Renfrewshire Council

To:	Audit, Risk and Scrutiny Board
On:	13 March 2023
Report by:	Director of Finance and Resources
Heading:	External Audit Plan 2022/23

1. **Background**

1.1 The Council's appointed external auditor, Azets, has submitted an Audit Plan that outlines its approach to the audit of the 2022/23 annual accounts of the Council and the Coats Observatory Trust. The audit will assess whether the accounts provide a true and fair view of the Council and Trust's financial positions and also whether they have been prepared in accordance with proper accounting practice, i.e. the 2022 Code of Practice on Local Authority Accounting in the UK.

1.2 The Audit Plan also outlines the responsibilities of the Council and of Azets; its assessment of key challenges and risks and the approach and timetable for completion of the audit.

1.3 The statutory deadline for the approval of the audited accounts for 2022/23 is 30 September 2023 and the annual audit report is planned to be reported to the Audit, Risk and Scrutiny Board at its meeting in September.

1.4 On page 40 of the Audit Plan, the proposed audit fee is detailed. For the Council, this is indicated at £442,650 for the current financial year and represents an increase of 7% above the fee set by Audit Scotland for 2022/23.

1.5 Within the terms of the Audit Scotland appointment, local audit teams have discretion to vary the fee by up to 10% above the level set depending on the level of identified audit risk. This proposed higher fee reflects the additional work required in the first year of a new audit appointment.

1.6 Also on page 40 of the Audit Plan, the proposed audit fee for the Coats Observatory Trust for 2022/23 is indicated at £6,000. The fee for 2021/22 was £340 and was borne by the Council, owing to the revenue position of the Trust.

1.7 From Azets, Gary Devlin and Adrian Kolodziej will be in attendance to present the Audit Plan, attached here as an appendix.

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2. Recommendations

2.1 Members are asked to note the content of the attached report, including the proposed audit fees for the Council and the Coats Observatory Trust.

Implications of the Report

1. **Financial** – An unqualified audit opinion demonstrates that the Council has effective systems of internal control in place. The audit fee is set by Audit Scotland, with some discretion afforded to local audit teams. The proposed audit fee for the Council for 2022/23 is £442,650 and for the Coats Observatory Trust it is £6,000.

2. **HR & Organisational Development** – None arising from this report.

3. **Community Planning** – None arising from this report.

4. **Legal** – An audit opinion free from qualification demonstrates compliance with the statutory accounting requirements set out in the Local Government (Scotland) Act 1973.

5. **Property/Assets** – None arising from this report.

6. **Information Technology** – None arising from this report.

7. **Equality & Human Rights** - The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

8. **Health & Safety** – None arising from this report.

9. **Procurement** – None arising from this report.

10. **Risk** – the audit plan highlights audit issues and risks, and the approach Audit Scotland will adopt in seeking assurance that these risks are being managed.

11. **Privacy Impact** – None arising from this report.

12. **COSLA Policy position** – None arising from this report.

13. **Climate Risk** – None arising from this report.

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Renfrewshire Council

External Audit Annual Plan 2022/23

March 2023

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Introduction

Azets have been appointed by Audit Scotland as the external auditor to Renfrewshire Council ("the Council") for the period 2022/23 to 2026/27.

This document summarises the work plan for our 2022/23 external audit of Renfrewshire Council, including the charitable trust administered by the Council.

The core elements of our work include:

- an audit of the 2022/23 annual accounts for the Council and its group and the charitable trusts;
- consideration of the wider scope areas of public audit work;
- consideration of the Council's arrangements to secure Best Value;
- consideration of the Council's arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
- an audit of grant claims and returns, including Whole of Government Accounts (as applicable); and
- Any other work requested by Audit Scotland.

We expect that our audit will have a similar underlying approach to that of your previous external auditor, Audit Scotland, although there are some changes to the Code of Audit Practice and auditing standards that come into effect for the first time in 2022/23, which are reflected in this document.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We will add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Audit scope and general approach

Responsibilities of the auditor and the Council

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

Appendix 1 provides further detail of both our responsibilities and those of the Council.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the Council. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	Our understanding of the sector, its key priorities and risks	Attendance & observing the Audit, Risk and Scrutiny Board
Guidance from Audit Scotland	Discussions with Audit Scotland and public sector auditors	Discussions with internal audit and review of its plans and reports
Review of the Council's corporate strategies and plans	Review of the Council's corporate risk register	Consideration of the work of other inspection bodies
Consideration of any relevant self-evaluation activity by the Council	Participation in the Local Area Network (LAN) / Shared Risk Assessment process	Outcomes of prior year audits

Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Audit, Risk and Scrutiny Board.

Professional standards and guidance

We perform our audit of the financial statements in accordance with International Standards on Auditing UK (ISAs (UK)), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Our new Audit Scotland appointments include Renfrewshire Council, Renfrewshire Valuation Joint Board, Scotland Excel and Clydeplan. Where practicable and appropriate we will share knowledge to generate efficiencies in the delivery of our audits.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the Council's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which the Council uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Shared risk assessment and joint scrutiny planning

The Shared Risk Assessment (SRA) process is a vehicle for scrutiny bodies to share intelligence and agree scrutiny risks at councils. A local area network (LAN) has been established for each council in Scotland which comprises representatives from the main local government scrutiny bodies. The LAN is led by external audit and meet as and when is considered appropriate.

Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to the Council is used as efficiently and effectively as possible.

Delivering the audit – post pandemic

Hybrid audit approach

We intend to adopt a hybrid approach to our audit which combines on-site visits with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Skype, Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location and there is no longer a need for duplicate copies to be signed.

Approach to audit of the annual accounts

Our objective when performing an audit of the annual accounts is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our general approach, we will:

- perform risk assessment procedures including updating our understanding of the entity and its environment, the financial reporting framework and system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances or disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Key audit developments in 2022/23

Revised auditing standards[1], which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The in-depth nature of these additional procedures, as well as updated tools and techniques that may come into scope, will also offer additional opportunity to provide insights and constructive feedback on the way the Council manages risks. Appendix 2 provides further details on the implications of these new requirements.

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

The Council maintains three common good funds, which have been deregistered as charities during 2022/23 and do not require a separate audit opinion. However, we set out separate materiality levels for these funds as these will be specifically

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[1] Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement in the financial statements and ISA (UK) 240 on material misstatements caused by fraud came into effect for audits of financial statements with periods commencing on or after 15 December 2021.

covered by the Renfrewshire Council auditor's opinion and are shown as a separate statement in the Council's financial statements.

The basis for our assessment of materiality is set out in Appendix 3.

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work is not for the purpose of expressing an opinion on the effectiveness of internal controls.

We will report to the Council, significant deficiencies in internal controls that we identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

Specialised skill or knowledge required to complete the audit procedures

Our intended audit approach is to consult internally with our Technology Risk team for them to support the audit team in assessing the information technology general controls (ITGC).

Going concern

The concept of going concern applies in the public sector but in a different way to the private sector. In many public sector entities (but not all), the use of going concern basis of accounting is not a significant matter because the applicable financial reporting framework envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest that the application of the going concern basis. Our wider scope audit work considers the financial sustainability of the Council.

Group audit scope and risk assessment

As Group auditor under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council has disclosed the following Group entities in their 2021/22 financial statements:

Component	Significant	Level of response required
Renfrewshire Leisure Ltd	No	Analytical
Common Good Funds	No	Analytical
Paisley Museum Reimagined Ltd	No	Analytical
Park Lane Developments (Renfrewshire) LLP	No	Analytical
Coats Observatory Trust	No	Analytical
Strathclyde Partnership for Transport	No	Analytical
Strathclyde Concessionary Travel Scheme Joint Committee	No	Analytical
Renfrewshire Valuation Joint Board	No	Analytical
Renfrewshire Health and Social Care Integration Joint Board	No	Analytical

Analytical - the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

Risks at the component-level

We will review the appropriateness of the Group entities during our audit. At this stage of our audit cycle we have not identified any risks in each component.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a biennial counter fraud exercise led by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. The most recent NFI exercise commenced in 2022, with matches to be received for investigation from January 2023. As part of our 2022/23 audit, we will monitor the Council's participation and progress in the NFI.

Anti-money laundering

We require the Council to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Correspondence

People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.

The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will make this judgement using their professional and technical knowledge.

Wider audit scope work

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. Appendix 1 provides detail of the wider scope areas of public sector audit work. Our initial risk assessment and scope of work planned for 2022/23 is outlined in the 'Wider Scope' section of this plan.

National risk assessment

Where particular areas of national or sectoral risk have been identified by the Accounts Commission and Auditor General, they will request auditors to consider and report on those risks as they apply at a local level. For 2022/23 the following areas have been identified:

- Climate Change
- Cyber Security

Appendix 4 provides further detail as to the scope of this work.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

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

1. **Follow up and risk-based work:** our work will follow up on Accounts Commission findings, Controller of Audit recommendations and any outstanding improvement actions reported in Best Value Assurance Reports and Annual Audit Reports. Our work will reflect the Council's self-assessment against outstanding improvement actions and our findings will be based on the Council's current arrangements for delivering best value. We will pay due regard to the seven Best Value themes in evaluating the wider-scope areas.

2. **Service improvement and reporting:** the best value theme, effective use of resources, includes an expectation that councils report effectively on their performance. Councils should be able to demonstrate a trend of improvement over time in delivering their strategic priorities. We will assess annually how effectively the Council demonstrates this improvement. We will also report a summary of the information the Council reports publicly on its service performance. We will draw upon the information the council is required to report on by the Accounts Commission's Statutory Performance Information Direction.

3. **Thematic reviews:** we are required to report on Best Value or related themes prescribed by the Accounts Commission. The thematic work for 2022/23 is on the effectiveness of council leadership (officers and elected members) in developing new local strategic priorities following the elections in May 2022. We will report our conclusions in a separate management report which will be presented to those charged with governance and published on Audit Scotland's website. The key questions we will ask are detailed at Appendix 5.

