

Final report to the Members of the Council and the Controller of Audit on the 2015/16 audit



7 September 2016

the
Distinctive
audit

Contents

Our final report

3	Partner introduction
10	Scope, nature and extent of audit
12	Significant risks
16	Other matters
20	Public sector audit dimensions
40	Your annual report
42	Purpose of our report and responsibilities statement

Appendices

45	Audit adjustments
46	Action Plan
48	Fraud responsibilities and representations
49	Independence and fees
50	Events and publications

A reminder of our audit plan:

- Materiality: £1,800k (2014/15: £1,799k). This has increased slightly from our projected £1,700k in our planning report.
- Performance materiality: £1,620k (2014/15: £1,529k).
- Threshold for reporting misstatements: £36k (2014/15: £36k).
- Significant risks over council tax debtor bad debt provision, revenue recognition and management override of controls.
- In line with prior years and our audit plan, we have not placed any reliance on controls and our audit work was fully substantive.
- We have not identified any additional significant risk areas since our plan was issued.
- There have been no other changes to our audit plan presented to you in February 2016.



Partner introduction

Partner introduction

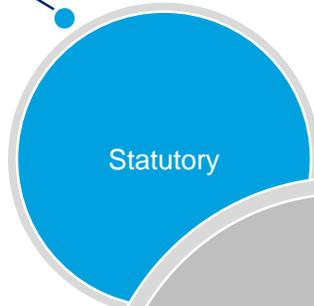
Overview of responsibilities

I have pleasure in presenting our final report to the Council for the 2015/16 audit.

As set out in our plan presented to the Resources and Audit Committee in February 2016, we have early adopted the requirements of the new Code of Audit Practice which comes into force for the 2016/17 audits. A reminder of the requirements is set out below.

Financial Statements

Provide an opinion on the financial statements and the regularity of transactions.



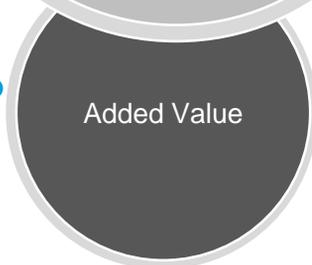
Annual Reports

Review and report on the other information such as annual governance statement, management commentaries, remuneration reports.



Public reporting

Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on Audit Scotland's website.



Public Sector audit dimensions

Wider scope reporting covering financial sustainability, financial management, governance & transparency and value for money.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives:

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

Partner introduction (continued)

Financial statement audit and annual report

Financial statement audit

Conclusions from our testing

- The key judgements in the audit process related to:
 - calculation of the council tax debtor bad debt provision;
 - revenue recognition (being completeness and accuracy of council tax and housing rent income and accuracy of other government grants received); and
 - Management override of controls.
- We have identified six misstatement as detailed in the Appendix which have been corrected in the final financial statements.
- Based on the current status of our audit work, we anticipate issuing an unmodified audit opinion.

Insight

- We have raised a number of insights from our current year audit work which are discussed throughout the report and summarised in the action plan in the Appendix.
- We have also followed up our prior year action plan and noted that while progress has been made on some of the actions, a number are only partially implemented, as detailed in the Appendix. Management should ensure that achievable timescales are agreed so that these actions are implemented in a timely manner.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
- Finalisation of quality control procedures;
 - Receipt of updated financial statements;
 - Confirmation of legal matters;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2016.

Annual report

Overall conclusion

- We have read the Management Commentary in full in order to assess whether it is in line with our understanding of the Council and complies with the 2014 Regulations. No exceptions noted.
- The format and content of the Annual Governance Statement is consistent with the requirements of the Code and concludes that arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The statement then goes on to state that a Governance Improvement Plan is in place to address identified weaknesses at both Service and Corporate level which will ensure that adequate and appropriate systems and processes are in place to improve the effectiveness of the Council's governance arrangements. This is consistent with the findings of our audit.
- We are satisfied that the remuneration report has been prepared in accordance with the regulations and is consistent with the findings of our audit.

Partner introduction (continued)

Significant financial statements risk dashboard

Presumed Fraud risk per Auditing Standards	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Council Tax bad debt provision			
✘	Evaluate design / implementation of key controls. No controls reliance. No significant observations	●	We are satisfied that the methodology used to calculate the council tax debtor bad debt provision is sufficiently robust and that the provision is accurately reflected in the financial statements, with no issues noted.
Revenue recognition			
✔	Evaluate design / implementation of key controls. No controls reliance.	●	<p>We are satisfied that revenue has been appropriately recognised and have noted no issues regarding completeness and accuracy of council tax and housing Rent income. We are also satisfied that government grants received at a service level have been appropriately accounted for.</p> <p>From our evaluation of the controls, we noted that there are plans in place to automate the linkage between the Council Tax Northgate system and the Assessor and that currently this is not reconciled on a regular basis.</p> <p>Appendix – Action Plan</p>
Management override of controls			
✔	Evaluate design / implementation of key controls. No controls reliance. No significant observations	●	<p>We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.</p>

Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the public sector audit dimensions with regard to Clackmannanshire Council:

Financial management

The final outturn for 2015/16 was an underspend of £4.227 million against gross revenue expenditure of £115.752 million. This comprises an in year surplus of £2.426 million together with a budgeted use of reserves of £1.801 million. This was achieved through a combination of underspends in some areas largely as a result of staff vacancies, together with an overspend of £1.1 million in Social Services as a result of cost pressures associated with residential schools. Reporting on budget is presented to elected members throughout the year. A number of the variances have arisen as a result of changes which would have been unforeseen at the time of setting the budget. However, there is scope for the Council to consider whether the budgeting and forecasting process is adequately robust, taking into account historical trends, particularly in Social Services where this overspend was forecast from early in the year. A report from the Depute Chief Executive and Assistant Head of Social Work on this specific issue is due to be presented to the Finance and Audit Committee in September 2016 setting out a recovery plan. **Appendix – Action Plan**

The Council's policy is to hold minimum working balances of 3% of net expenditure (£3.2 million in 2015/16) for the General Fund. The level of reserves at 31 March 2016 is in line within this policy.

The Section 95 Officer holds a senior position within the Council's management team, being the Depute Chief Executive, and has full authority. No issues noted.

Financial sustainability

Financial sustainability continues to be one of the most significant challenges and risks for Clackmannanshire Council.

As reported in our 2014/15 annual report and separate Best Value report, it was essential that the Making Clackmannanshire Better Programme (MCB) was successful in addressing the significant funding gap facing the Council. We reported in 2014/15 of our concern that the pace and scale of delivery from the programme was not yet sufficient to meet the Council's stated objectives and to address the Council's very significant short to medium term financial challenges. We also noted that difficult political decisions were being deferred in areas such as school estates strategy and leisure services.

We have assessed progress during the current year and have also taken cognisance of events up to the date of this report. It is clear that some progress has been made in addressing financial sustainability challenges during 2015/16. For example, a core of four business cases have been developed to create a strategic operating cluster model. These business cases cover school estates, leisure review, community hubs and workforce planning. In addition, during 2015/16, elected members have been provided with financial scenarios to provide a potential range of indicative funding situations that the Council might face depending on changes in the underlying assumptions.

Partner introduction (continued)

Public sector audit dimensions

Financial sustainability (continued)

It is clear, however, that significant challenges remain. The most recent budget strategy update to elected members on 11 August 2016 notes that the Council is projecting a cumulative three year funding gap of £18.1m to 2019/20. There has therefore been only limited progress since our 2014/15 report in bridging the funding gap which at that time was reported at £21m. In addition, as at 19 August, the Council is projecting around a £2m shortfall in 2016/17 budgeted savings which if not addressed will significantly worsen this projected cumulative funding gap. This shortfall is in part caused by anticipated workforce related savings from voluntary redundancy and severance not being delivered.

In addition, the new Administration is understandably wishing to reassess Council priorities and approach, and are reviewing elements of the cluster model noted above, which is seen as a key enabler for delivering financial sustainability, particularly in relation to schools estates. This delay to allow further consultation with the public, together with the upcoming local government elections in May 2017, further increases the risk that the required level of savings will not be achieved.

Since 2011/12, the Council has been reliant on contributions from reserves of around £14m to balance the revenue budget. In our view this is unsustainable going forward given demand pressures and demographic changes. As such, the Council needs to assess, as a matter of urgency, the adequacy of current MCB proposals to address the ongoing significant funding gap. In addition, given the anticipated shortfall in workforce related savings, the Council needs to consider if current proposals are sufficiently flexible and robust to address the financial challenges the Council faces.

