



# Falkirk Council

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

**February 2022**

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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Falkirk Council (the Council) for financial years 2016/17 to 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 Diane McGiffen, 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 2020/21 audit

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

## Financial Statements

We have concluded our audit of the Council's financial statements for the year ended 31 March 2021. Two adjustments have been made to the financial statements since the presentation of the unaudited accounts in June 2021; there are three unadjusted differences that we are required to communicate, as outlined in Appendix E. The draft financial statements and supporting working papers were provided in time and were of an acceptable quality, although we note concerns in relation to capacity within Financial Team. We worked with management to make a number of enhancements to the Management Commentary and notes to the financial statements, in particular to ensure the financial statements reflected recent good practice guidance around the disclosures of key estimates and judgements and to reflect the transactions processed during the year for Covid-19 payments.

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 the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19. The Council has concluded that there are no material uncertainties around its going concern status, however we continued to work with management to enhance the disclosures around its future financial position in the financial statements. We have no matters to report in respect of our work around going concern or the conclusions reached by the Council.

We have concluded our audit of the Temperance Trust's financial statements for the year ended 31 March 2021. The draft financial statements and supporting working papers were provided on time and were of a good quality, in line with previous years. There are no matters to report in respect of these financial statements.

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The Council's Best Value Assurance Report was considered by the Accounts Commission on 9 December 2021 and will be published on 13 January 2022. The report notes that insufficient progress has been made against Best Value since the publication of the last report in 2018.

## Best Value Assurance Report

Under the Code of Audit Practice, the Controller of Audit presents a Best Value Assurance Report to the Accounts Commission at least once during the audit appointment for each council in Scotland. A Best Value Assurance Report was prepared for Falkirk Council, following fieldwork conducted during May to October 2021. The Controller of Audit's previous report on Falkirk Council was a Best Value follow-up report, published in February 2018. The judgements and conclusions reached in our wider scope audit work contribute to the Best Value team's overall assessment and assurance on the Council's achievement of Best Value. We do not seek to repeat the findings or recommendations made within the Best Value Assurance Report in this annual report, other than those which impact our wider scope findings.

## Wider Scope and Best Value

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

<p><b>Financial Sustainability</b></p> <p>The Council faces an acute financial challenge in 2022/23, despite the application of fiscal flexibilities to help relieve Covid-related financial pressures. The projected budget gap in 2022/23 is £24.6 million, and remains subject to risk factors.</p> <p>Council of the Future savings are projected to bridge £7 million of the gap in 2022/23. The Council faces the urgent need to identify further service savings of around £9 million in the 2022/23 revenue budget.</p> <p>We note that the Council will consider an updated Medium Term Financial Plan in March 2022. This process is critical to support the priorities and decisions of the new Council that will be formed in May 2022.</p>	<p><b>Financial Management</b></p> <p>As in prior years, the Council continues to demonstrate good financial control overall of the in-year budget, with the exception of demand led pressures in Children and Family social services.</p> <p>We continue to identify concerns in relation to the strength of internal controls in procurement, although this is limited to one service responsible for the appointment of contractors. Additional audit procedures were required to allow us to conclude our audit.</p> <p>We have concluded that the Council's current capital planning arrangements do not support robust forecasting and monitoring. Overall, our work has highlighted concerns about the status and capacity of the Finance function within the Council.</p>
RED	AMBER
<p><b>Governance &amp; Transparency</b></p> <p>The key features of good governance at the Council are in place and operating effectively. During the year, in response to lockdown arrangement, the Council introduced live streaming of Council and committee meetings, and a library of webcasts is now available online, improving openness and transparency overall.</p> <p>We were satisfied that the Annual Governance Statement is in line with key requirements, and worked with the Council to improve disclosures in relation to priority action areas. The Council has continued to improve its scrutiny arrangements, including deep dive risk reviews to support member consideration.</p>	<p><b>Value for Money</b></p> <p>The Council has responded to previous recommendations about the effectiveness of public performance reporting. A new website, Falkirk Performs, provides greater access to performance information, but the Council acknowledges that more needs to be done to fully meet its reporting requirements.</p> <p>Service performance reported within the Local Government Benchmarking Framework has remained strong, particularly in Education and Housing Services.</p> <p>While information to support decision making includes good use of option appraisal, some key decisions have been delayed.</p>
GREEN	AMBER

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. Our work will continue to focus on specific aspects of Best Value over our audit appointment period to ensure we cover all required areas. During 2021/22 we will work with the Council to develop and monitor actions against the Council's Best Value Improvement Plan.



# Introduction

## Purpose of this report

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 has been extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed 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.

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.



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

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

## Scope and Responsibilities

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

## The impact of the Covid-19 Pandemic

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

- ▶ As the declaration of the global health emergency and subsequent lockdowns occurred late in the 2019/20 financial year, this was the first year where there were material transactional impacts in the Councils financial statements, in particular through the recognition of additional Covid-19 related costs and subsequent government funding support.
- ▶ While some of the uncertainty around the impact of Covid-19 on key balance sheet valuations had reduced from 31 March 2020 to the current year end, this also remained a key area of audit focus.
- ▶ In line with prior years, we have worked with management to ensure the financial statements adequately reflect the impact of Covid-19, in particular through the management commentary, governance statement, and accounting estimates and judgements disclosures.

In line with our approach in 2019/20, the audit took place fully remotely. The Council's finance team provided us with access to two laptops to allow us to share information between finance and the audit team, and inquiries and investigation took place through Microsoft teams meetings. In order to mitigate the risk of not being able to view key documents and information on systems in person, additional supplementary procedures were completed to verify the information provided by management.

Both the audit team and Council finance team worked in conjunction to ensure the additional impact of these working arrangements were minimised as far as possible but the lack of source documentation on the Council's Integra system, combined with the requirement to conduct the audit remotely, meant that the audit was less efficient than in prior years. We would take this opportunity to thank the finance team for their co-operation throughout this challenging period.

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 review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £12.8 million. We considered whether any change to our materiality was required in light of Covid-19 and 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

Level that we will report to committee

**£12.8 million**

2% of the Council's net expenditure

**£9.6 million**

Materiality at an individual account level

**£250,000**

Nominal amount

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

### Financial statement audit

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

- ▶ whether they give a true and fair view of the financial position of the Council as at 31 March 2021 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 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.

We have also undertaken the audit of the Falkirk Temperance Trust. We provide an opinion as to:

- ▶ whether the financial statements give a true and fair view of the financial position as at 31 March 2021 and its expenditure and income for the year then ended; and
- ▶ whether they have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006.

### **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**

As we outline earlier, the Council's Best Value Assurance Report was considered by the Accounts Commission on 9 December 2021. Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the Best Value team's overall assessment and assurance on the Council's achievement of Best Value. We do not seek to repeat the findings or recommendations made within the Best Value Assurance Report, other than those which impact our wider scope findings.





# 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; and
- ▶ misstatements due to fraud or error.

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

## Compliance with Regulations

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. Despite the pandemic, the Council complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 30 June 2021, in line with planned timescales. The inspection notice was published by the Council on 28 June 2021, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

The financial statements were updated to reflect Audit Scotland's good practice guidance on judgements and estimates during the audit.

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

### **Group financial statements**

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

- ▶ Falkirk Community Trust;
- ▶ Falkirk Community Stadium Limited;
- ▶ Thinkwhere;
- ▶ Central Scotland Valuation Joint Board; and
- ▶ Falkirk Integration Joint Board (IJB).

