Strategic Action Plan. It is too early to conclude on the impact of actions.

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Management response / Implementation timeframe**	**Our assessment of progress**
4	While good progress has been made overall to update key financial governance documents, we not that the work to update and approve the Anti-Fraud and Corruption Strategy and the Procedures for the Investigation of Fraud has not been completed. *Grade 1*	**Response**: Accepted. **Responsible officer: Internal Audit, Risk, and Corporate Fraud Manager** **Implementation date**: **28 February 2022**	**Our assessment:** Complete
5	Like all local authorities in the UK, the Council will be required to conduct a self-assessment of its performance against the CIPFA Financial Management Code in 2021/22. This, together with the retirement of the Chief Finance Officer, provides an opportunity to consider the role and capacity of the Finance Team within the Council structure. *Grade 1*	**Response**: Accepted. From an initial evaluation the Council is able to confirm that it conforms to the FM Code in all major aspects. However, a more detailed evaluation will take place and any actions to enhance the existing compliance will be implemented. **Responsible officer**: Chief Finance Officer **Implementation date**: 31 March 2022	**Our assessment:** Incomplete Refer to updated recommendation 7.
6	We noted there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement. *Grade 3*	**Response**: Agreed. **Responsible officer**: Internal Audit, Risk, and Corporate Fraud Manager **Implementation date**: 30 June 2022	**Our assessment:** Complete The updated Annual Governance Statement has been improved to align with good practice guidance.

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
6	We noted there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement. *Grade 3*	**Response**: Agreed. **Responsible officer**: Internal Audit, Risk, and Corporate Fraud Manager **Implementation date**: 30 June 2022	**Our assessment:** Complete

Appendix E: Adjusted errors identified during the audit

This appendix sets out the significant adjustments processed as part of finalisation of the financial statements. There were 6 unadjusted audit differences identified above our reporting threshold.

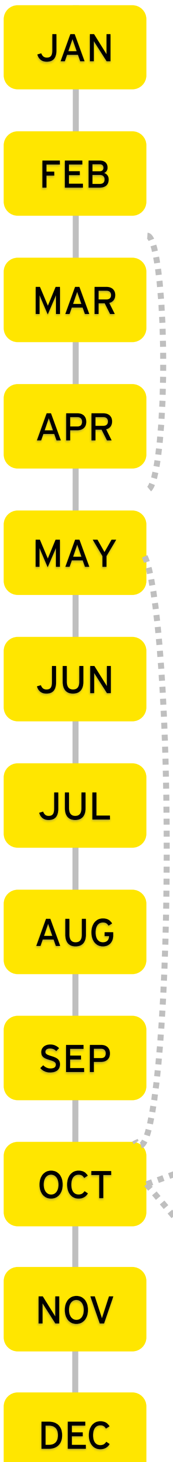
Adjusted differences			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
1	*IJB service income incorrectly reflected within Social Work income and expenditure.*	Dr Social Work Income £76,364,598 Cr Social Work Expenditure £76,364,598	
2	*Error within Children's Services Internal Recharge elimination*	Dr Children's Services Income £27,210,364 Cr Children's Services Income £27,210,364	
3	*Entries updated to reflect the final Actuarial Report*		Dr Pension Liability £13,376,000 Cr Pension Reserve £13,376,000

Unadjusted differences			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
1	*Overstatement of PPE identified from existence testing*	Dr Expenditure £829,823	Cr PPE £829,823
2	*Reclassification of housing suspense credit balances in debtors to creditors*		Dr Debtors £1,762,482 Cr Creditors £1,762,482
3	*Overaccrual of manual provision*	Cr Expenditure £644,015	Dr Provision £644,015
4	*2020-21 jobs included in HRA voids report due to timing of checks*	Cr Expenditure £447,766	Dr Equity £447,766
5	*Recognition of Capital Grants for work completed by March 2022*	Cr Revenue £351,351	Dr CGRIA £351,351
6	*Change to the valuation of Falkirk Community Stadium*	Dr Deficit on revaluation of NCA £836,000	Cr Long term investments £836,000

We note that Falkirk Pension Fund auditors identified an unadjusted difference of £9.6 million relating to the overstatement of the Equities valuation. The net share of the unadjusted difference for the Council's share of assets would be £3.55 million.

Appendix F: Timing and deliverables of the audit

We delivered our audit in accordance with the timeline set by the Council, in accordance with the annual audit planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2021/22 audit cycle, including the remaining areas of work with completion deadlines subsequent to this report.



Audit Activity	Deliverable	Timing
▸ Onsite fieldwork, documentation and walkthrough of key accounting processes ▸ Scoping of wider scope work for year	Annual Audit Plan	Finalised and submitted to Audit Scotland March 2022
▸ Review of current issues impacting the Council ▸ Review of reported frauds	Quarterly current issue return submission Quarterly fraud return submission	Quarterly throughout the audit cycle
▸ Year-end substantive audit fieldwork on unaudited financial statements ▸ Conclude on results of audit procedures ▸ Issue opinion on the Council's financial statements	Whole of Government Accounts assurance statement to NAO (as required) Certify Annual Financial Statements Issue Annual Audit Report Submit minimum dataset return to Audit Scotland	Financial statements audit and annual audit report submitted October 2022 WGA guidance and further minimum dataset return requests awaited.
▸ Completion of Non-Domestic Rates return testing	Certified Non-Domestic Rates return	October 2022
▸ Completion of Housing Benefits claim testing	Certified Housing Benefit subsidy claim	October 2022

Appendix G: Likely developments in sustainability reporting

In the corporate sector, significant financial reporting developments has meant that there has been a step change in the level of climate related disclosures within company financial statements. There is not yet an equivalent requirement for local government accounting, but guidance from the Scottish Government recently issued Public Sector Leadership on the global climate emergency guidance which recommends that public bodies should consider reporting to external frameworks such as the Taskforce for Climate Related Financial Disclosure. We outline the key elements below:

Cross-reference to where the disclosure can be found. If cross-referencing to another document, explain why the information is not included in the annual report.

The governance processes, controls and procedures the entity uses to monitor and manage climate related risks and opportunities

How climate related risks and opportunities are identified, assessed, managed and mitigated

TCFD elements	TCFD recommendations	Cross-reference or explanation of non-compliance	Next steps and other comments
Governance	a. Board oversight		
	b. Management's role		
Strategy	a. Climate-related risks and opportunities		
	b. Impact on the organisation's businesses, strategy and financial planning		
	c. Resilience of the organisation's strategy to climate-related risks		
Risk Management	a. Risk identification and assessment processes		
	b. Risk management process		
	c. Integration into overall risk management		
Metrics and Targets	Climate-related metrics in line with strategy and risk management process		
	Scope 1, 2 (and 3) Green House Gas (GHG) metrics and the related risks		
	Climate-related targets and performance against targets		

Consider commenting on progress in preparing a climate transition plan

Consider commenting on progress in being able to report scope 3 GHG emissions

Set out key focus areas for next year

Consider explaining readiness to comply with any changes to requirements applicable for next reporting cycle

Source: Adapted from Continuing the journey towards TCFD compliance, EY Centre for Board Studies, May 2022

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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