In our view, these actions are required as a matter of urgency, to address the Council's continued reliance on reserves to balance the revenue budget.

A key strand of the Council's transformation work relates to workforce planning. During 2015/16 we performed targeted follow up work based on the recommendations made in the national performance report on Scotland's Public Sector Workforce which was published in November 2013 and submitted a standard questionnaire in accordance with Audit Scotland guidance. We confirmed that Clackmannanshire Council is at an early stage of its workforce planning process and historically has not had a formal workforce plan in place. A clear strategy has been approved by the Council and a Toolkit has been put in place to ensure Service workforce plans are prepared on a consistent and robust basis. These are currently being developed.

Partner introduction (continued)

Public sector audit dimensions (continued)

Governance and transparency

Up until May 2016, the Council had been run by an SNP led Administration, however, this group resigned in May and the Labour group formed a minority administration in June 2016. At a special meeting on the 2 June 2016, the Council approved a revised decision making framework. The Resources and Audit Committee was disbanded and replaced with an Audit and Finance Committee and a Scrutiny Committee. Each of the Service Committees were also disbanded. The first cycle of these new meetings have been held during August 2016.

From our review of the internal audit plan for 2015/16 and audit reports, we are satisfied that there are appropriate systems of internal control in place and no significant weaknesses have been identified. Appropriate disclosure has been made in the annual governance statement of issues identified from the work of internal audit and the actions being taken.

We are also comfortable with the counter fraud arrangements in place and confirm we have not been made aware of any financially significant frauds in the year. We have identified no issues with regard to the arrangements for maintaining standards of conduct and the prevention and detection of corruption.

Value for money

We have considered the adequacy of the Council's arrangement for collecting, recording and publishing accurate and complete information in relation to the Statutory Performance Indicators and noted no issues.

We have also noted that, while still at early stages, it is clear that the Council are aware of the requirements in relation to the Community Empowerment Act and is making plans to develop policies and strategies.

Jim Boyle
Audit Partner

Scope, nature and extent of audit

Scope, nature and extent of audit

Our overall responsibility as external auditor of the Council is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means 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 and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements (and any assurance statement on consolidation packs);
- Providing the annual report on the audit addressed to the body and the Controller of Audit;
- Communicating audit plans to those charged with governance;
- Providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in National Fraud Initiative (NFI));
- Preparing and submitting fraud returns, including nil returns, to Audit Scotland;
- Identifying significant matters arising from the audit, alert Audit Scotland accordingly and support Audit Scotland in producing statutory reports as required;
- Undertaking work requested by Audit Scotland or local performance audit work;
- Certifying all grant claims submitted by the body that have been approved for certification by Audit Scotland;
- Discharging the auditor's responsibilities in connection with bodies' publication of SPIs in accordance with the Accounts Commission's annual Direction;
- Providing existing evidence and intelligence for, and participate in, the Shared Risk Assessment (SRA) process leading to the preparation of a 3-year rolling Assurance Improvement Plan (AIP) and national scrutiny plan;
- Reporting on the results of follow-up on Councils progress in implementing existing BV improvement plans; and
- Contributing to BV audits and other scrutiny responses agreed through the SRA process.

[In addition to this annual report, we have reported our Planning Report to those charged with governance \(the Resources and Audit Committee\) of the Council in February 2016.](#)

The Council is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Significant risks

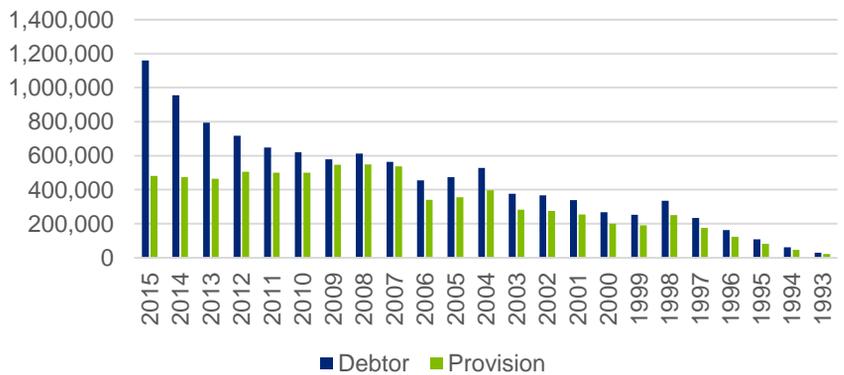
Bad debt Provision: council tax

Nature of the risk

There is significant judgement and complexity around debtor provision calculations. There is a risk that the valuation of provisions is not appropriate and assumptions underpinning calculations are not reasonable and supportable. Particularly given the current economic climate, assumptions on recoverability of amounts may not be reasonable. The risk has been pinpointed to the Council Tax provision given its level of materiality.

Key judgements

As part of the provision calculation, management make an assessment of the expected collection rates for different aged debt. This assessment is based on actual collection rates for previous years together with management's knowledge and experience of likely recovery.



Deloitte response

We have performed the following:

- verified the gross debtor on which the provision is based to the council tax system;
- reviewed and challenged the methodology applied by the Council for the bad debt provision calculation;
- reviewed and challenged management's judgements and assumptions included within the calculations;
- compared the provision made with historical data on cash collection; and
- reviewed the final accounts process and confirmed that the calculation and assumptions have been reviewed.

Deloitte view

From our audit procedures, we are satisfied that the provision and associated debtor are not materially misstated. The bad debt accounting policy to apply provision rates based on historical collection rates was reviewed and considered to be representative of the probable future recoverability.

Revenue Recognition: Completeness of income

Risk Identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the Council are non-ring fenced government grants and non-domestic rates which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%. The significant risk is pinpointed to other income, being completeness and accuracy of council tax and housing rent income and accuracy of other government grants received at a service level where restrictions or conditions apply.

Key judgements

With regards to the council tax and housing rent income the key judgement is ensuring the correct tax bands and rent levels have been applied and any discounts or exemptions are appropriate.

Grant income should not be recognised until there is a reasonable assurance that:

- the Council will comply with the conditions attached to them that could lead to them being returned; and
- they will be received.

	2015/16 £'m	2014/15 £'m	Pinpointed Significant risk
Council Tax	19	18	✓
Non-domestic rates	16	13	
Non-ring fenced government grants	81	83	
Capital grants and contributions	6	5	
Housing rent	18	17	✓
Grants, contributions and donations	25	32	✓
Other service income	22	20	
Total income	187	188	

Deloitte response

We have performed the following:

- tested the council tax and housing rents system to ensure that the correct council tax and rent levels have been input and billed in accordance with that agreed as part of budget process and that any discounts or reductions have been appropriately applied;
- tested the council tax and housing rents reconciliations performed by the Council at 31 March 2016 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2015/16 have been reviewed on a regular basis;
- compared income recorded with expectations, based on council tax and rent levels agreed as part of budget process and number of properties;
- corroborated property numbers to independent record held by the valuer (council houses) and the Assessor (council tax properties);
- assessed managements controls around recognition of grant income; and
- tested a sample of other government grants recognised within service income and confirmed these have been recognised in accordance with any restrictions or conditions applicable.

Deloitte view

No issues noted from our testing of the treatment of income in the year.

Management override of controls

Risk Identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of controls. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

Audit approach

Our audit work is designed to test for instances of management override of controls. We have summarised above our work on key estimates around revenue recognition and the council tax bad debt provision and note that we have not identified any significant one-off or unusual transactions in the period.

Deloitte response

We have considered the risk factors over the manipulation of accounting entries made in preparation of the financial statements, and note that:

- the Councils results were monitored closely throughout the period; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We have used data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. No issues noted from our testing.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

Other matters

Defined benefits pension scheme

Background

The Council participates in a defined benefit pension scheme. This scheme is administered by the Falkirk Council, therefore actuarial assumptions are not made by Clackmannanshire Council. There is a risk that the actuarial assumptions are not appropriate and therefore the valuation of the scheme is inaccurate. For the purposes of Clackmannanshire Council's financial statements, it is important to ensure that the assumptions applied are fully understood and challenged.

Audit work performed

We have performed the following:

- obtained a copy of the actuarial report produced by Hymans Robertson LLP, the scheme actuary, and agreed in the disclosures to notes 40 and 41 within the accounts;
- assessed the reasonableness of the Council's share of the total assets of the scheme with the Draft Pension Fund financial statement;
- reviewed the disclosures within the accounts against the Code;
- assessed the independence and expertise of the actuary supporting the basis of reliance upon their work; and
- liaised with our in-house actuary regarding their assessment of the key assumptions.