4. **Contributing to Controller of Audit reports:** The Controller of Audit reports to the Accounts Commission on each council's performance in meeting its Best Value duties at least once over the five year audit appointment. The programme of Controller reports will commence in October 2023. Renfrewshire Council does not feature in the first year of the programme.

Statutory performance information

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's Best Value audit responsibilities. In turn, councils have their own responsibilities, under their Best Value duty, to report performance to the public. The Accounts Commission issued a new Statutory Performance Information Direction in December 2021 (applies for the three years from 2022/23) which requires a council to report its:

- Performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on the Local Government Benchmarking Framework and / or other benchmarking activities)
- Own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

As external auditors we are required to satisfy ourselves that the Council has made proper arrangements for preparing and publishing the statutory performance information in accordance with the Direction. As 2022/23 is the first year of the new Direction, we will evaluate the effectiveness and appropriateness of the arrangements at the Council, including assessing the appropriateness of the information provided to members in responding to the Direction.

Reporting our findings

We will provide judgements on the pace and depth of improvement in reporting our findings on both Best Value and wider scope areas. We will use the following grading to provide an overall assessment of the arrangements in place as part of our Annual Audit Report.

- There is a fundamental absence or failure of arrangements in place
- There is no evidence to support improvement
- Substantial unmitigated risks affect achievement of corporate objectives

- Arrangements are inadequate or ineffective
- Pace and depth of improvement is slow
- Significant unmitigated risks affect achievement of corporate objectives

- No major weaknesses in arrangements but scope for improvement exists
- Pace and depth of improvement are adequate
- Risks exist to achievement of operational objectives

- Effective and appropriate arrangements are in place
- Pace and depth of improvement are effective
- Risks to achievement of objectives are managed

Significant and other risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises the significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
Management override of controls Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk. **Risk of material misstatement: Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting

Identified risk of material misstatement	Audit approach
	documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Council's journals policy. • Gaining an understanding of the accounting estimates and critical judgements made by management. We will challenge assumptions and consider the reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies estimate or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises the significant risks of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
Fraud in revenue recognition Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements). The presumption is that the Council could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. In respect of council tax income, non-domestic rates, housing rents and non-ring fenced government grants, however, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate these revenue streams. The risk of fraud in relation to revenue recognition is however present in all other revenue streams. **Inherent risk of material misstatement:** • **Revenue (occurrence / completeness): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluation the significant income streams and review the controls in place over accounting for revenue. • Consideration of the Council’s key areas of income and obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

Identified risk of material misstatement	Audit approach
Fraud in non-pay expenditure As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end. **Inherent risk of material misstatement:** • **Non-pay expenditure (occurrence / completeness): High** • **Accruals (existence / completeness): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating the significant non-pay expenditure streams and reviewing the controls in place over accounting for expenditure. • Consideration of the Council's key areas of expenditure and obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.
Valuation of land and buildings (key accounting estimate) The Council carries out a rolling programme of revaluations to ensure all property, plant and equipment required to be measured at fair value is revalued at least every five years. Council dwellings are valued by the District Valuer using the beacon method which aggregates the vacant possession value of each unit of housing stock based on the value of a beacon or sample property. A full revaluation exercise is completed every five years. In interim years the values of beacon properties are	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluating the competence, capabilities and objectivity of the valuation expert. • Considering the basis on which the valuation is carried out and

Identified risk of material misstatement	Audit approach
updated to reflect key factors including changes in rental prices. Other land and buildings are held at fair value and revalued as part of the five-year rolling programme. In addition, indices are applied to all assets held at Depreciated Replacement Cost (DRC) to reflect market changes within the year. Last year the Council processed an audit adjustment of £69.5million to correct the carrying amount of property, plant and equipment in relation the valuation of assets. While the Council uses the rolling programme of valuations, this process has not been sufficient to consider the impact of the economic environment and increasing building prices on the full portfolio of the Council's assets. There is a significant degree of subjectivity in the measurement and valuation of property, plant and equipment. This subjectivity and the material nature of the Council's asset base represents an increased risk of misstatement in the annual accounts. **Inherent risk of material misstatement:** **Land & Buildings (valuation): Very High**	the challenge in the key assumptions applied. • Testing the information used by the valuer to ensure it is complete and consistent with our understanding. If there have been any specific changes to the assets in the year, we will ensure these have been communicated to the valuer. • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct. • Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.

Identified risk of material misstatement	Audit approach
Pension asset / liability (key accounting estimate) An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability. There is a risk that the assumptions used are not appropriate. **Inherent risk of material misstatement:** **Pensions (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Review of the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreeing the disclosures in the financial statements to information provided by the actuary. • Considering the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Identified risk of material misstatement	Audit approach
Financial instruments: fair value measurement (key accounting estimate) The Council maintains significant debt and investment portfolios. The Council measures its financial instruments at fair value or amortised cost or, where no reliable measurement exists, measured at cost. Fair values are categorised by their level in the fair value hierarchy: • Level 1 – fair value is derived from quoted prices in active markets for identical assets or liabilities • Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability • Level 3 – fair value is determined using unobservable inputs For level 1 and level 2; the Council's valuations are supported by independent expert advice. For level 3, there is the potential for management to use their judgement to influence the financial statements. **Inherent risk of material misstatement:** **Investments and borrowings (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating and reviewing the controls in place over accounting for financial instruments. • Considering the Council's material financial instruments and obtaining evidence that these have been appropriately valued at 31 March 2023 including challenging fair value classification. • Review of management experts and external investment managers. • Review of the disclosures within the annual accounts to ensure they are consistent with supporting information.