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

### **Audit Outcomes**

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

# Our audit opinion

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

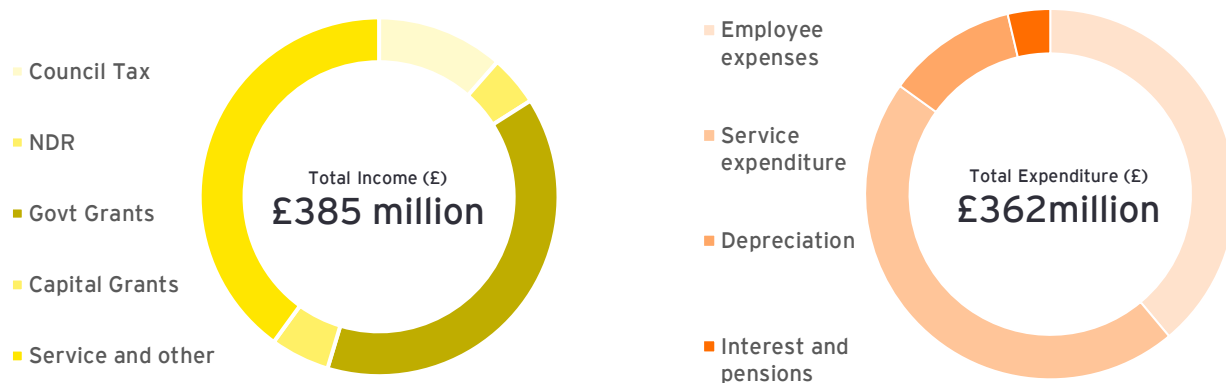
# Significant and fraud audit risks

## What is the Risk of Fraud in income and expenditure recognition

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

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

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



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

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

Our work included:

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

## Our Audit of Other Income and Expenditure

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

### Other audit procedures: non-significant risk areas:

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

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

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

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

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

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

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

### **Audit of Covid-19 grant income and expenditure**

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

The Council received £34 million in the year from the Scottish Government related to Covid-19 to support the Council in meeting its additional costs, local businesses and the wider public. The material nature of the additional funds created a new income stream for audit consideration. Our audit work focused on:

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

#### **Our conclusions**

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



### **Risk of Misstatement due to Fraud or Error**

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

### **Risk of Fraud**

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

### **Testing on Journal Entries**

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

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

- ▶ Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- ▶ Journals transferring funds between useable reserves and restricted or separated accounts such as HRA accounts; and
- ▶ Journals adjusting between income and expenditure accounts and capital accounts.
- ▶ We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

### **Our conclusions**

- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.

## Judgements and Estimates

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

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

Our procedures included:

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

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

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

## Accounting Policies

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

### Our conclusions

- ▶ We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- ▶ There were no significant accounting practices which materially depart from what is acceptable under the Code.
- ▶ We worked with management to improve financial statement disclosures, in line with Audit Scotland's Good Practice Note on Judgements and Estimate.

# Other inherent audit risks

## Valuation of Property, Plant and Equipment

The Council's property, plant and equipment (PPE) portfolio totals over £1.2 billion of assets (2020: £1 billion). The valuation of these assets requires expertise and significant estimation. In 2020 we reported that the Royal Institute of Chartered Surveyors (RICS) issued guidance highlighting that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty in the valuation of assets at 31 March 2020.

As we noted in 2019/20, as a result of the higher risk assessment applied during the period of the pandemic, we considered the implications of a draft report from the District Valuer on the housing valuation during the audit last year and have reviewed and concluded on the finalised report and valuation as part of the 2020/21 audit, with no further matters arising.

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

During 2020/21, to reflect previous external audit recommendations, the Council commissioned impairment reviews to consider if the carrying value of significant groups of assets differs materially from the current value. Desktop reviews were commissioned for other significant classes of asset, including Education and Non-Operational Assets. As a result of these reviews, the Council processed a revaluation adjustment of £35 million (outlined in Appendix E) within the draft financial statements, related to the valuation of Primary and Secondary Schools.

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

- ▶ Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Sample testing key asset information used by the valuers in performing their valuation based on both size of asset value and our consideration of risk assigned to each valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ Auditing management's assessment of assets not subject to valuation in the year to confirm that there were no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.

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

### Valuation of Property, Plant and Equipment (continued)

- ▶ Completion of procedures designed to address the requirements of the revised ISA 540, as outlined earlier.
- ▶ We identified no audit differences through the course of our work around the valuation of the Council's social housing assets, and identified no assets which had not been revalued which demonstrated indicators they should be revalued in the year.
- ▶ We identified two audit differences in relation to the valuation of secondary and primary schools in 2020/21, outlined in Appendix E.

While Council's overall process for valuation of its property, plant and equipment showed improvements in 2020/21, we identified scope for improvement in the instructions issued to valuers. In addition, delays in obtaining detailed valuations from the external valuers of the Education estate significantly impacted the efficient and timely progression of the audit. In light of the increased scrutiny of asset valuations, combined with the completion in 2020/21 of the revaluation of the major aspects of the Council's assets, we consider that this would be an opportunity for the Council to consider its future approach to this important area. This may include:

- ▶ Reducing the time between full valuations for all major individual asset classes;
- ▶ Reviewing the adequacy of instructions issued to valuation experts, including the provision of up to date information about significant capital work and the information requirements; and
- ▶ Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations.

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

#### Our conclusions

- ▶ We identified a significant audit adjustment related to the Council's valuation of assets in 2020/21. As we outline in Appendix E, the adjustment was required to ensure that the valuations fully reflected advice from the Council's valuers, along with our review of up to date information, in relation to the increased costs of building projects. These increased costs have a direct impact on the Modern Equivalent Asset basis of valuation.
- ▶ We concluded that management has undertaken sufficient procedures to identify any further assets which should be revalued before their cycle valuation date.
- ▶ In light of the ongoing focus on the valuation of assets we have recommended the Council take this opportunity to consider its overall asset valuation arrangements.

## Valuation of pension liabilities

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Falkirk Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2021 the net liability totalled £409.8 million (2020: £272.5 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 the actuary. We have 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 2021.
- ▶ Auditing the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

### Our conclusions

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

### **Financial flexibilities**

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

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

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

At 31 March 2021 the Council had not applied any of the financial flexibilities initially presented by the Scottish Government. The 2021/22 budget included proposals to make use of capital receipts and the loans fund repayment holiday during 2021/22. While additional Covid funding meant that management's assessment early in the financial year was that it would not be necessary to deploy this flexibility, the Council agreed that this position would be monitored throughout the year. In October 2021, the Council subsequently elected to take advantage of the flexibilities to support the 2022/23 financial position. We will consider the accounting treatment and impact on future financial planning accordingly.



# Going concern

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

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

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to January 2023, including the expected impact on the Medium Term Financial Plan.

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

## Our conclusions

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

# Looking ahead

## IFRS 16 - Leases and Other changes

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

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

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

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

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

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

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

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

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

**Recommendation 2:** Management should perform its own assessment of the impact of IFRS 16 in advance of preparation of the 2021/22 financial statements.

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

### **CIPFA/LAASAC Code for 2021/22**

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

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

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

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

We will continue to discuss relevant matters with management in advance of the financial year end to ensure agreement is made on any amendments in the most efficient manner possible.