No issues noted.

Deloitte response

The Clackmannanshire Council share of the net pension liability has reduced from **£135.470 million** in 2014/15 to **£108.274 million** in 2015/16 as a result of an increase in the discount rates applied, offset to some extent by a slight increase in some inflation adjustments. We have reviewed the assumptions and on the whole, the set of assumptions is slightly towards the prudent end of the reasonable range at 31 March 2016. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

	Council	Benchmark	Comments
Discount rate	3.5%	3.5%	Reasonable
RPI inflation	3.3%	2.95%	Slightly prudent
CPI Inflation rate	2.2%	1.95%	Slightly prudent
Real Salary increase (over RPI inflation)	0.5%	Council specific	Reasonable
Pension increase	2.2%	1.95%	Slightly prudent
Current mortality	Club Vita	Council specific	Consistent with the 2014 funding valuation of the Fund. Reasonable.
Mortality – future improvements (CMI – Continuous Mortality Investigation)	CMI 12 with a 1.25% p.a. long-term rate	CMI 12 with a 1.25% p.a. long-term rate	Reasonable

Charitable Trusts

Risk identified

From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each Charity, and a separate audit of each. Clackmannanshire Council administers 4 such registered charities. The Charities Accounts (Scotland) Regulation 2006 permits connected charities to prepare a single set of accounts. Clackmannanshire Council has taken the view that those registered charities with common trustees are connected, which has reduced the number of separate sets of accounts to one.

As the gross income of each trust is less than £100,000, the Council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with the Regulations. Fully compliant Charities SORP accounts are therefore not required and disclosure is limited to that specified in the Regulations.

Key judgements

International Standards on Auditing require us to identify and assess the risk of material misstatement and to identify areas of risk that will require focussed consideration. The following are identified significant risks for the charitable trusts:

- Presumed risk over revenue recognition, specifically focused on allocation between restricted and unrestricted funds; and
- Presumed risk of management override of controls.

Deloitte response

No issues noted from our testing of the charitable trusts accounts in the year, which were found to be correctly accounted for in accordance with the Regulations.

Highway Network Assets

Background

The 2016/17 local government accounting Code will adopt the measurement requirements of the Code of Practice on transport infrastructure assets (the transport code) for the highways network asset, i.e. measurement on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

Audit work performed

In accordance with Audit Scotland's planning guidance for 2015/16, we have considered the Council's arrangements and state of preparedness, including the completeness of information to prepare an opening balance sheet in its 2016/17 financial statements.

We have also reviewed the draft WGA for 2015/16. While there is no requirement to audit this data in the current year, we note that the Highway Network Assets have been valued at £561 million, compared with the current financial statements disclosure of historical cost Infrastructure Assets of £39 million.

Deloitte response

From our work performed, we have confirmed the following:

- The Council's inventory is maintained on proprietary software and there have been Data Assessment Plans of its asset inventory to improve the quality.
- The Council has digitally captured the road network on GIS into polygons. The polygon digitisation work was undertaken prior to the start of the National Asset Management process in 2008 and has therefore been consistently measured from that time.
- The Council has highlighted that capturing its minor asset groups (street furniture) will take considerably longer than initially thought due to reduced resources within the teams. Work is being focused on capturing information on those assets deemed to be the highest priority, however, there remains a risk that data on all assets is incomplete. We recognise, however, that this is an issue across all Councils.
- Locality indices, used as part of the valuation calculation, are based on historical rates adjusted for inflation and have not been reviewed in detail for a number of year. There is therefore a risk that these indices are based on out of date information impacting on the valuation recognised within the financial statements.
- The Council has still to agree the level of detail that will be recorded in the Fixed Asset Register. It is important that this is considered at an early stage to ensure that the resulting impact on calculated depreciation and other accounting entries is fully considered.

Deloitte conclusion

It is clear that a work is progressing to prepare for the new 2016/17 requirements. We have, however, identified some risk areas and actions required that the Council should consider as part of its planning over the next six months. **Appendix – Action Plan**

Public sector audit dimensions

Financial management

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

Revenue expenditure

In 2015/16, Clackmannanshire Council reported an overall underspend of £4.227 million, which included a budgeted use of reserves of £1.801 million resulting in a net contribution to reserves of £2.426 million.

The Comprehensive Income and Expenditure Statement reported a deficit on the provision of services of £266,000 for the year. After adjusting for the difference between accounting basis and funding basis under regulation and transfers from statutory reserves, the Council reported an increase in the General Fund balance of £2.426 million.

The table below illustrates how the Council's performance on the Provision of Service compares to budget for the current year:

	2015/16 Budget £'000	2015/16 Actual £'000	2015/16 Variance £'000
Gross Expenditure	120,277	115,752	(4,525)
Income	118,476	118,178	298
Deficit/ (Surplus)	1,801	(2,426)	(4,227)
HRA – monitored separately	N/A	388	N/A
Use of Statutory Reserves	N/A	1,928	N/A
Adjustments between accounting basis and funding basis	N/A	376	N/A
Deficit on the Provision of Services	N/A	266	N/A

Variances were reported to the Resources and Audit Committee throughout the year, with a final report to the full Council meeting in June 2016.

The overall variance is a combination of under and overspends on expenditure and variances on income streams, the main being:

- A budgeted use of reserves of £1.801 million as approved at Council in February 2015.
- Social Services reported an overspend in the year of £1.149 million mainly as a result of cost pressures associated with residential schools.
- Resources and governance saw an underspend of £1.4 million, largely as a result of staff vacancies.
- Development and environmental services reported an underspend of £1.3 million primarily due to vacancies within staffing and income from winding up of the Council's investment in CSBP Clackmannanshire Investments Ltd.
- General Fund Housing reported an underspend of £1.3 million due to vacancies within staffing and an increased level of grant income from Department of Work and Pensions for Rent Rebates.

Financial management (continued)

Capital expenditure

In terms of capital expenditure, a final outturn of £16.430 million against a budget of £26.423 million was reported. As reported to the Audit and Resources Committee in September 2016, the majority of this underspend has been carried forward into 2016/17 due to revised timing of project expenditure. A significant variance was reported within the property capital expenditure budget as a result of the programme of work being re-aligned to 2016/17 to be in line with the school estates management plan. Other works have seen delays due to staff resourcing.

Conclusion

We have confirmed that budgets are regularly reported to elected members throughout the year. While a number of the variances noted above have arisen as a result of changes which would be unforeseen at the time of setting the budget, there is scope for the Council to consider whether the budget process and forecasting is adequately robust, taking into account historical trends. A report from the Depute Chief Executive and Assistant Head of Social Work on this specific issue is due to be presented to the Finance and Audit Committee in September 2016 setting out a recovery plan

Appendix – Action Plan.

With the move to an integrated health and social care partnership from 1 April 2016, the pressures noted within Social Services will impact on the new partnership going forward. It is important therefore that the Council fully understands the underlying causes of these overspends. With the ever increasing demand on services, the Council and its partner should work to identify how best to target its work on interventions and to deliver better outcomes.

Our comments on the systems of internal control are noted on page 29 of this report.

Financial management (continued)

Reserves

The Council's Usable Reserves balance has increased by £0.52 million in the year to £18.477 million at 31 March 2016. This increase is primarily a result of the net underspend as discussed on page 21.

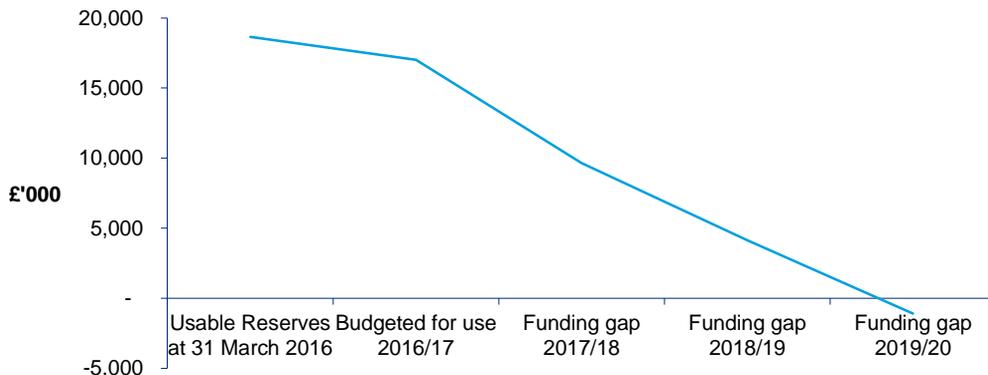
The Council's policy is to hold minimum working balances of 3% of net expenditure (£3.2 million in 2015/16) for the General Fund. The level of reserves at 31 March 2016 is in line within this policy.