Identified risk of material misstatement	Audit approach
Provision for doubtful debts (key accounting estimate) The Council in its annual accounts provides for doubtful debts over sundry debtors and housing rent arrears. There is a significant degree of subjectivity in the measurement and valuation of provisions for doubtful debts. This subjectivity represents an increased risk of misstatement in the financial statements. **Inherent risk of material misstatement:** **Debtors Provisions (valuation / completion): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Obtaining the breakdown of provisions and assessing the reasonableness of management's judgements as well as challenging the appropriateness of any assumptions used. • Performing substantive testing on provisions for doubtful debts where values and balances are derived by valuation and estimation.

Wider scope

Introduction

As described previously, the Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes.

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the Council's key priorities and risks along with discussions with management and review of board minutes and key strategy documents.

We have identified one significant risk in relation to financial sustainability as set out in the table below. At this stage, we have not identified any significant risks in relation to the other wider scope areas.

Audit planning however is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report. This section summarises our audit work in respect of each wider scope area.

Wider scope significant risk

Financial sustainability
The Council considers its medium-term financial planning through its Financial Sustainability and General Fund Financial Outlook report regularly presented to the full Council. The Council has considered a range of scenarios from optimistic to pessimistic and identified a 'central scenario' with a funding gap of £40 to £45million between 2023/24 and 2026/27. Assuming 5% council tax increases in each of those years the funding gap reduces to £25-30million and would require the Council to identify c.£10million of savings and efficiencies each year. However, such council tax increases would be subject to prior Council vote and approval. The Council reviewed its budget planning assumptions to reflect the financial challenges impacting on the external environment which the Council operates in. In addition to the council tax, other assumptions included pay and contractual inflation cost pressures. The emerging and uncertain impact of cost pressures on the Council's finances and ability to deliver services in a sustainable manner remains a significant challenge and risk. The key Council's transformation programme Right for Renfrewshire ("RFR") aims to transform the Council's services, create efficiencies, and generate savings over the medium term. It was paused during the last two years to focus the efforts on the emergency response to the COVID-19 pandemic. The Council recognises that as a result the savings have fallen behind the requirement to secure financial sustainability. The original RFR savings target of £25million was revised in June 2022 when the Council reinstated the programme with a target to achieve £15million of savings instead. The Council delivered £5million of savings between 2020-22 against the original RFR target. The new savings target £15million has also proven to be challenging and it is currently expected that £8million of it is going to be achieved over the period of 2023-2025. The Council has been reviewing its medium-term sustainability workstreams noting that over the period from 2010 it achieved £170million of savings already and that the scope for further savings is therefore limited without impacting the quality of the services delivery. It concluded that that these measures will deliver less savings than planned, with the focus moving to long term planning to investigate the potential for further savings and efficiencies. The Council's reserves include £30.4million of ringfenced reserves (in relation to COVID and inflation mitigation) and £10.8million of unallocated reserves. While the Council plans to potentially draw down between £12 to 16million of the ringfenced reserves to achieve a breakeven position short term, it has acknowledged that these cannot be utilised as a sustainable solution to close the medium-term budget

Financial sustainability
gap. The Council recognises that further changes to address the core deficit are required. The Local Government Finance circular 10/2022 confirmed that local authorities can utilise financial flexibility whereby the capital repayment element of service concessions can be accounted for over the expected useful life of the asset instead of the contract period. The Council has approved the use of this flexibility, which will produce an in-year saving of £1.5million, with reduced cost available up to 2036/37. However, this re-profiling exercise will also generate cost, not previously present, beyond 2036/37. The Council's utilisation of the service concession financial flexibilities has been incorporated into the Financial Outlook reports during 2022.
Our audit response: During our audit we will review whether the Council has appropriate arrangements in place to manage its financial position. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of cost pressures and that continue to support the delivery of the Council's statutory functions and strategic objectives.