# Best Value and Wider Scope dimensions

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

## Introduction

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

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

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

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

# Financial Sustainability

## Key Audit Judgements

1. The Council faces an acute financial challenge in 2022/23, despite the application of fiscal flexibilities ahead of schedule. The projected budget gap is £24.6 million, and remains subject to risk factors.
2. Council of the Future savings are projected to bridge £7 million of the gap in 2022/23.
3. The Council faces the urgent need to identify service savings of over £8 million in 2022/23 revenue budget, expected in March 2022.

**Our overall assessment:**



## Medium Term Financial Planning Arrangements

The Council approved its current three-year Medium Term Financial Plan (MTFP) as part of a revised Business Plan in September 2020. Since then, updates against the MTFP have been provided both in a draft updated Business Plan considered by the Council in May 2021, and within Financial Update reporting in October 2021. As Exhibit 2 highlights, each update has increased the scale of the budget gap. The estimated budget gap over the next four years is now £67.3 million, an increase of over £14 million from the position reported in May 2021. The key factors that increased the budget gap during the period from May to October 2021 include updated assumptions relating to:

- ▶ the local government pay award (£2.5 million);
- ▶ the impact of the 1.25% increase in national insurance costs (£2 million);
- ▶ increased spending pressures, including the arrangements to deliver “The Promise” in Children’s Services
- ▶ Changes in the level of achievable savings to be identified via Zero Based Budgeting (£1.2 million).

**Exhibit 2: The Council's forecasts highlight a budget gap of £67 million over the 4 year period to 2025/26, a marked increase from previous projections**

	2021/22	2022/23	2023/24	2024/25	2025/26
Sept 2020	£13.5m	£7.7m	£7.6m	-	-
May 2021	£17.4m	£18.1m	£10.3m	£13.9m	£10.7m
Oct 2021	-	£24.6m	£17.6m	£14.4m	£10.7m
Increase in gap from May to October 2021		£6.5m	£7.3m	£0.5m	-

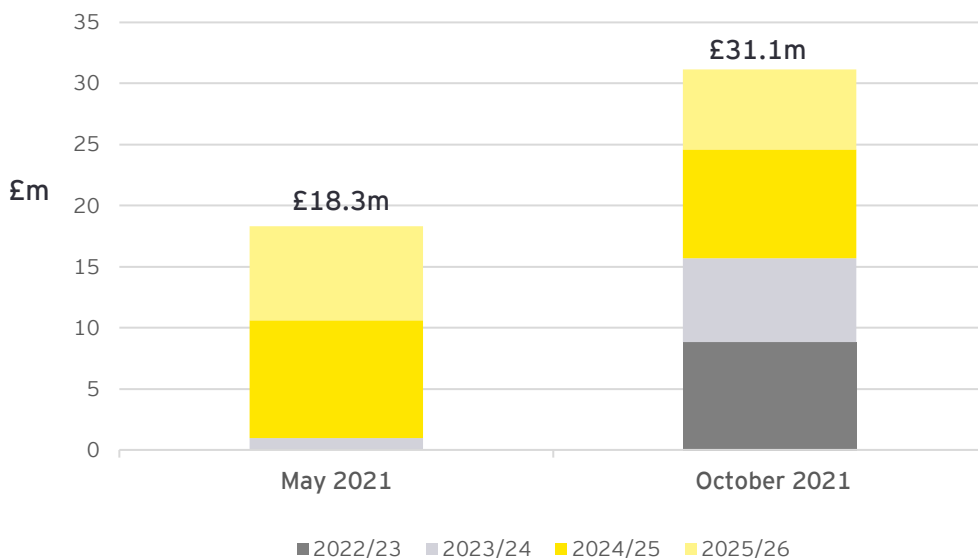
Source: Financial Update reporting to the Executive and Falkirk Council

As noted in Exhibit 2, the Council forecasts an acute financial challenge in 2022/23. The latest estimate of the budget gap is £24.6 million, which the Council plans to bridge in part via Council of the Future savings of £7 million and additional savings from Falkirk Integration Joint Board of £1.4 million. The Council has also revisited the planned use of fiscal flexibilities in 2021/22, to allow it to carry forward Covid-19 grant funding of £5.3 million to use in 2022/23. In addition, an additional £1 million of reserves are expected to be allocated to bridge the gap. This, however, leaves an unidentified budget gap of £8.8 million in 2022/23. The Council faces increasingly challenging savings decisions in March 2022 to allow it to fulfil its statutory requirement to set a balanced budget.

The Best Value report notes that the Council has historically accepted around half of the service savings considered within Budget Working Groups. In 2022/23, the Council would be required to accept all savings options (£8.8 million) as presented. Further work is underway to develop alternative proposals to allow elected members to exercise political choice. However, the savings proposed in 2022/23 increasingly rely upon reductions in staffing levels and are therefore challenging for members to accept.

The use of fiscal flexibilities to assist the financial position means that the corresponding balance has been added as an additional deficit to the 2023/24 budget position (outlined in Exhibit 2). Exhibit 3, below, highlights the increase in the level of unidentified savings within the Medium Term Financial Plan updates presented in May 2021 and October 2021. We further note that the Council has not yet developed robust savings from the Zero Based Budgeting pilots, which are expected to deliver £1.7 million of annual savings from 2022/23. Expectations of savings from Zero Based Budgeting in 2020/21 have been revised downwards to £0.5 million. The challenging financial environment will therefore persist, and underlines the need for both difficult budget decisions and the delivery of planned savings.

**Exhibit 3: The level of savings yet to be identified has increased significantly in a relatively short period, reflecting the risks impacting the Council's finances**



Source: Falkirk Council Financial Monitoring Reports

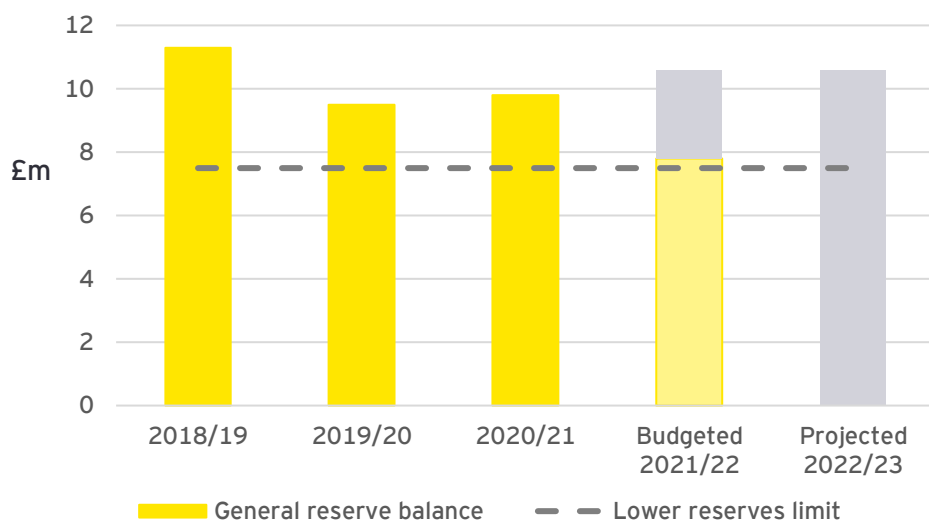


## The impact on the Council's Reserves

Exhibit 4 demonstrates that the Council's reserves remain comfortably within the policy range set of between 2% of net and gross expenditure (estimated at £7.5 million and £11 million). However, the projected increase of general fund reserves of £2.8 million in 2021/22 relies on the application of one-off fiscal flexibilities of £7 million. The projected reserves position in 2022/23 reflects a budgeted contribution of £1.5 million, although the Council also acknowledges further risk to the reserves position relating to the expected national pay award. The level of savings to be identified and delivered in 2022/23 mean that we consider the sustainability of reserves to remain a significant risk.