A total of £6.34 million is being held as "Earmarked General Fund reserves" at 31 March 2016, to provide financing for specific future expenditure as shown below:

Specific Purpose	Total (£'000)
Developed School Management	249
Corporate Miscellaneous	360
MCB (Previously Spend to Save Fund)	520
Change Funds	213
Other Miscellaneous Service Commitments	453
Employment Fund	2,873
Education Restructure	150
Sum Approved In Support of 2016/17 Budget	1,523
Net Committed Reserves	6,341

In comparing the usable reserves with forecast future funding gaps which are discussed further on page 26, the Council's reserves would diminish by 2019/20 if savings are not identified for future years as illustrated below. It is therefore critical that savings plans are agreed and implemented.

Projected reserves



Financial management (continued)

Whole of Government Accounts

Background

Whole of government accounts (WGA) are the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of the WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.

Purpose

The WGA provides the most complete picture available of government finances and is a set of accounts for the whole UK public sector (over 6,000 bodies in 2015/16). The WGA is used in a number of ways:

- Treasury use it as part of their spending teams work and to assess the impact of policy changes on long term financial position;
- Ministry of Justice and Department of Health working together to look at reducing the cost of clinical negligence;
- Treasury and Cabinet Office have formed a joint fraud, error and debt task force to tackle the level of losses; and
- Cabinet Office have drawn on WGA in their work on validating the Government estate.

Clackmannanshire perspective

Deadline of 26 August for draft return met

Management review checklist completed and signed by Chief Accountant as evidence of quality review.

Clackmannanshire Council falls below the threshold for auditor assurance so no testing performed.

Conclusions

Clackmannanshire Council has appropriate arrangements in place for completion of the WGA return. However, the Treasury has committed to faster delivery in future years, which is likely to have a knock on effect to Council deadlines. The Council should continue to standardise, streamline and simplify the close down process, taking into account all the information that is currently produced, including Local Financial Returns (LFRs), Outturn Reports, Financial Statements and the WGA to ensure that they are produced in the most efficient manner.

Financial management (continued)

Grant claim work

As part of our audit appointment, we have completed our review of the following grant claims / returns by the audit deadlines set by Audit Scotland:

Grant	Deadline	Status	Issues
Education maintenance allowance	31 July 2016	Completed	None
Criminal justice social work services grant claim	31 August 2016	Completed	1
Non-domestic rates income return	9 October 2016	On Target	None to date
Housing and Council tax benefit subsidy	30 November 2016	On Target	None to date

Issues:

As reported in 2014/15, one minor issue was highlighted in relation to the Criminal Justice Grant which remains outstanding for 2015/16. For a sample of Criminal Justice expenditure amounts relating to independent sector providers, the Council was unable to locate a signed service level agreement between the independent provider and the local authority, which could be used to confirm expenditure related to specified service. Deloitte performed alternative procedures in order to gain some assurance that expenditure was for a qualifying project.

This issue was highlighted in last year's report where we recommended that the Council carry out a review to ensure that service level agreements are in place where services are provided by independent sector providers. We make the same recommendation this year. Management has confirmed that SLA's are being drafted for the current year and will be in place going forward. **Appendix – Action Plan.**

We are on target to complete all grant claim work in line with Audit Scotland deadlines.

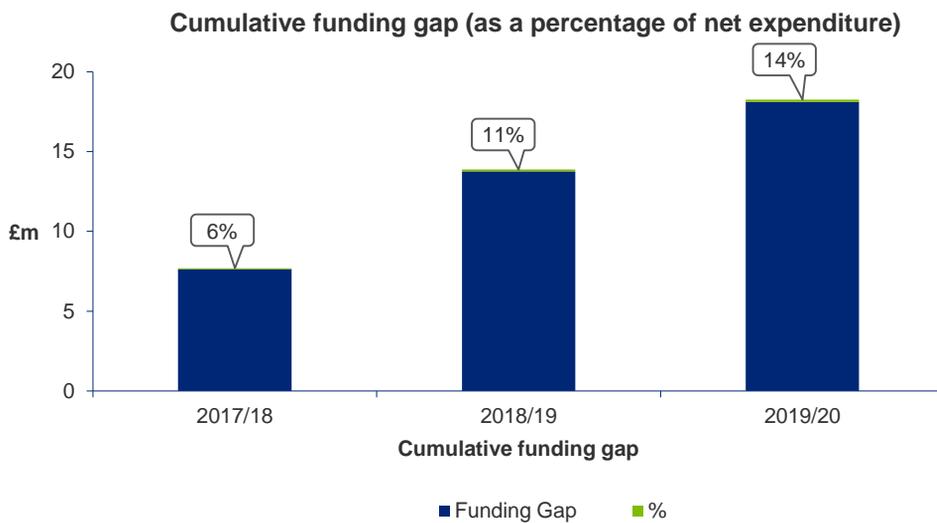
Financial sustainability

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.

Financial outlook

The 2016/17 revenue budget was approved by the Council on 23 February 2016. This budgeted net expenditure of £114.255 million, with approved savings of £7.501 million.

Indicative budgets are in place for the next three years, which note that significant shortfalls are projected in future years. This is based on expected funding levels and increasing demand pressures in future years.



The 2016/17 budget builds on the Making Clackmannanshire Better (MCB) service delivery models and takes the next step in rolling out the new Community Investment Strategy which incorporates the Cluster model and locality hubs. The budget also set out a number of business cases and areas for further consideration and development during 2016/17 to assist the Council in setting future years' budgets and bridge the indicative funding gap for future years.

A key strand of the Council's transformation work relates to workforce planning. In October 2015, the Council approved a Workforce Strategy which set out the Council's approach to the recruitment, retention and support and development of its staff. Further discussion on workforce planning is provided on page 27.

The General Fund capital plan was also approved by the Council at its meeting on 23 February 2016 with total planned expenditure for 2016/17 of £10.042 million, with a total capital plan over the next 5 years of £51.130 million. This includes the following significant projects:

- Kilncraigs - £4.9 million (budgeted for 2019/20);
- School Estates, Tullibody Campus - £11.250 million

The plan is being funded by a combination of borrowing and capital grants.

Financial sustainability (continued)

Workforce Planning

As discussed on page 26, local government continues to experience a period of unprecedented uncertainty and change in terms of its financial, legislative and demographic challenges. The cost of employing Council staff accounts for around two thirds of the Council's annual revenue expenditure, therefore it is important that such valuable resources are deployed in areas of greatest priority. As part of the Council's consideration of options to reduce expenditure by £18.1 million over the next three years to March 2020, it has identified that it must also seek to reduce its costs of employment. *Making our organisation stronger: Clackmannanshire Council's Interim Workforce Strategy*, which was approved by the Council in October 2015 sets out the longer term workforce planning objectives but also highlights the short to medium term financial pressures and the need to deliver an increased pace and momentum with regards to the Council's managed contraction of staffing.

In accordance with Audit Scotland planning guidance, we have performed targeted follow up work based on the recommendations made in the national performance report on Scotland's Public Sector Workforce which was published in November 2013 and submitted a standard questionnaire in accordance with Audit Scotland guidance. We confirmed that Clackmannanshire Council is at an early stage in its workforce planning process and historically has not had a formal workforce plan in place. A clear strategy, as referred to above, has been approved by Council and a Toolkit has been put in place to ensure Service workforce plans are prepared on a consistent and robust basis. These are currently being developed. The Toolkit has been based on established good practice, including guidance published by Employer Organisation (guide to workforce planning in local authorities) and the Improvement Service.

Making Clackmannanshire Better

The Council's Making Clackmannanshire Better (MCB) transformation programme was launched in 2013 as a five year transformation programme with the objective "to reduce costs, better meet our customers' changing needs and operate in a more integrated way with our public service partners, so that we can collectively achieve better outcomes for our communities". From June 2014, MCB has been fully integrated within the Council budget challenge process and is regarded as the main driver for improving outcomes, cost reduction and for addressing the Council's financial sustainability over the next three years.

As reported in our 2014/15 annual report and separate Best Value report, with an estimated cumulative three year funding gap of £21 million (one of the highest in Scotland relative to total net expenditure) it is essential that the MCB programme is successful in delivering these above objectives and addressing the significant funding gap. We were concerned that the pace and scale of delivery from the programme was not yet sufficient to meet the Council's stated objectives and to address the Council's very significant short to medium term financial challenges. We also noted that difficult political decisions were being deferred in areas such as school estates strategy and leisure services.