Our audit approach to the wider scope audit areas

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Consideration	Our audit approach
The Council's General Fund Revenue budget for 2023/24 is due to be approved in March 2023. The budget presents a total estimated spending of £500.2million and a funding gap of £7.6million for 2023/24. The funding gap exists after applying £11million of ringfenced reserves and this position is before any decision is taken on the levels of council tax. The Scottish Government revenue grant allocation for the Council for 2023/24 stood at £389.8million. After adjusting for the conditional and new responsibilities funding the core grant increased by 0.1% when compared to the previous year. More recently the Scottish Government announced funding to all Scottish local authorities for teaching staff of £33million for 2022/23 and £123million for 2023/24. The non-teaching staff additional funding will be £100million for 2023/24. This is still to be allocated between individual local authorities therefore the impact on Renfrewshire Council finances is not yet known. The Council's Housing Revenue Account ('HRA') net capital spend planned for 2023/24 is £27.9million, with the total estimated spend over the next five financial years of £244.3 million.	During our 2022/2023 audit we will develop our assessment of the Council's financial standing. We will review and conclude on: • The Council's arrangements in place for developing short, medium and long term financially sustainable plans that continue to support the delivery of the Council's statutory functions and strategic objectives; and • The appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Consideration	Our audit approach
The Council also plans to attract £26.6million of additional government grants for the new builds and similar projects. Renfrewshire Council has been able to achieve breakeven position on the HRA account in the recent years and is planning for moderate rent increases due to effective medium and long term planning. The Council's non-housing Capital Investment Programme Plan has a budget of £424.2million over the next five years, which includes £211.8million of projects funded by the City Deal grants and borrowing in relation to the Glasgow Airport area. The programme is prepared on the assumption of flat cash general capital grant funding from the Scottish Government over the medium term. In this context the Council recognises that the current levels of funding will cover annual rolling maintenance cost which is £12million, but will not allow for a forward looking investment programme. To mitigate this challenge the Council will consider the use of other sources of financing, including realised capital receipts, borrowing funded by recurrent revenue savings or external specific grant funding.	

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Consideration	Our audit approach
The Council reported a surplus outturn position in 2021/22. As at February 2023, the Council forecasts a general fund revenue overspend of £8.2million and an underspend of £0.1million for HRA in 2022/23. There has been no specific savings target set for this financial year, although savings of £1.5million are expected from the use of the flexibilities in relation to service concession arrangements. The main reasons for the overspend relate to increased cost of residential accommodation placements, energy and inflationary cost increases, loss of parking income and cost of support to Renfrewshire Leisure Ltd. The general fund overspend could further increase to reflect potential additional increases resulting from the ongoing pay settlement negotiations with teaching staff. It is expected that the Council will need to utilise its ringfenced reserves to achieve a breakeven position at year end. The capital programme budgets for both HRA and non HRA elements have been re-profiled and decreased during the year by nearly 17% (or £27million) due to further COVID-19 related delays. The Council estimates it will achieve a small underspend on the revised capital budget.	During our 2022/23 audit we will review, conclude and report on the following: • The achievement of financial targets; • Whether the Council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance; • Whether the Council has arrangements in place to ensure systems of internal control are operating effectively; and • Whether the Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Vision, Leadership and Governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Consideration	Our audit approach
The Council has adopted the principle that decisions should be made and the lowest or most local level consistent with the nature of the issues involved. Functions therefore have been delegated to Boards, the Chief Executive, Directors and Heads of Service and other officers. Following the Local Government elections in May 2022, the councillors confirmed its current Boards structure. During 2022/23, the Council and Board meetings adopted a blended approach and meetings continue to be live streamed and available to the public in the archive. The Council has been able to maintain all aspects of board governance, including its regular schedule of Council and Board meetings, to allow for effective scrutiny, challenge and informed decision making. The Council approved its Council Plan setting out key strategic themes and direction over the next five years. There are five strategic themes: • Place – working together to enhance wellbeing across communities • Economy – building an inclusive, green and resilient economy • Fair – nurturing bright, happy and healthy futures for all • Green – leading Renfrewshire to Net Zero	As part of our 2022/23 audit we will review, conclude and report on: • Clarity of the vision and strategy and if these are supported by a set of priorities and links to services and local communities; • Whether the Council can demonstrate that the governance arrangements in place are appropriate and operating effectively; • The transparency of decision-making, financial reporting and performance data; and • Reasonableness and consistency of the governance statement in relation to other information gathered during our audit. • Monitor progress of the investigation on the school building capacity issue and possible impact on governance arrangements and Council finances.

Consideration	Our audit approach
• Living our values – making a difference together The Council approved a revised management structure in December 2022 to enable organisational recovery from the pandemic and to support delivery of Council's strategic priorities. Implementation of the new structure is going to be delivered during 2023 and assumes a reduction of two full-time equivalent chief officer posts. The Council completed the building of a primary school last year which has been found to have been built with significantly less capacity than required for the catchment area – about half the size required. Because of restriction on the site (owned by BAE systems) the Council has limited ability to immediately address the issue which seems to have been caused by an error in estimating pupil numbers at the outset of the project, which was not identified or corrected until after the school had been completed. The cost to address this error to the Council will be significant and is still being assessed. The Council has launched an independent inspection to investigate this matter.	

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Consideration	Our audit approach
The approval of the new Council Plan 2022-27 has been followed by development of a revised Council Plan Framework to allow monitoring of the progress against the plan. The Framework includes a number of actions and indicators and progress against those will be reported to the Leadership Board biannually. Where possible, the scorecard of indicators for each Plan outcome contains quarterly and annual indicators enabling better scrutiny. Work is also ongoing to develop more outcome focused performance measures to help the Council to demonstrate the impact of services on people and local communities. The new framework is intended to be under the regular review of the Leadership Board to align it with the changes in council aims and in environment.	During 2022/23 we will review, conclude and report on; • Whether performance reporting in 2022/23 is timely, reliable, balanced, transparent and appropriate to user needs. • The Council’s compliance with the Accounts Commission’s direction on public performance reporting. • Whether the Council has identified improvement priorities, and how self-aware the Council is in understanding its relative performance and improvement needs.