While the Council continues to manage its finances well to respond to projected areas of overspend, the reliance on one-off savings and solutions is not sustainable in the medium term and we consider financial sustainability to remain a significant risk.

**Exhibit 4: The Council's Reserves are projected to remain above the minimum policy level but are subject to significant pressure in 2022/23 and beyond**



Source: Falkirk Council Financial Monitoring Reports

We consider that the alignment of the Business Planning process to the annual budget timescales is helpful, particularly in a critical election year but further work is needed to develop a MTFP that uses scenario planning to develop a robust but flexible financial plan.

## Development of an updated Business Plan

There are a number of other areas of uncertainty that could materially impact the Council's delivery of financial plans, balanced budgets and the underlying required savings. These include the risks around accuracy of key assumptions such as around inflation, future pay awards and the future costs and support required relating to Covid-19.

We note that the Council plans to align the Business Plan, and underpinning MTFP, with the annual budget, expected in March 2022. The next iteration of the MTFP will be vital to deliver a realistic and sustainable financial position for the life of the next Council administration. Due to the level of uncertainty facing all councils in Scotland, the plan should be supported by scenario planning and key transformational ambitions to provide a range of options to newly elected members following the 2022 elections.

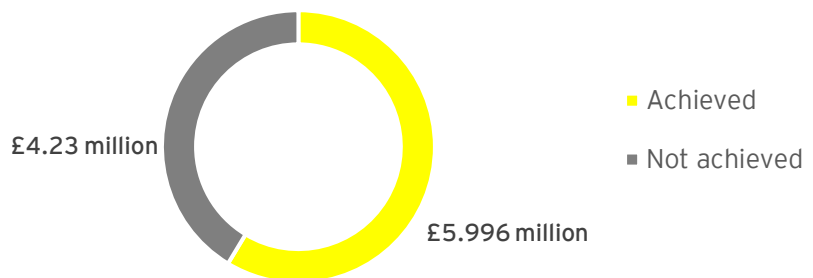
We will continue to monitor the progress around planning for the next financial planning period as part of our wider scope audit work in 2021/22. This will include:

- ▶ Consideration of the ongoing refinement and delivery of Council of the Future and Zero Based Budgeting savings;
- ▶ Understanding the engagement process with key stakeholders, in particular new members but also key delivery partners and the public; and
- ▶ Monitoring of progress in identification of service savings options to be considered in meeting future budget gaps.

### Achievement of planned savings

In prior years, we noted that it was very difficult to monitor the achievement of Council of the Future Savings. In 2020/21, the Council amended financial reporting arrangements to ensure that COTF savings can be separately identified. Exhibit 5 notes that, like many councils, the Council was unable to achieve all savings as planned in 2020/21. The majority (82%, £3.47 million) of unachieved savings related to Children's Services, reflecting the impact of the pandemic on the service.

### Exhibit 5: The Council was able to achieve 59% of agreed savings in 2020/21



Source: Falkirk Council Financial Monitoring Reports, June 2021.

In late 2020, the Council engaged an external partner to support improvement in the effectiveness of the programme. The BVAR notes that the response to the external review has been positive but that collective leadership from members and the corporate management team is needed to achieve transformational change. An action plan was developed in January 2021, known as Powering our Priorities, to respond to the review. This has led to the Council establishing a new programme governance framework and improving progress reporting.

**Recommendation 3: The Council must ensure that a refreshed COTF programme addresses concerns about the deliverability of savings within Children's Services, and supports robust analysis of the return on investment from the Change Fund.**

It is not yet clear how the Council will address some of the opportunities for improvement identified by the external partners, including:

- ▶ The disproportionately low savings achieved within Children's Services, particularly in light of concerns that planned savings will be difficult to achieve as a result of changing Scottish Government requirements to deliver "The Promise";
- ▶ Cross cutting projects being limited to the Transport Zero Based Budgeting project; and
- ▶ The need to balance the numerous demands on both capacity and financial resources to progress COTF projects, both in the PMO and wider Council services. In particular, in our view, there is a need to formally review the return on investment from the Change Fund to allow any lessons to be learned.

# Financial Management

## Key Audit Judgements

1. The Council manages its in-year budget position well, but significant overspends continue to be recorded within Children's Services.
2. We continue to identify concerns in relation to the strength of internal controls in procurement, although this is limited to one service responsible for the appointment of contractors.
3. The Council's current capital planning arrangements do not support robust forecasting and monitoring.
4. Our work has highlighted concerns about the status and capacity of the Finance function within the Council.

**Our overall assessment:**



## Financial Position

As in prior years, the Council received regular reporting on the financial position throughout 2020/21. Additional monitoring and reporting reflected the additional risks and changing position around Covid-19 funding and expenditure. As Exhibit 6 notes, the Council's budget position, originally set in February 2020, moved significantly during the year but that key changes were primarily driven by the impact of Covid-19, rather than issues with forecast arrangements.

Like all councils in Scotland, the impact of the Covid-19 pandemic created significant financial pressure in 2020/21. The Council received additional Revenue Support Grant to meet the costs of Covid-19 of £34 million, of which £19.3 million was applied in 2020/21, allowing £14.7 million to be carried forward for use in future years.

### Exhibit 6: The Council continued to update its forecast year end position throughout the financial year despite the impact of the pandemic

Reporting Period:	June 2020	Sept 2020	Jan 2021	Outturn
Forecast surplus/ (deficit)	(£12.4m)	(£0.93m)	(£0.77m)	£0.28
Forecast General Reserve balance	-	£8.46m	£8.78m	£9.82m

Source: Financial Update reporting to the Executive and Falkirk Council

As in prior years, the Council recorded an overspend within Children and Families social work of around £2.3 million, despite receiving additional funding to reflect Covid-19 costs. The overspend includes the impact of unachieved Council of the Future savings of £1.1 million. Closer to Home remains one of the Council's priority COTF projects, and aims to reduce the numbers of children looked after away from home and increased access to internal foster care rather than residential care.

An overspend of £3.4 million was also recorded in Development Services. Key factors included:

- ▶ additional waste collection and treatment costs of £1.8 million due to changes in operating arrangements;
- ▶ An overspend of £1.2 million as a result of roads income being lower than budgeted and higher material costs, partly as a result of increased winter expenditure.
- ▶ Reduced car parking income of £0.34 million.

The progress against the COTF project, Transformation of Roads, Grounds and Street Cleaning was reported to the Council's Executive in November 2021. It aims to deliver savings of £1.5 million over the next three years, subject to agreement of a new workforce model.

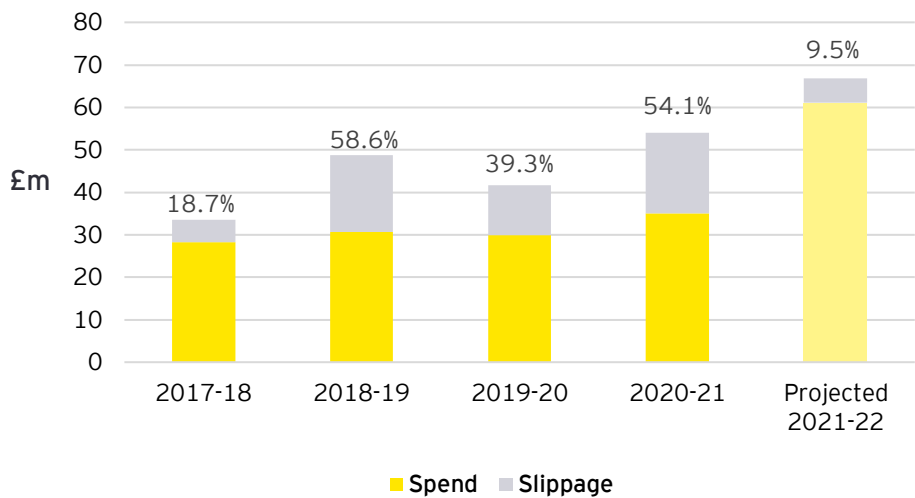
The Council has identified the control and monitoring arrangements of the capital plan as a key strand within its Best Value Improvement Plan.