Financial sustainability (continued)

Making Clackmannanshire Better (continued)

We have assessed progress during this financial year and have also taken cognisance of events up to the date of this report. It is clear that some progress has been made in addressing financial sustainability challenges during 2015/16. For example, a core of four business cases have been developed to create a strategic operating cluster model. These business cases cover school estates, leisure review, community hubs and workforce planning. In addition, during 2015/16, elected members have been provided with financial scenarios to provide a potential range of indicative funding situations that the Council might face depending on changes in the underlying assumptions. It is clear, however, that significant challenges remain.

The most recent budget strategy update to elected members at its meeting on 11 August 2016 notes that the Council is projecting a cumulative three year funding gap of £18.1m to 2019/20. There has therefore been only limited progress since our 2014/15 report in bridging the funding gap. In addition, as at 19 August, the Council is projecting around a £2m shortfall in 2016/17 budgeted savings which if not addressed will significantly worsen the projected cumulative funding gap. This shortfall is in part caused by anticipated workforce related savings from voluntary redundancy and severance not being delivered

In addition, the new administration is understandably wishing to reassess Council priorities and approach, and are reviewing elements of the cluster model above, which is a key enabler for delivering financial sustainability, particularly in relation to schools estates. This delay to allow further consultation with the public, further increases the risk that the required level of savings will not be achieved.

Conclusion

Since 2011/12, the Council has been reliant on contributions from reserves of around £14m to balance the revenue budget. In our view this is unsustainable going forward given demand pressures and demographic changes. As such, the Council needs to assess, as a matter of urgency, the adequacy of current proposals to address the ongoing significant funding gap.

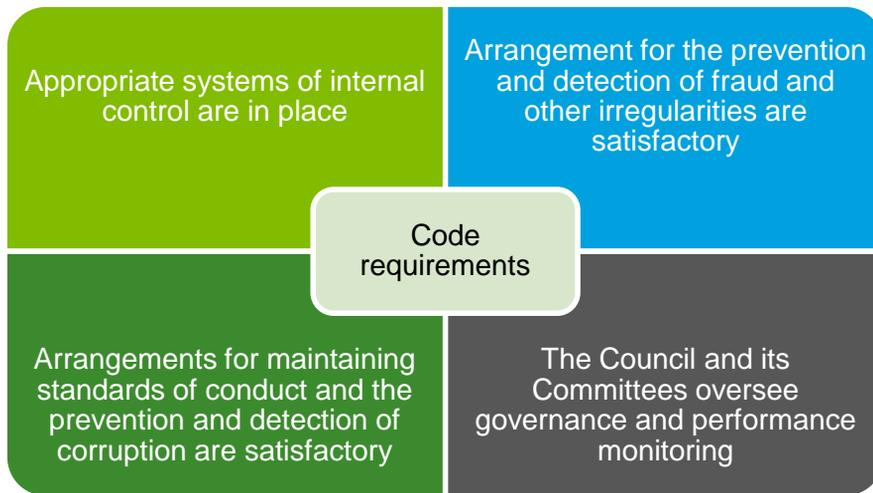
In addition, given the anticipated shortfall in workforce related savings, the Council needs to consider if current proposals are sufficiently flexible and robust to address the financial challenges the Council faces.

In our view, these actions are required as a matter of urgency, to address the Council's continued reliance on reserves to balance the revenue budget.

Governance and Transparency

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

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



We confirm that we have reviewed the arrangements in each of the four areas and concluded as noted above, highlighting the following:

- From our review of the internal audit plan for 2015/16 and audit reports, we are satisfied that there are appropriate systems of internal control in place and no significant weaknesses have been identified. Appropriate disclosure has been made in the annual governance statement of issues identified from the work of internal audit and action being taken.
- We are comfortable with the fraud arrangements in place and confirm we have not been made aware of any financially significant frauds in the year.
- We have identified no issues with regard to the arrangements for maintaining standards of conduct and the prevention and detection of corruption. During the period, Councillor Drummond was referred to the Commissioner for Ethical Standards in Public Life in Scotland and following an investigation was suspended for a period of six months with effect from 25 April 2016.
- Whilst there is evidence of governance, scrutiny and challenge, our review of the MCB transformation programme as discussed on a pages 27 and 28 has identified a number of concerns regarding political decision-making and prioritisation. The recent changes to the political leadership as discussed further on page 30 increases this risk and should be closely monitored over the next year.

Governance and Transparency (continued)

Governance arrangements are going through a period of change

Leadership

Up until May 2016, the Council has been run by an SNP led Administration, however, this group resigned in May 2016 and the Labour group formed a minority administration.

At a special meeting on the 2 June 2016, the Council approved a revised decision making framework. The new Administration noted that given there were only 12 months until the next local government elections, it was vital that new, streamlined decision-making structures were put in place which facilitated prompt consideration of key business by Council. The Resources and Audit Committee was disbanded and replaced with an Audit and Finance Committee and a Scrutiny Committee. Each of the Service Committees were also disbanded. The first cycle of these new meetings have been held during August 2016.

The Section 95 Officer holds a senior position within the Council's management team, being the Depute Chief Executive, and has full authority. No issues noted.

New financial ledger

Internal Audit reports over the past few years had highlighted a number of control weaknesses in the current Finance System, including reliance on paper based systems, poor access controls, high level of manual intervention required, limited reporting and limited systems integration. It is expected that all these issues will be addressed by the new Finance System.

Internal Audit have provided regular reviews of the controls in place and the progress with the New Financial Ledger project, which is being phased in during 2016/17. The most recent report in September 2016 concluded there was a good control environment operating in relation to progressing the new system. However, the loss of the supplier's lead consultant in the build phase has required a revision of the project timescale and a phased implementation which means that different elements of the system will go live at different times. Internal audit has still provided overall significant assurance that the risks are being adequately mitigated as a new consultant has been put in place, the project plan adjusted accordingly and a full system acceptance and handover date of 21 September 2016 is still on schedule, however, the loss of the supplier's lead consultant presents a risk.

Following the Public Pound

The statutory requirements to comply with the Following the Public Pound Code, in conjunction with the wider statutory duty to ensure Best Value, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them.

We have considered the appropriateness of the Council's arrangements to meet their obligations to comply with the Code and note the following:

- Consideration of the arrangements included within the Internal Audit plan. The most recent review concluded that a robust control environment was identified during this review and as a result no findings have been reported and no further management action is required.
- In response to the new procurement legislation and accompanying Regulations, the Council has published its Contracts Register, which represents a statement of current and future opportunities.

Governance and Transparency (continued)

Governance arrangements are going through a period of change

Shared Services

The shared social care services led by Clackmannanshire Council and shared education service led by Stirling Council is due to come to an end in March 2017. As noted on page 35, the Local Area Network (LAN) concluded in the Local Scrutiny Plan for 2016/17 that this presents a number of risks to the Council both during and after the transition period. In particular the continuity of education and social work services, the potential impact on the quality of services and outcomes for service users, loss of senior management experience and the uncertainty relating to the introduction and effectiveness of new management structures as yet to be developed. Long term sustainability of social work services was also identified as an area of significant risk.

An update was provided to the Council meeting on 23 June 2016. In general terms, the Council has noted that the only binding matters in respect of shared services are those relating to employment status of relevant employees which means that for other matters, the cessation process will rely on following any agreed protocols and good practice in respect of change management. An approach has been agreed by both Councils' Chief Executives, supported by the respective HR leads and taking into account specialist advice. Specific progress with individual services is as follows:

- **Education** – the new post of Chief Executive Officer was recruited in March and Anne Pearson joined the Council on 13 June 2016. Amongst initial priority tasks was for her to design and recruit her new management team, which has now been completed and all are expected to be in post by October 2016. A further priority will be reviewing attainment particularly in light of some recent inspection reports which have been presented to the Council.
- **Social Services** – Given Clackmannanshire Council has been the Lead Authority for Social Services, the Council employs the majority of Social Work staff deployed in the service. To start to reduce the uncertainty about future roles, retain capacity and minimise the risk to business continuity between now and when shared social services cease, steps are being taken to realign managers responsibilities to work in a more dedicated manner in each authority in readiness for a smooth transition to any new structure. Accordingly, new interim management arrangements have been put in place. In tandem, Clackmannanshire staff in certain shared teams are being realigned to their respective authorities to be managed locally. Going forward, the Council needs to create a new structure for social services to take into account the ending of shared services and the anticipated role of the chief officer for health and social care integration. A Chief Social Work Officer was appointed in August 2016.