Renfrewshire Trust Funds

Coats Observatory Trust Fund

The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment.

The Council's charitable trust is covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit. Each registered charitable trust has required a full audit since 2013/14.

There is one registered charity preparing its accounts on a receipts and payments basis – Coats Observatory Trust Fund.

Significant risks at the financial statement level

The table below summarises the significant risk of material misstatement identified at the financial statement level. This risk is considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
Management override of controls Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting

Identified risk of material misstatement	Audit approach
a risk of material misstatement due to fraud and thus a significant risk. **Risk of material misstatement: Very High**	documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Trusts' journals policy. • Gaining an understanding of the accounting estimates and critical judgements made by management. We will challenge assumptions and consider the reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies estimate or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises significant risk of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
Valuation of the Trust land and buildings The valuation of Coats Observatory land and buildings is based on fair value, determined as the market value that would be paid for the asset in its current use. Valuation is provided by the Council Valuer and updated as a minimum every five years. The latest valuation of the Observatory building was 31 March 2021. There is a significant degree of subjectivity in the measurement and	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating the competence, capabilities and objectivity of the valuation expert. • Considering the basis on which the valuation is carried out and the challenge in the key assumptions applied. • Testing the information used by the valuer to ensure it is complete

Identified risk of material misstatement	Audit approach
valuation of land and buildings. This subjectivity and the material nature of the Trust's asset base represents an increased risk of misstatement in the annual accounts. **Inherent risk of material misstatement:** **Assets (valuation): High**	and consistent with our understanding. If there have been any specific changes to the assets in the year, we will ensure these have been communicated to the valuer.

Other matter

The last year's financial statements indicate that the Trust only maintains the Observatory assets and that there are no receipts and payments in the year. The asset is leased to Renfrewshire Leisure Ltd for Nil consideration. We will evaluate these governance arrangements during the audit.

Going concern

Under the going concern principle it is assumed that an entity will continue in operation and there is neither the intention nor the need to liquidate it or cease trading.

Management is required to make and document a comprehensive assessment of whether the entity is a going concern when preparing the financial statements. The process should be proportionate in nature and depth depending upon the size and level of financial risk and the complexity of the entity and its operations. The review period should cover at least 12 months from the date of approval of the financial statements. Trustees are also required to make balanced, proportionate and clear disclosures about going concern in the financial statements where material uncertainties exist in order to give a true and fair view.

Under ISA (UK) 570, auditors are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements.

Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Under ISA (UK) 260 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the business and the needs of the users.

When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

The table below sets out our initial assessment of materiality, performance materiality and trivial threshold:

	Overall materiality (£)	**Performance materiality (£)**	**Trivial threshold (£)**
Coats Observatory Trust Fund	£70,000	£52,500	£3,500

Overall materiality: our assessment is based on approximately 1% of net assets. We consider this benchmark to be the principal consideration for the users of the financial statements when assessing the performance of the charitable trust.

Performance materiality: Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.

Trivial threshold: 5% of overall materiality for the financial statements.

Your Azets audit management team

Gary Devlin: Engagement Lead

gary.devlin@azets.co.uk

Gary is the partner in charge of our audit of Renfrewshire Council. Gary has over 20 years' experience in local government auditing and also leads our other public sector external audit appointments.

Adrian Kolodziej: Engagement Manager

adrian.kolodziej@azets.co.uk

Adrian will manage the delivery of the onsite work and work alongside Gary to deliver the audit engagement. Adrian has over 14 years of public sector experience performing the external audits of local authorities, central government and further education bodies.

Audit timetable

The submission date for audited annual accounts in local government is generally set to be consistent with the date specified in the accounts regulations by which the Council is required to approve its audited accounts. The Coronavirus (Scotland) Act 2000 permitted a deferral in 2019/20 and 2020/21 to 30 November, and a temporary amendment to the accounts regulations allowed a submission date of 30 November for 2021/22. However, the submission date is returning to pre-pandemic 30 September for 2022/23.

We have set out below target months which align to the schedule of Council meetings. We aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues.