### Capital Outturn

The Best Value Assurance Report noted that, as in prior years, the Council recorded a significant underspend against the capital programme in 2020/21. While the impact of the pandemic has been a significant factor since the beginning of the pandemic, as Exhibit 7 demonstrates, the Council has recorded significant underspends over a number of years. The capital programme is monitored by the Capital Planning and Review Working Group. The Council notes that there continues to be significant uncertainty over the timescales of projects in part due to supply of materials and delivery of assets.

Despite this, and the level of spend achieved in recent years, Exhibit 5 highlights that the Council currently projects to deliver £61 million of the £66.8 million capital budget in 2021/22 (an increase of 75% on the spend achieved in 2020/21). In our view this is unrealistic and unlikely to be achieved.

**Exhibit 7: The Council continues to experience significant slippage against the capital plan, suggesting that the projected spend in 2021/22 is unachievable**



Source: Financial Update reporting to Falkirk Council's Executive Committee

The Council's capital programme has a significant effect on the Treasury Management function. While the projected level of capital expenditure would require borrowing of £24 million, we note that the Council's finance team has made an assessment that it is unlikely that this level of spend will be achieved, as a result of optimism bias within capital bids and monitoring at service level. A much lower level of borrowing for the General Fund has therefore been built into borrowing projections for 2021/22. We note that the level of slippage in capital projects has persisted despite previous recommendations from internal and external audit. In our view, it is critical that the Council's finance team has a stronger role in controlling and monitoring the capital plan, particularly in light of the risk that increasing material costs and interest rate changes may mean that existing project budgets are no longer sufficient.

## Financial control environment

While our financial statement audit work is not designed to express an opinion on the effectiveness of internal control, we consider the financial control environment through the course of our interactions and observations through the audit.

Good progress has been made to update key governance documents during 2021.

At the time that the pandemic impacted the Council, a number of key governance documents, including the Financial Regulations and Code of Conduct, were out of date. We also noted in our 2019/20 annual audit report that the Council's Whistleblowing Policy and Anti-Fraud and Corruption Strategy were last approved in September 2016 and that in a number of instances the terminology and guidance for support required updates. As we note in Exhibit 7, the Council has made progress in updating policies and procedures, but key documents including the Whistleblowing Policy and process for investigation of Corporate Fraud Referrals remain outstanding.

### Exhibit 7: Progress has been made to update key governance documents in line with requirements and our prior year recommendations

Governance Document	Position Update	Status
Standing Orders (June 2020)	Revised Standing Orders were approved by the Council in December 2021. It is anticipated that further changes will be required following a review of planning processes - this work has not yet been completed.	Partially complete
Financial Regulations (October 2015)	Updated Financial Regulations were approved by the Council in December 2021.	Complete
Contract Standing Orders (2016)	Updated Contract Standing Orders were approved by the Council in December 2021.	Complete
Whistleblowing Policy	The Council's Audit Committee received an update on ongoing update work in June 2021. Updated guidance has been presented to the Corporate Partnership Forum and is expected to be considered by the Executive in early 2022.	Ongoing
Anti-Fraud and Corruption Strategy and Procedure for Investigation of Corporate Fraud Referrals	The Council's Audit Committee received an update on ongoing update work in June 2021. Updated guidance has been presented to the Corporate Partnership Forum and is expected to be considered by the Executive in early 2022.	Ongoing



## Review of Whistleblowing and Corporate Fraud Investigations

In June 2021, the Audit Committee considered a progress report on the Council's review of Whistleblowing and Corporate Fraud Investigation Procedures. The Council drew upon a session with Forensics Specialists from EY to learn from best practice in fraud investigations. As in 2019/20, we have continued to engage our Forensics colleagues in 2021 to follow up on key recommendations and to respond to further whistleblowing allegations in relation to procurement activity within the Corporate and Housing Directorate. Throughout this work we have noted:

**Recommendation 4: We note that work is ongoing in relation to the update and approval of the Anti-Fraud and Corruption Strategy and Procedures for the Investigation of Fraud. Any updated policy must preserve the independence and investigation capacity of the Corporate Fraud Team.**

- ▶ Capacity constraints within the Corporate Fraud Team, as a result of a period of long term sick leave of one of the two investigators; and
- ▶ Concerns about the level of support for fraud investigations at Chief Officer level. While we acknowledge that the Council must balance its duty of care for individual employees, we consider that corporate liaison must not compromise the speed or effectiveness of fraud investigations. In 2019/20 we noted that fact-finding interviews had not taken place with key individuals that may have assisted the review. Requests from EY Forensics to conduct interviews took an unusual length of time to convene.

### National Risk: Fraud in Procurement

We outlined procurement as an area of significant risk within our Annual Audit Plan. Due to the nature of the allegations received in 2019/20 and 2020/21, along with the internal control weaknesses identified, our audit work has further considered the effectiveness and appropriateness of the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function.

Our work has included a focused review drawing upon advice from our forensics specialists to design additional audit procedures. We engaged EY experts from the forensics team to conduct data analysis to allow us to highlight any potential 'red flags' that would merit further investigation, and ultimately allow us to conclude that expenditure was not materially misstated. The analysis focused on:

- ▶ Potential Purchase Order and invoice splitting, to address the risk that the combined value of a purchase exceeds individual authorisation thresholds;
- ▶ Any areas where approval limits were breached and any unusual trends and relationships within transactions.

The results are summarised within Exhibit 8 on the following page and we will work with the Council to strengthen specific internal controls.

### Whistleblowing Allegations

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.

The significance of further allegations, together with lack of capacity within the Corporate Fraud Team heightened our risk assessment and we therefore engaged our Forensics team to conduct additional work. This work has provided assurance that any fraudulent activity is not material in the context of the audit. We are, however, concerned that a number of the "red flags" highlighted by Audit Scotland within its report "[Red Flags in Procurement](#)" remain present in the service.