As the Council moves to the formal change over in March 2017, focus is being given to managing the risk associated with this and in particular data transfer. A programme board has been set up to ensure that this is done transparently.

Governance and transparency (continued)

National Fraud Initiative

In accordance with Audit Scotland planning guidance, we are required to monitor the Council's participation in the National Fraud Initiative (NFI), its progress during 2015/16 and complete an NFI audit questionnaire by 29 February 2016.

A summary of the matches reported in the NFI system is provided below:

	Total
Total matches flagged	1,634
Total recommended matches to be investigated	323
Total processed	1,553
Frauds	5
Errors	45
Outcome	£24,920

The five frauds noted above relate to overpayment of housing benefit and amount to £7,384. These are to be recovered from the individual claimants.

The forty five errors comprise overpayment of housing benefit (9 errors, total value £4,674), blue badges (28 errors, total value £Nil) and duplicate creditor payments (8 errors, total value £12,861), all of which are in the process of being recovered.

Deloitte Conclusion

We reported in our 2014/15 annual report, that the Council was fully engaged in the NFI exercise.

At the time the NFI questionnaire was completed in February 2016, the results of investigations had been recorded in the NFI system and only a small number had still to be investigated, which were completed by 31 March 2016. Progress on the NFI exercise was reported to each meeting of the Resources and Audit Committee as part of the internal audit and fraud progress report. These reports have noted that the Council is evaluating where improvements can be made in its systems and processes, however, no significant issues have been noted in the current year.

We concluded that Clackmannanshire Council remains fully engaged in the NFI exercise.

Governance and transparency (continued)

Integration of adult health and social care

Governance arrangements

The Health and Social Care Partnership (HSCP) for Clackmannanshire and Stirling was established on 3 October 2015 following the approval of the Integration Scheme by the Scottish Government and services have been delegated from 1 April 2016. The following key actions have taken place in advance of “go live” date:

- All voting members are now in place and have been attending the Transition Board.
- The Chief Finance Officer has been appointed and the post has been established as a one year part time post to allow the partnership to more fully assess the levels of demand attached to the role. The Chief Finance Officer will continue to work closely with the Section 95 Officer of Clackmannanshire Council.
- The Strategic Plan was approved by the Integration Joint Board (IJB) on 24 March 2016 and contains the agreed financial partnership budget. The formal Directions have been issued to each partner in relation to service delivery and discharge of functions. The Strategic Plan is supported by a number of other publications produced by the work streams.
- A core group of officers from the Forth Valley Councils and NHS Forth Valley have been coordinating the 9 workstreams in response to the statutory requirements for the implementation of health and social care integration. A programme planning approach has been taken to ensure that key milestones are achieved within the required timescales. A review of the work streams is currently taking place with a view to reducing the number and refocussing the remaining work streams on the medium to long term activity to support integrated services and the implementation of the Strategic Plan.
- Work is now underway, led by the Strategic Planning Group, to build on and take forward the engagement work carried out in relation to the Strategic Plan and will include locality planning sessions. A series of staff engagement events were held during June as part of this process.
- As part of the work force workstream, a Forth Valley wide staff forum has now been established. The staff forum is at an early stage of development and is currently agreeing the terms of reference and operating framework. It involves membership from Human Resources teams, staff and trade union representation from the local authority partners.

Delegated budgets

Budgets for those services that are to be delegated according to the legislation were approved by the Council on 23 February 2016.

A ‘due diligence’ process was carried out which examined the budgets and expenditure for the 3 financial years preceding the establishment of the partnership.

Work is being progressed to develop future year budgets in consultation with partner bodies.

2016/17 Approved Budget	£m
Clackmannanshire Council	15.322
NHS Forth Valley	115.912
Stirling Council	29.524
Partnership Funding	4.507
Total Partnership Budget 2016/17	165.265

Deloitte conclusion

Overall, we have concluded that work is progressing with the IJB now operational from 1 April 2016 and regular reports on progress have been made to the Council.

Governance and transparency (continued)

Integration of adult health and social care (continued)

Data Diagnostics

As both the health and local government sectors continue to be under huge financial pressure, it is important that the new IJBs use the integration of adult health and social care to make transformational change. The following case study is an example of work we have seen elsewhere which Clackmannanshire Council and its partners could benefit from in performing a similar review.

Case Study – Data Diagnostics

Deloitte has been involved in work in an NHS Scotland Board where we were commissioned to support the organisation to understand their data and how they can use it, now and in the future, to identify opportunities for improvement and make changes to the services that will support the achievement of the required financial position.

A key challenge was to identify and prioritise areas for further analysis given the wealth of data, systems and information available. Working with the NHS Board, we agreed to focus on analysis of length of stay data and theatre information from the TrakCare and ORSOS systems respectively.

From this work a number of key opportunities were identified:



• Reducing Length of Stay Variances – opportunity value £5m - £ 7.5m per year

- Designing a consolidated improvement programme focused on discharge planning across the health and social care economy should address issues including multiple entry routes and improvements in hospital processes, for example moving discharge decisions earlier in the day.
- Implement a number of speciality level improvement including engaging directly with the clinical community using the data visualisation tools developed to help drive clinical and operational change.

• Maximise Core Time Theatre Capacity – opportunity value £1.5m - £4.0m per year

- Implement a programme aimed at maximising day case rates with the presumption that agreed surgical procedures are listed as a day case as standard.
- High cancellation rates should be addressed through improvements in pre assessment and scheduling. We estimated that this would increase throughput by 2-3% (c£1m-£2m).
- Look to maximise core hour theatre capacity to reduce reliance on weekend Waiting List Initiatives (WLI) by moving WLIs into workday gaps in the schedule which we estimated would further reduce costs (c£0.5m-£1m).
- Working practice modernisation such as reviewing the theatres working day and job plans would provide further productivity opportunities.
- Review private sector tariffs. We estimated that the unit costs are 47% higher than English tariff which sets the benchmark for private providers in England (c£0.5m-£1m).
- Embed a robust approach to demand and capacity modelling at speciality level and articulate a clear plan to move to a sustainable position.

Governance and transparency (continued)

Local Area Network

The Local Area Network (LAN) met in December 2015 to update the shared risk assessment, and met with the Chief Executive and the Depute Chief in February 2016. The Local Scrutiny Plan 2016/17 was published by Audit Scotland in March 2016 and was presented to the Full Council meeting on 23 June 2016.



Conclusions

The LAN identified risks where it would be of value to carry out additional scrutiny in 2016/17. It also noted a number of areas which require on-going oversight and monitoring work on the part of scrutiny partners. These were:

- **The Council's transformation programme** – the LAN noted that the progress in the last 12 months had been slower than anticipated and was not yet sufficient to meet the Council's stated objectives and to address the very significant short to medium term financial challenges. The LAN also noted that the Council was faced with additional financial challenges due to the potential for increased costs in re-establishing stand alone education and social work services with the move away from shared services. As a result of this, the LAN proposed audit work around Best Value in relation to leadership, governance and financial sustainability. Audit Scotland has confirmed that Clackmannanshire Council will be one of the six Councils scheduled for a Best Value Assurance Report under the new best value arrangements during 2017/18. The exact timing of this work has still to be confirmed.
- **Shared Services** – As discussed on page 31, the shared services with Stirling are due to come to an end in March 2017 which brings with it a number of risks. The Care Inspectorate will closely monitor developments and will support any planned supported evaluation exercises. Education Scotland will closely monitor developments and consider further action as appropriate. We have also made comments on progress on page 31.
- **Educational attainment** – the Education Scotland Area Lead Officer will work closely with the Council to monitor both these areas in the coming period.
- **Community Empowerment Act** – the LAN noted that the Council had taken steps to prepare for the implications of the Act. We have provided an update of progress and planning on page 37 of this report.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

Statutory performance indicators

Statutory duties and responsibilities

The **Local Government Act 1992** lays a duty upon each council to ensure that it has in place such arrangements for collecting, recording and publishing performance information that will allow it to comply with a Direction from the Commission.

The appointed auditor's statutory duty in relation to the performance information is set out in the **Local Government (Scotland) Act 1973**. The auditor's duty is to be satisfied that the council "*has made adequate arrangements for collecting and recording information, and for publishing it as required for the performance of their duties*".