Audit work/ output	Description	Target month/s	Audit, Risk and Scrutiny Board	Deadline
Audit strategy	Onboarding and initial engagement, introductory meetings and presentation of audit strategy.	January / February	23 January 2023	N/A
Audit plan	Planning meetings, understanding the entity, risk assessment. Audit plan setting out the scope of our audit, including key audit risks, presented to the Standards, Audit & Risk Board.	February / March	13 March 2023	31 March 2023
Interim audit	Interim audit including review of accounting systems.	March - June	N/A	N/A

Audit work/ output	Description	Target month/s	Audit, Risk and Scrutiny Board	Deadline
Final audit	Accounts presented for audit and final audit visit begins	July - September	N/A	N/A
Independent Auditor's Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	September	18 September 2023	30 September 2023
Annual Report to the Council and the Controller of Audit	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	September	28 September 2023	30 September 2023
Report to those charged with governance relating to the	We will issue an ISA 260 report addressed to the trustees summarising our opinions, conclusions	September	18 September 2023	30 September 2023

Audit work/ output	Description	Target month/s	Audit, Risk and Scrutiny Board	Deadline
charitable trusts	and the significant issues arising from our work.			
Grant claims and returns: • Non domestic rate income return (NDRI) • Whole of Government Accounts (WGA) • Housing benefit subsidy claim (HB)	We provide assurance, by way of an audit certificate on the grant claims / returns listed.	TBC	N/A	TBC

Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

For 2022/23, the new appointment process provided Audit Scotland with a fair representation of the current audit market for each individual body with the outcome of this exercise highlighting the increasing requirements, expectations and scrutiny of the audit profession.

The quality of audit work is an essential requirement in successfully delivering a fully compliant ISA and Code of Audit Practice audit. These factors have led to above inflationary increases in the cost of audit. Whilst these increases are significant these are consistent with evidence obtained from the profession and other UK audit agencies. On setting fees, Audit Scotland has ensured that efficiencies have been fully utilised to mitigate the impact.

For the local government sector, the average fee increase is 12.5%.

Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

As auditors we negotiate a fee with the Council during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

The breakdown of the fee increases for 2022/23 is shown in the table below.

Area	Fee
Sectoral fee increases of 12.5% to reflect inflation, changes to ISA 315 auditing standard and resourcing challenges in the audit industry	£46,320
We propose setting the 2022/23 audit fee above the expected fee to reflect the following areas of work:	
Additional costs associated with this being the first year of our audit appointment and developing our understanding of the Council, increased focus on understanding the Council's IT general controls, and delivering a hybrid style audit.	£20,000

Dealing with accounting queries which arise during the financial year; including consultation and development of an approach to asset valuations (identified as a significant risk area).	£7,000	

	2022/23	2021/22
Auditor remuneration	£298,450	223,730
Pooled costs	-	23,320
Contribution to PABV costs	£78,110	110,340
Audit support costs	£10,290	11,940
Sectoral cap adjustment	£55,800	-
Total fee	**£442,650**	**£369,330**

We will take account of the risk exposure of the Council and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit fee – Renfrewshire Council Charitable Trust (Coats Observatory)

The audit fee in the table above does not include the cost of auditing charitable trust fund. We propose setting the audit fee for the audit of the charitable trust at £6,000.

Audit independence and objectivity

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by the Council to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 1: Responsibilities of the Auditor and the Council

The Accounts Commission, Controller of Audit and Audit Scotland

The Accounts Commission is an independent public body. Its members are appointed by Scottish Ministers and are responsible for holding local government to account.

Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The 2021 Code came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Council and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

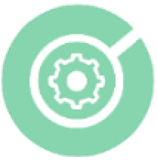
Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance



Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Council's best value arrangements is integrated into our audit approach, including our work on the wider scope areas as set out in this plan.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122

Council responsibilities

The Council has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	Council responsibilities
Corporate governance	The Council 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. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	The Council has responsibility for: • preparing financial statements which give a true and fair view of its financial position and its 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 that support its 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; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Area	Council responsibilities
	The Council is 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 its objectives and safeguard and secure value for money from the public funds at its disposal. The Council is also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The Council is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	The Council is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
Best value	The Council has a specific responsibility to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among: • The quality of its performance of its functions

Area	Council responsibilities
	• The cost to the body of that performance • The cost to persons of any service provided by it for them on a wholly or partly rechargeable basis. In maintaining that balance, the Council shall have regard to: • Efficiency • Effectiveness • Economy • The need to meet the equal opportunity requirements. The Council should discharge its duties in a way which contributes to the achievement of sustainable development. In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved. The Scottish Government's Statutory Guidance on Best Value (2020) requires bodies to demonstrate that they are delivering Best Value in respect of seven themes: 1. Vision and leadership 2. Governance and accountability 3. Effective use of resources 4. Partnerships and collaborative working 5. Working with communities 6. Sustainability 7. Fairness and equality. The Community Empowerment (Scotland) Act 2015 is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services. Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.

Appendix 2: Potential impact on the Council and our audit approach following revisions to auditing standards

Revised auditing standards, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The table below provides further detail on the implications of these new requirements.