**We will continue to work with the Council to share the findings of our data analytics review and continue to monitor the effectiveness of internal control across procurement.**

## Exhibit 8: Summary of Results of Procurement Analysis

1. Purchase to Pay	Commentary
a. Invoices without a corresponding Purchase Order (PO)	Excluding treasury management payments, our analysis of invoices found that the Council spent £579 million on services over the two year period. The value of expenditure that had no Purchase Order was £540 million, accounting for 81% of invoices. While significant spend in councils is often managed in other systems, the value of expenditure covered by Purchase Order is lower than we would expect to find.
b. Invoice dates in comparison to PO dates: we tested whether any POs were raised after the invoice receipt	Our testing found that 5% of invoices were received prior to its PO being raised. Similarly, nearly 10% of invoices are raised on the same day as its associated PO.  This indicates a weakness within the control environment as the control, to raise and have a PO authorised, can be circumvented and raised after the invoice.
c. Evidence of PO splitting	We searched for cases where multiple POs are raised for the same supplier on the same date. No concerns were raised as a result of this test.
2. Supplier Invoices	Commentary
a. Invoice splitting: we reviewed the data to search for multiple invoices that are raised for the same supplier on the same day.	A threshold of £10,000 was used, where the multiple invoices are individually below £10,000 but in aggregate exceed £10,000 to understand whether employees may be splitting invoices to circumvent approval thresholds. Our testing identified 2,019 invoices, totalling £12 million, where multiple invoices were received on the same day. Of this total, we are content that the majority of suppliers relate to social care and energy payments and do not therefore indicate any unusual activity. Around £3.5 million of the total relate to contractors where invoice-splitting was a known weakness and represented a circumvention of the Council's internal controls. We note that the Council's internal auditors have followed up recommendations made within 2019/20 and found that to address this issue, the Head of Procurement and Housing Property reviewed all staff responsibilities and developed a revised list of authorisation limits for staff. The Open Contractor system was updated with the new limits in April 2021. We will therefore reperform this check in 2021/22.
b. Supplier Masterfile bank accounts review: we examined the bank accounts of each supplier in the Masterfile and identifies where bank accounts are being shared between suppliers	The Council's Masterfile contains 34,763 suppliers' details, of which 10,717 suppliers are currently flagged as active. Based on the review, we have identified the following findings that relate to Masterfile maintenance: <ul style="list-style-type: none"> <li>▶ Lack of bank details - there are 5,219 suppliers with no associated bank details of which 442 are flagged as active. There is a risk that these suppliers could be used for fraudulent payments by commandeering the active supplier, entering bank details and making payments to them (we note from the other testing above that the lack of an invoice may not be a control point that could be relied on to prevent it).</li> <li>▶ Duplicate suppliers - during our analysis, we noted that suppliers with identical names, addresses and bank details were in the system. This suggests poor Masterfile management. Suppliers may have been used, de-activated and then when the supplier was engaged again, a brand-new line was created instead of searching for and re-activating their supplier account. We have shared this analysis with management for further review.</li> </ul>
c. Unusual supplier analysis	We highlighted five contractors where a very high number of invoices were received - in three cases equating to over 5 invoices every day, and therefore creating an administrative burden on the Council.

Source: EY Forensics analysis of purchase order and invoices for 24 months from 1 April 2019 to 31 March 2021

## Finance Team Capacity

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. However, throughout our engagement with the Council in 2020/21, we have observed that the role and strength of the Finance function is less than we would expect. This includes:

**Recommendation 5: The Council should use its self-assessment against the CIPFA Financial Management Code to conduct a wider assessment of the capacity of the Finance Team.**

- ▶ The division of responsibilities and oversight between the COTF Programme Management Office (PMO) and the Finance function. One of the recommendations made within the external review of the COTF programme relates to the relationship between Finance and the project governance structure - noting that *"we would expect the CFO [Chief Finance Officer] to hold a formal leadership role given the importance of the COTF in delivering the capital strategy and Medium Term Financial Plan."*
- ▶ A lack of capacity within the Finance Team, caused in part by the additional workload of administering Covid-19 grants. We noted unusual delays in responsiveness to audit queries as a result; and
- ▶ Vacancies and capacity within the Internal Audit function.

We also note that the Chief Finance Officer and Director of Corporate and Housing Services will retire in March 2022. There is a risk that the loss of collective corporate knowledge will have a further impact on the capacity of the finance function and the ability to generate and monitor savings. Key changes at this level will, however, offer an opportunity to review the structure of the senior finance team to ensure that the officer structure is in place to achieve savings and transformation at pace. A strong finance function is essential to navigate the period of the next Medium Term Financial Plan, and to meet the requirements of the CIPFA Financial Management Code.

# Governance and Transparency

## Key Audit Judgements

1. The key features of good governance at the Council are in place and operating effectively.
2. The introduction of live streaming and providing webcasts of Council and committee arrangements has improved the openness and transparency of the Council.
3. The Council has continued to improve its scrutiny arrangements, including deep dive risk reviews to support member consideration.

**Our overall assessment:**



**Recommendation 6:** While the Annual Governance Statement is in line with current requirements, there is an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge.

## 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. This was supplemented in 2020/21 by CIPFA's Bulletin 6 which provides guidance concerning the impact of the continuing Covid-19 pandemic on governance in local government bodies and takes into account the introduction of the CIPFA Financial Management Code.

The Local Authority Accounting (Scotland) Regulations 2014 require that a review is undertaken, at least once in each financial year, of the effectiveness of the system of internal control. The Council's Chief Finance Officer has concluded that Substantial Assurance can be placed on the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2021. His assessment is based on Statements of Assurance from Directors and Chief Executives within the Council's Group Boundary, along with the work of internal and external audit as reported to the Council's Audit Committee.

In June 2021, the Audit Committee considered the Internal Audit, Risk, and Corporate Fraud Manager's Annual Assurance Report, which provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance, and control. The 2020/21 report, concluded that Substantial Assurance can be placed on the adequacy and effectiveness of the Council's overall framework of control for the year to 31 March 2021.

The Annual Governance Statement includes a summary of the impact of Covid-19 on governance arrangements and how management has responded to ensure adequate governance arrangements remained in place, particularly through the initial lockdown period. This included reference to the statutory mechanisms available to the Council, both through new and existing legislation, and where the Council took advantage of these mechanisms. An Interim Decision Making Structure was agreed in May 2020, resulting in a fortnightly Emergency Executive, which met throughout the period from June 2020 until the committee programme was resumed for remote meetings in September 2020.

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. We do, however, note that there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement.

### **Internal audit activity**

The internal audit work planned for the year 2020/21 was significantly impacted by the pandemic. Work remained ongoing at all times with reports on progress provided to the Audit Committee. The nature of a number of reviews, and the fact that priorities, resources, and Service capacity fluctuated over the course of the year meant that it was not possible for all planned work to be completed to the same timetable as originally planned. The majority of delayed work has been rolled into the 2021/22 work plan for internal audit.

A total of eight reviews were not conducted, including the review to verify the savings achieved via transformational activity in the COTF programme. This review has now been delayed for two years, but has been included in the 2021/22 work plan. We do, however, note that seven replacement reviews were delivered to provide the Council with assurance related to Covid-19 activities, due to the impact of new ways of working on the internal control environment and the heightened risk of fraud. These reviews included:

- ▶ the administration of the Business Support Fund Grant, relating to the payment of 2,169 grants totalling £24.3 million. mostly completed in line with planned deadlines by 31 March 2021. This report provided substantial assurance;
- ▶ Arrangements to monitor additional Covid-19 costs via the ledger, including a requirement from the Finance Team to scan and attach relevant invoices to the ledger. This report provided substantial assurance; and
- ▶ Staff wellbeing and support arrangements, following the acceleration of a Wellbeing Strategy and Action Plan at the onset of lockdown arrangements. This provided substantial assurance.

Despite the changes to the work plan Internal Audit were able to provide, and report to the Audit Committee, substantial assurance on the Council's arrangements for risk management, governance, and control for the year to 31 March 2021. 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 audits, with a focus on those recommendations which are graded as higher priority.

### **Governance arrangements**

In response to the lockdown conditions, the Council developed webcasting arrangements to ensure that members of the public can attend council and committee meetings remotely as observers. Council and committee meetings can be accessed to meetings via livestream or video broadcasting. As in prior years, agendas and papers are available in advance of each meeting.