The 2012 Accounts Commission Direction and guidance on auditing SPIs was issued in March 2013 and sets out the following approach:

The audit of SPI 1, 2 and 3 is a two stage process:

- Stage 1: Initial stage appraising the arrangements – see below for outcome of this work
- Stage 2: Assessing the quality of Public Performance Reporting (PPR).

At its meeting in June 2015 the Commission agreed that its 2015 SPI direction needed to reflect the Commission's on-going commitment to sector-led benchmarking and improvement and its approach to the next iteration of the local government Best Value audit approach, in particular the tone of continuous improvement and outcomes.

On that basis, the Commission agreed to endorse a strategy incorporating the following principles:

- a longer-term Statutory Performance Indicator Direction;
- a recognition of the increasing maturity of, and the Commission's support for the further development of the Local Government Benchmarking Framework; and
- incorporating the assessment of a council's approaches to public performance (PPR) as an integral element of the new approach to auditing Best Value, rather than undertaking separate annual assessments of this aspect of Council's performance.

The 2015 Direction was approved in December 2015 covering the financial years ending 31 March 2017-2019.

As a result of the above decision, we are not required to report on the adequacy of the Council's overall approaches to PPR as part of the 2015/16 audit process.

Deloitte response

We have considered the adequacy of the Council's arrangement for collecting, recording and publishing accurate and complete information and noted no issues.

Value for money (continued)

Community Empowerment Act

Background

The Community Empowerment Act will help to empower community bodies through the ownership of land and buildings, and by strengthening their voices in the decisions that matter to them. It will also improve outcomes for communities by improving the process of community planning, ensuring that local service providers work together even more closely with communities to meet the needs of the people who use them.

The Bill was passed by the Scottish Parliament on 17 June 2015 and received Royal Assent, becoming an Act, on 24 July 2015.

The Act does a number of things including: extending the community right to buy, making it simpler for communities to take over public sector land and buildings, and strengthening the statutory base for community planning. Crucially it can help empower community bodies through the ownership of land and buildings and strengthening their voices in the decision and services that matter to them.

Clackmannanshire Council position

The implications of the Community Empowerment Act 2015 to the Council were considered as part of a Core Management Team (CMT) briefing in November 2015. It noted that ahead of the issue of guidance, officers in relevant Services have been examining the Act for the direct implications of the Act on their own fields of work. However, it is expected that some of the impact will also be cross cutting and require collaboration across Services. One area of development is a community asset transfer policy which is currently in draft form. In addition, the Alliance Executive (Community Planning Partnerships) has recently considered a potential approach to local plans/ partnerships within the context of cluster management which was broadly supported by partners. While still at early stages, it is clear that the Council are aware of the requirements and making plans to develop policies and strategies.

Over the last few years the Council has noted that it has been supporting all of its community councils with the concept of community action planning. All but one community council now has a community action plan, or are in the process of developing one following a community consultation process. These will be key in informing the priorities and actions within cluster plans.

The Alliance (Community Planning Partnership) has agreed to use the Scottish Government's Ready for Business approach using Partners for Change. A series of workshops took place in March 2016 involving senior leaders from partner organisations, key third sector organisations and the Joint Community Council Forum and Tenants & Residents Federation. The purpose of this is to get transformational dialogue started around third/ public sector local service design/ commissioning.

Value for money (continued)

Audit Scotland national reports

The following reports have been issued by Audit Scotland over the past year which may be of interest to Council members:

Title	Headline messages	Impact on Clackmannanshire
<p>Health and Social Care Integration <i>Published December 2015</i></p>	<p>Significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered, and improve outcomes for the people who use them.</p>	<p>The newly established IJB must now take the lead and begin strategically shifting resources towards a different, more community-based approach to healthcare.</p> <p>To achieve the scale and pace of change that is needed, there should be a clear understanding of who is accountable for delivering integrated services, and strategic plans that show how the IJB will use resources to transform delivery of health and social care.</p>
<p>Major capital investment in councils – follow-up <i>Published January 2016</i></p>	<p>Councils have made some progress since the 2013 report but they need to do further work to fully comply with good practice. In particular, they should provide councillors with better information through clear, good quality reports to enable them to effectively challenge and scrutinise capital investment decisions, plans and progress.</p>	<p>Clackmannanshire Council should consider the findings of this report in conjunction with the work it is doing on future budget strategies to ensure that it incorporates the good practice highlighted from this review.</p>
<p>Community planning – an update <i>Published March 2016</i></p>	<p>Community planning continues to be given a pivotal role in transforming public services in Scotland. The progress seen from individual CPPs shows there is enthusiasm for pushing forward with this ambitious reform. However, without a stronger focus on prevention, long-term outcomes, and how partnerships perform, it is difficult to see how community planning can make the impact that's needed. If community planning is to thrive, the views and experiences of local people must be at the heart of measuring delivery of public services.</p>	<p>Clackmannanshire Council, working closely with its partners, should consider the findings of this report.</p> <p>As part of the budget review we have noted that the Council has sought to build on previous engagement with communities and the IJBs is an ideal opportunity for the Council and partners to share and deliver resources towards joint priorities.</p>

Value for money (continued)

Audit Scotland national reports (continued)

Title	Headline messages	Impact on Clackmannanshire
<p>An overview of local government in Scotland 2016 <i>Published March 2016</i></p>	<p>Councils have coped well so far but the scale of the future challenge requires longer-term planning and a greater openness to consider alternative forms of service delivery. What is important for the public is that whatever choice a council makes about how to provide a service, it can demonstrate that the choice represents best value both in terms of cost and quality.</p>	<p>Clackmannanshire Council should consider the recommendations in this report as it develops its future years budgets. In particular, Councillors should use the questions in the report and the separate self-assessment tool to help them assess the Council's position.</p>
<p>Changing models of health and social care <i>Published March 2016</i></p>	<p>A lack of national leadership and clear planning is preventing the wider change urgently needed if Scotland's health and social care services are to adapt to increasing pressures.</p>	<p>Clackmannanshire Council and its health partners must contribute to spreading their knowledge and good practice by working with IJB to build a clear picture of what the future of health and social care looks like in their local areas, and what resources must be invested to make that a reality.</p>
<p>Reshaping care for older people – impact report <i>Published March 2016</i></p>	<p>This report looks at the impact made by the report <i>Reshaping care for older people</i>, which was published in February 2014.</p>	<p>Many of the recommendations made in the report are being taken forward as part of the integration agenda. The impact on Clackmannanshire Council is as noted above.</p>
<p>Maintaining Scotland's roads: a follow-up report <i>Published August 2016</i></p>	<p>Councils face increasing pressures and challenges but progress in developing a shared services approach for roads has been disappointingly slow. They can and should collaborate more to secure better value for money.</p>	<p>Clackmannanshire Council should consider the recommendations of the report, working closely with the Roads Collaboration Programme.</p>

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Audit and Finance Committee our observations on the annual report. We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Deloitte response

Management Commentary

The 2014 Regulation introduced a requirement for the annual accounts to include a Management Commentary, which aligns the requirements to that of the Government Financial Reporting Manual and the Companies Act.

The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The council also focusses on the strategic planning context.

Remuneration Report

The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Councillors and Senior Employees of the Council.

We are satisfied that the remuneration report has been prepared in accordance with the regulations and is consistent with the findings of our audit.

Governance Statement

The Governance Statement reports that Clackmannanshire Council is in compliance with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable.

We have reviewed the systems in place to ensure that there is sufficient evidence available to the Chief Executive and Leader of Clackmannanshire Council to sign the Governance Statement.

The statement notes the Internal Audit Annual Report provides reasonable assurance as regards the effectiveness of the Council’s framework of governance, risk management and control in the year to 31 March 2016. This is consistent with our knowledge based on evidence collected in the course of the audit.

Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Finance Committee and the Members of the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Other insights we have identified from our audit.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

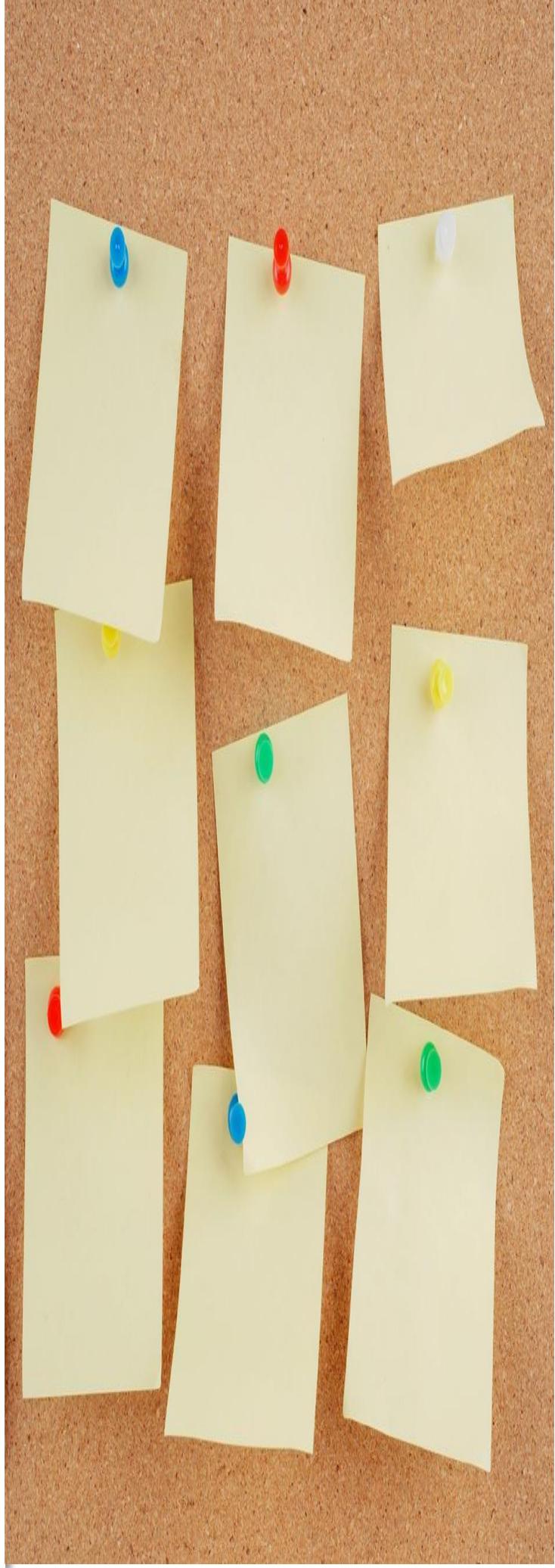
We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants
Edinburgh
7 September 2016

Appendices



Audit adjustments

Summary of uncorrected and corrected misstatements

Uncorrected misstatements

There were no uncorrected misstatements noted above our reporting threshold of £36k during the process of our audit work.

Corrected misstatements

There were six corrected misstatements noted above our reporting threshold of £36k during the process of our audit work to date.

	(Credit)/ charge to current year CIES £'000	Increase/ (decrease) in net assets £'000	(Increase)/ decrease in reserves £'000
Dr CIES Cr Provision for doubtful debt <i>Being additional specific provision for doubtful debt</i>	138 -	- (138)	138
DR Creditors CR Debtors <i>Being removal of Business Rates Incentive Scheme (BRIS) debtor as paid during 2015/16.</i>		1,232 (1,232)	
DR Short Term Borrowings CR Debtors CR Creditors <i>Being removal of CSVJB debtors and creditors</i>		52 (48) (4)	
DR Financing and Investment income DR Gain or loss on disposals CR Investment property <i>Being revaluation of Alva Pool land. Land previously written out in error added back</i>	74 42	(116)	
DR Property Plant and Equipment CR Gain or loss on disposal DR Revaluation Reserve CR Surplus on revaluation <i>Being demolished block of flats written out and downward revaluation of land</i>	(175) (86)	175 86	
DR Taxation and non-specific grant income CR Property, plant and equipment <i>Being removal of capital grant recognised in error</i>	48	(48)	
Total	41	(41)	138

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. There were no material disclosure misstatements noted in the course of our work. Management have corrected a number of immaterial disclosure deficiencies.

Action Plan

Our recommendations for improvement

We present a summary of observations on the Council's internal control and risk management processes

Area	Observation	Management response	Priority
Council Tax income	From our evaluation of the controls, we noted that there are plans in place to automate the linkage between the Council Tax Northgate system and the Assessor and that currently this is not reconciled on a regular basis.	The Council has purchased the reconciliation software from Northgate and it is currently going into test. This will report anomalies by exception and allow manual amendments to be made. There are monthly files that pass between the Assessors and the Council which allow the manual update of property records. This will be part of the automation. Responsible Officer: Service Manager Revenues Target date: 31 March 2017	
Highway Network Assets	The Council should consider the identified risk areas as noted on page 19 and action required over the next six months to ensure that appropriate plans are in place to bring Highway Network Assets on Balance Sheet at the appropriate valuation.	Preparatory work has been carried out by the Roads Service. The Accountancy team will work with the service to ensure that the requirements are met for the 2016/17 accounts Responsible Officer: Chief Accountant Target date: 31 March 2017	
Budget monitoring	While a number of the variances noted in the year have arisen as a result of changes which would be unforeseen at the time of setting the budget, there is scope for the Council to consider whether the budget process and forecasting is adequately robust, taking into account historical trends, particularly in Social Work.	The new finance system will drive the budget process forward. Access to real time information will aid services forecasting and allow early intervention as required between the Accountancy team and the services. As services redesign the historical trends will become less useful for forecasting purposes. Responsible Officer: Chief Accountant Target date: 31 March 2017	
Criminal Justice Social Work Services	The Council should carry out a review to ensure that service level agreements are in place where services are provided by independent sector providers.	SLAs are being rafted for the current year and will be in place going forward. Responsible Officer: Chief Social Work Officer Target date: 31 December 2016	

Key:



High Priority



Medium Priority



Low Priority

Action Plan (continued)

Follow up of prior year actions

We have followed up the recommendations included in our 2013/14 and 2014/15 annual report and summarised below the progress made against each of these.

Key Areas	Fully Implemented	Partially Implemented	Not yet due
2013/14 recommendations not fully implemented in 2014/15			
Making Clackmannanshire Better – detailed benefits realisation planning	1		
Clackmannanshire Council Sundry Trust Funds – appointment of independent trustee		1	
Criminal Justice Social Work Services – service level agreements		1	
2014/15 recommendations			
Accrued expenses - We recommended that all post year end invoices relating to pre year end are accounted.	1		
Trade creditors - We recommend credit notes are allocated as they are received to avoid creditors being overpaid.	1		
PPE Valuations – We recommended that the Council ensure that there is an experienced internal contact who can manage and challenge the advice of externally sourced valuations.	1		
PPE Valuations – With regard to MEA considerations for land, we recommended that the valuer should, where possible, determine the land value reflecting an appropriate site size for a MEA facility and if possible determine a site value reflecting least cost to replace basis.			1 *
	4	2	1

* Recommendation not due until next full valuation performed.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed

- In our planning we identified the risk of fraud in other income recognition and management override of controls as a key audit risk for the Council.
- During the course of our audit, we have had discussions with management and those charged with governance.
- In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

Concerns

As set out above we have identified the inherent risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Independence and fees

There are no issues we wish to raise to you

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for the year has been agreed at £208,000 (inclusive of VAT and Audit Scotland fixed charged) and is within the indicative fee range set by Audit Scotland. Note that this includes £5,000 of fees recharged in relation to the charity audit work.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Board's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Events and publications

Our events and publications to support the Council

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the NHS are shared below:

Perspectives: Health & Social Care - The great integration challenge

Bringing health and social care closer together has been a policy ambition for decades, yet it continues to be a challenge. This new piece discusses some of the key factors that affect integration and what can realistically be achieved. Read the full blog post here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/the-great-integration-challenge.html>

Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

Publications

Decoding Digital Leadership

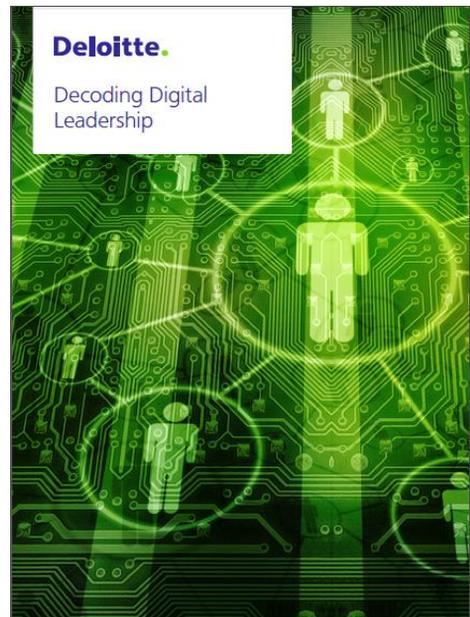
Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



Deloitte.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.