Key change	Potential impact on the Council & our approach
Enhanced risk identification and assessment, promoting more focused auditor responses to identified risks	Management and those charged with governance may receive more up-front questions as we plan the audit and identify and assess risks of material misstatement. We may conduct planning and risk assessment procedures at a different time to ensure that our understanding is comprehensive, and that information is leveraged effectively and efficiently. To facilitate a more robust risk-assessment, we may request additional information to enhance our understanding of systems, processes and controls. For example, we may request: • a better understanding of the Council's structure and operations and how it integrates information technology (IT) • more information about the Council's processes for assessing risk and monitoring its system of internal control

Key change	Potential impact on the Council & our approach
	• more detailed narratives about how transactions are initiated, recorded, processed and reported • policies and procedure manuals, flowcharts and other supporting documentation to validate our understanding of the information systems relevant to the preparation of the financial statements • more information to support our inherent risk assessment. This information not only informs our risk assessment but also assists us in determining an appropriate response to risks identified, including any new significant risks which require a different response.
Understanding and acting on risks associated with IT	We will be asking tailored questions and making information requests to understand the IT environment, including: • IT applications • supporting IT infrastructure • IT processes • personnel involved in the IT processes. Combined with the controls that may be needed to address the identified and assessed risks of material misstatement, this understanding may also identify existing and new risks arising from the use of IT. Therefore, we will be asking more focused questions and requesting additional information to understand the general IT controls that address such risks. For example, we may have questions in relation to general IT controls over journal entries (e.g., segregation of duties related to preparing and posting entries) to address risks arising from the use of IT. Depending on our assessment of the complexity of systems and associated risks, we may also involve additional team members, such as IT specialists.
Enhanced procedures in connection with fraud	We will be asking targeted questions as part of an enhanced approach to fraud, including discussing with the Council: • any allegations of fraud raised by employees or related parties

Key change	Potential impact on the Council & our approach
	• the risks of material fraud, including those specific to the local government sector. Combined with other information, and any inconsistencies in responses from those charged with governance and management, we determine implications for further audit procedures. Work in connection with fraud may also now include the use of audit data analytics, or the inclusion of specialists in our engagement team to ensure we obtain sufficient appropriate audit evidence to conclude whether the financial statements are materially misstated as a result of fraud. In addition to existing communication and reporting requirements relating to irregularities and fraud, there may be further matters we report in connection with management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud. These enhanced requirements may assist in the prevention and detection of material fraud, though do not provide absolute assurance that all fraud is detected or alter the fact that the primary responsibility for preventing and detecting fraud rests with the Council and management.
Enhanced requirements for exercising professional scepticism	Challenge, scepticism and the application of appropriate professional judgement are key components of our audit approach. You may receive additional inquiries if information is found that contradicts what our team has already learned in the audit or in instances where records or documents seen in the course of the audit appear to have been tampered with, or to not be authentic.
Using the right resources, in the right way, at the right time	One of our new strategic quality objectives sets out that we will strive to use the right resource, in the right way, at the right time. This may mean increasing the use of specialists (for example in relation to general IT controls) or changing the shape of the audit engagement team to ensure that we are able to provide appropriate challenge and feedback in specialist areas. This will include appropriate use of technology, including data analytics.

Appendix 3: Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Council and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Group and the Council materiality

	Group £million	**Council £million**
Overall materiality for the financial statements	8.4	8.4
Performance materiality	6.3	6.3
Trivial threshold	0.250	0.250

Materiality	Our assessment is made with reference to the Council's gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance. Our assessment of materiality equates to approximately 1% of the Council's gross expenditure as disclosed in the 2021/22 audited annual accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.
Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater

	level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Common Good Funds materiality

	Overall materiality (£)	**Performance materiality (£)**	**Trivial threshold (£)**
Paisley	£140,000	£105,000	£7,000
Johnstone	£1,050	£788	£53
Renfrew	£690,000	£518,000	£35,000

Overall materiality: our assessment is based on approximately 2% of net assets. We consider this benchmark to be the principal consideration for the users of the financial statements when assessing the performance of each charitable trust.

Performance materiality: Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.

Trivial threshold: 5% of overall materiality for the financial statements.

Appendix 4: National risk areas under scope of audit in 2022/23

Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets. All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support.

Public audit has an important and clear role to play in:

- helping drive change and improvement in this uncertain and evolving area of work
- supporting public accountability and scrutinising performance
- helping identify and share good practice.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, auditors are required to provide answers to the questions set out in the following table which are intended to gather basic information on the arrangements for responding to climate change in each body:

Key questions
What targets has the body set for reducing emissions in its own organisation or in its local area?
Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?
How does the body monitor and report progress towards meeting its emission targets internally and publicly?
Has the body considered the impact of climate change on its financial statements?
What are the areas of the financial statements where climate change has, or is expected to have, a material impact?
Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

Cyber security

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place.

A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

For 2022/23 audits, auditors are advised to consider risks related to cyber security at audited bodies. However, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission consider that meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23.

Appendix 5: Best Value 2022/23 Thematic Review

The Best Value thematic work for 2022/23 requires auditors to carry out an overview of the effectiveness of council leadership (officers and elected members) in developing new local strategic priorities following the elections in May 2022. In carrying out the overview, we will look to answer the following questions:

Key questions
How clear is the new council vision and its priorities?
How effectively have the views of citizens and communities been reflected in the priorities and decisions taken by the council?
How effectively do the council priorities reflect the need to reduce inequalities and climate change??
How good are the delivery plans and is there alignment of financial, workforce, asset and digital plans with the council's priorities
Overall, how effective has the leadership been (political and officer) in setting clear priorities and a sustainable approach to delivering them