We have continued to observe the Audit Committee throughout the year as part of our attendance at each meeting. We also monitor Council and other committee meetings through review of the agendas, supporting papers and minutes. We have observed that generally papers are sufficiently comprehensive to understand key matters, and there is evidence of scrutiny of management at these meetings. As we noted in 2019/20, the Council has appointed a member of the opposition as an interim Chair of the Audit Committee due to the resignation of an independent Chair. We continue to conclude that this arrangement has not impacted the effectiveness of the committee.

### **Scrutiny, including Following the Public Pound Arrangements**

The Council has two Scrutiny committees. One considers the performance of the Council, and the other focuses on external bodies, including the support and performance provided by Police Scotland and the Scottish Fire and Rescue Service. We considered the work of both Scrutiny committees and noted that:

- ▶ Annual Reporting statements are prepared for Following the Public Pound requirements which include the aims and objectives both of the organisation receiving Council support, and the specific purpose of the funding provided. An assessment of performance against indicators set at the outset of funding is also prepared. We considered this to be good practice in supporting the committee's considerations and scrutiny.
- ▶ In June 2021, the Scrutiny Committee instigated a series of "deep dive" risk reviews to better scrutinise the process for assessing and mitigating areas of high risk. The first deep dive was considered by the Committee in November 2021 and considered the Council's approach to Asset Management. All of the deep dives are facilitated and reviewed by the Council's Corporate Risk Co-Ordinator.

### **Audit Scotland National Fraud Initiative (NFI) programme**

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

The 2020/21 NFI exercise commenced in September 2020. From 3,412 data matches identified 873 of the data matches were classed as being 'High Risk'. The deadline for completion of the 2020/21 NFI exercise is 31 March 2022. The Council is continuing to make progress and demonstrating active participation in the NFI matching exercise. To date, Services have investigated and closed 300 matches, with no instances of fraud or error identified.

Additional scrutiny arrangements have been implemented to consider higher areas of corporate risk, which we consider to be good practice.

# Value for Money

## Key Audit Judgements

1. The Council has responded to previous recommendations about the effectiveness of public performance reporting, but more needs to be done to fully meet its reporting requirements.
2. Service performance reported within the Local Government Benchmarking Framework has remained strong.
3. While information to support decision making includes good use of option appraisal, some key decisions have been delayed.

**Our overall assessment:**

**A**

## Performance Management framework

The Council has established performance management arrangements to align with the three priority areas of the Corporate Plan - Communities, Enterprise and Innovation. The performance management framework that draws on existing performance indicators to provide assurance that the Council is delivering on the priorities within the plan and achieving the transformational change necessary.

A progress report against the Corporate Plan was presented to the Scrutiny Committee in June 2021. This noted that:

- ▶ Of the 30 actions in place to achieve the Council's 2020-22 corporate priorities, 21 are on track; and
- ▶ For the 26 Local Government Benchmarking Framework indicators considered to be most critical to Falkirk's priorities, performance has improved for 12, decreased for ten and remained unchanged for one.

## Local Benchmarking Framework

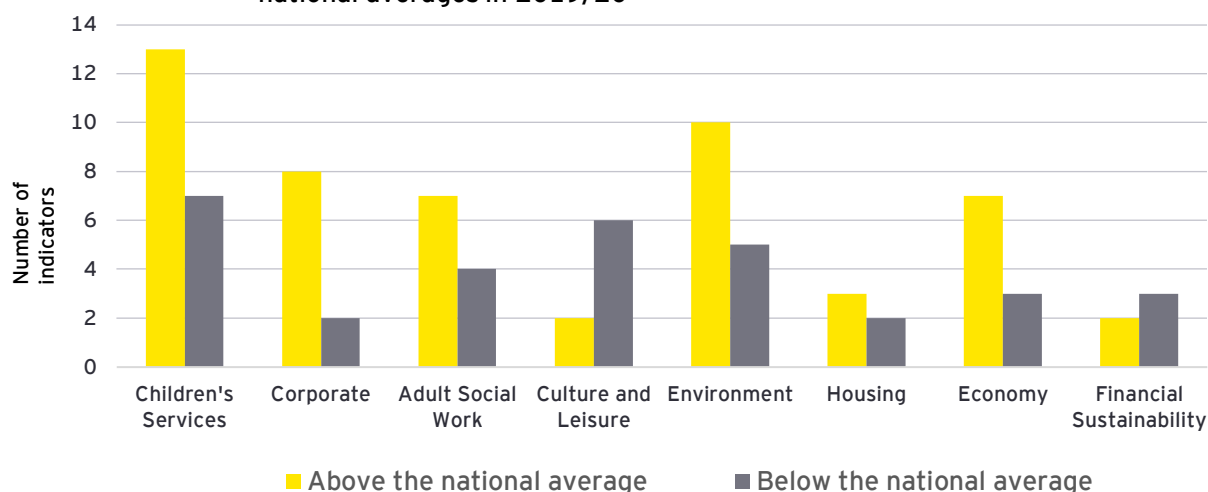
The Council continues to report on performance against the Improvement Service's 2019/20 Local Government Benchmarking Framework (LGBF) results in April 2021. Our analysis, within Exhibit 9, below shows that performance continues to be mixed against peers but key services, including Education and Housing perform strongly. Performance continued to improve in a number of priority areas including improving attainment amongst all pupils and those in deprived areas, and the percentage of unemployed people assisted into work from Council operated/funded employability programmes. The Council also performed above the national average for around 60% of the LGBF indicators, including:

- ▶ The number of the council's homes that meet energy efficiency standards (96.4% compared to the national average of 84.1%)
- ▶ The percentage of total household waste that is recycled (53% compared to 44.8%);
- ▶ The cost per dwelling of collecting council tax (£4.92 per household compared to £6.58);
- ▶ Sickness absence days per teacher (4.88 working days against a national average of 6.21 working days). Non-teaching staff sickness absence is marginally lower than the national average at 11.6 days.

Elected members have access to additional, and more up to date performance data within the Pentana performance management system. This includes the Council's analysis of reported indicators. The Best Value Assurance Report does, however, draw attention to low performance against the seven satisfaction indicators within the LGBF. Levels of satisfaction with Falkirk Council have declined in six out of the seven indicators over the last five years, with the level of satisfaction increasing only for schools.



**Exhibit 9: The Council's Services continued to perform well against national averages in 2019/20**



Source: Local Government Benchmarking Framework, 2019/20

### 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 stakeholders and the public to demonstrate the relative value and effectiveness of Council services. Information reported covers the quality and effectiveness of local services and progress in outcomes, as well as efficiency information.

In August 2021, the council introduced the public performance page, Falkirk Performs, on its website. This provides the public with a range of information on the Council's performance, including information on customer

satisfaction, complaints, and a full list of its performance indicators. The information on Falkirk Performs provides the public with a good basis for understanding the range of performance data available. There is, however, a lack of any narrative explaining what the indicators actually measure or explanations of performance or actions being taken to improve performance. Performance targets are also not easily accessible on the Falkirk Performs webpage. We recognise that this remains an area of planned development for the Council.

### **Option Appraisal in Decision Making**

The Best Value Assurance Report notes that decisions on some priority projects have been delayed for several years that have the potential to lead to substantial transformation and savings. For example, the Council has been debating the replacement of its headquarters and arts centre since 2014. During 2020/21, other significant decisions have been made, such as the decision in January 2021 to bring the Falkirk Community Trust back in house, and the closure of Torwoodhall, a residential facility. Our consideration of these decisions focused on the quality of information presented to elected members to support their scrutiny. We were satisfied that the Council had access to sufficient information, including financial and option appraisals to support their role in decision-making.



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

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

E - Adjusted errors identified during the audit

F - Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

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

### Financial Statements and related reports

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

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

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

### Standards of conduct / prevention and detection of fraud and error

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

### Standards of conduct / prevention and detection of fraud and error

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

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

### Best Value

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

# Appendix B: Independence and audit quality

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

## Matters that we are required to communicate

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

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

## Confirmations

We are not aware of any inconsistencies between the Council's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy. We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

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

## Audit Fees

	2020/21	2019/20
<b>Component of fee:</b>		
Auditor remuneration - expected fee	£198,050	£192,280
Additional audit procedures (see below)	£72,000	£67,500
Audit fee in relation to s106 Trust Fund	£2,500	£2,000
Audit Scotland fixed charges:		
Pooled costs	£18,830	£18,810
Performance audit and best value	£99,680	£96,610
Audit support costs	£10,890	£11,620
<b>Total fee</b>	<b>£401,950</b>	<b>£388,820</b>

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

Through the 2020/21 audit cycle we have discussed with management areas of the audit which required additional work beyond that usually expected for the Council. These areas related primarily to our response to additional areas of risk relating to whistleblowing and procurement arrangements. We also incurred additional time and costs in relation to the efficiency of the audit and significant audit focus on the valuation of property, plant and equipment in 2020/21 including Council Dwellings and the School Estate. For these areas we will discuss and agree a fee variation 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 [https://www.ey.com/en\\_uk/about-us/transparency-report-2021](https://www.ey.com/en_uk/about-us/transparency-report-2021). This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. 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). In 2014 the EY UK LLP Board established an Audit Quality Board to oversee all matters relating to quality. More recently, this has evolved to become the Audit Quality Executive Committee (AQE), who report directly to the Audit Board. The AQE is chaired by our Head of Audit and sits at the centre of our quality framework. In September 2020 we launched our refreshed multi-year audit quality strategy. At the outset, we knew our strategy would have to be adaptable and we continue to take account of a wide range of factors when assessing its evolution. Our updated purpose is to serve the public interest and take personal pride in audit.

We report on our audit quality strategy annually as part of our Transparency Reporting (one of the resources linked above is our Audit Quality Report 2021). This sets out our more holistic approach to measuring audit quality and our response to achieving our purpose of delivering high quality audits in the public interest. There are 3 fundamental elements underpinning the culture in EY's Audit business:

- ▶ Our people, focused on a common purpose
- ▶ The essential attributes of our audit business; and
- ▶ Our Sustaining Audit Quality programme.

Together, these elements make a culture that supports high quality audits in the public interest.

Audit Quality Framework / Annual Audit Quality Report

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

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

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

# Appendix C: Required communications

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



Required communication	Our reporting to you
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>No significant matters have been identified.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report - Appendix B</p>
<p><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p><b>Subsequent events</b></p> <p>Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p><b>Material inconsistencies</b></p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul>	<p>Annual Audit Report or as occurring if material.</p>
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ 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</li> <li>▶ 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</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ 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</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report</p>

# Appendix D: Action Plan

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

## New recommendations

### Classification of recommendations

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

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

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	<p>The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty.</p> <p>A session has been planned for January 2022 to discuss arrangements in more detail with management.</p>	<p>Given the ongoing focus on the valuation of fixed assets, and the materiality and estimation uncertainty associated with valuations, management should review its valuation cycle arrangements in the future. This review may include:</p> <ul style="list-style-type: none"> <li>▶ Reducing the time between full valuations for all major individual asset classes;</li> <li>▶ Reviewing the adequacy of instructions issued to valuation experts, including the provision of up to date information about significant capital work and the detailed audit information requirements; and</li> <li>▶ Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations.</li> </ul> <p style="text-align: right;"><i>Grade 1</i></p>	<p><b>Response:</b> 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.</p> <p><b>Responsible officer:</b> Capital &amp; Treasury Manager</p> <p><b>Implementation date:</b> 31 March 2022</p>
2	<p>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.</p>	<p>Management should perform its own assessment of the impact of IFRS 16 in advance of preparation of the 2021/22 financial statements.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p><b>Response:</b> Preparations are currently ongoing and arrangements will be put in place to comply with the Code and reporting requirements.</p> <p><b>Responsible officer:</b> Corporate Finance Manager</p> <p><b>Implementation date:</b> 31 March 2022</p>

## Classification of recommendations

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

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

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
3	<p>We note that the 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.</p>	<p>The Council must ensure that a refreshed COTF programme addresses concerns about the deliverability of savings within Children's Services, and supports robust analysis of the return on investment from the Change Fund.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p><b>Response:</b> 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> R McDonald/K Algie</p> <p><b>Implementation date:</b> March 2023</p>

## Classification of recommendations

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

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

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
4	While good progress has been made overall to update key financial governance documents, we note 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.	The Council should ensure that the Anti-Fraud and Corruption Strategy, Whistleblowing Policy and the Procedures for the Investigation of Fraud are approved and circulated as quickly as possible. We note that any updated policy must preserve the independence and investigation capacity of the Corporate Fraud Team.  <i>Grade 1</i>	<b>Response:</b> Agreed  <b>Responsible officer:</b> Internal Audit, Risk, and Corporate Fraud Manager  <b>Implementation date:</b> 28 February 2022
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.	The Council should use its self-assessment against the CIPFA Financial Management Code to conduct a wider assessment of the capacity of the Finance Team.  <i>Grade 1</i>	<b>Response:</b> 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.  <b>Responsible officer:</b> Chief Finance Officer  <b>Implementation date:</b> 31 March 2022
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.	While the Annual Governance Statement is in line with current requirements, there is an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge.  <i>Grade 3</i>	<b>Response:</b> Agreed.  <b>Responsible officer:</b> Internal Audit, Risk, and Corporate Fraud Manager  <b>Implementation date:</b> 30 June 2022

# 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 three unadjusted audit differences identified above our reporting threshold.

Adjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	<i>Additional impact of changes in the value of the Secondary and Primary School Estate</i>		Dr Property Plant and Equipment £34.3 million  Cr Revaluation Reserve £33.4 million  Cr Capital Adjustment Account £0.87 million
2	<i>Transposition error within internal recharge elimination process.</i>	Dr Income £1.8 million Cr Expenditure £1.8 million	

Unadjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	<i>Judgemental Impact of addressing costs of the Goodwin judgement on the Council's LGPS liability valuation at 31 March 2021.</i>	Dr Employee expenses (past service costs) £1.5 million	Cr Pension Liability £1.5 million
2	<i>2019/20 HRA Expenditure recognised in FY 2020/21</i>	Cr HRA Expenditure £0.26 million	Dr Current Liabilities £0.26 million
3	<i>Adjustment to reflect the updated IAS 19 report, with actual asset valuation as at 31 March 2021</i>	CR Actuarial (gains)/losses on pension assets & liabilities £1,938,000	DR Pension Liability £1,938,000

## Disclosure difference

A number of issues were identified as a result of lease testing, however as these relate to operating leases, this has no balance sheet impact, with the only impact being to the disclosure note within the financial statements.

The impact of the identified error is the disclosure is overstated by:

Under 1 year - £45,050

Between 2 and 5 years - £180,200

Over 5 years - £8,956,921

# Appendix F: Timing and deliverables of the audit

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

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

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