

Clackmannanshire Council

2016/17 Annual Audit Report



 AUDIT SCOTLAND

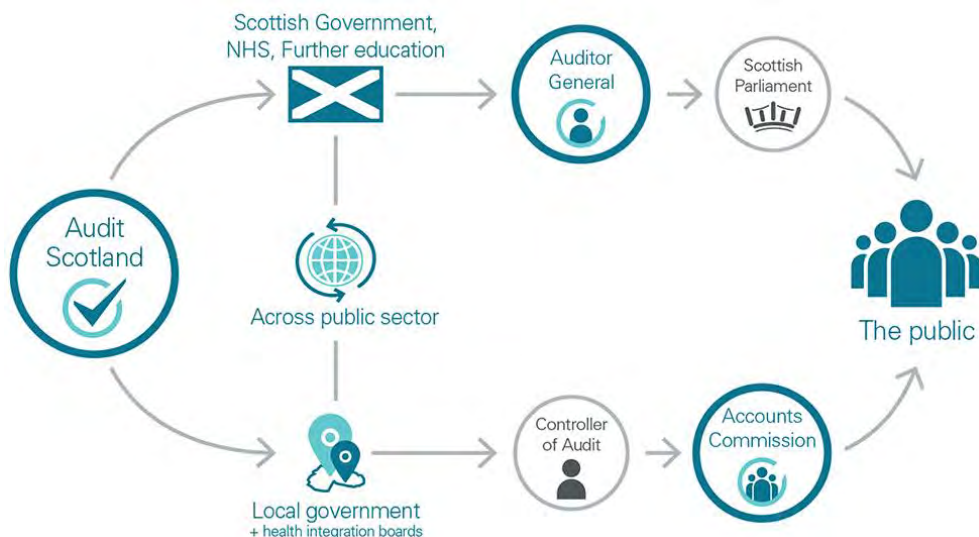
To Members of Clackmannanshire Council and the Controller of Audit

September 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

Audit of the 2016/17 annual accounts

- 1 Our audit opinions are unqualified and cover the financial statements, the management commentary, the annual governance statement and aspects of the remuneration report. We have also issued unqualified opinions for the trusts administered by the Council.

Financial management

- 2 The Council operated within its revenue budget for 2016/17, partly because spending in key service areas was less than planned. Savings targets for the year were not achieved.
- 3 The trend of underspending against the capital budget continued in 2016/17, with risks to effective service delivery and the achievement of the Council's strategic priorities.
- 4 The Council has appropriate internal controls in place within main financial systems, with scope to strengthen in some areas.
- 5 The Council has made limited progress in investigating National Fraud Initiative matches.

Financial sustainability

- 6 The Council continues to experience acute financial pressures. It has identified substantial funding gaps in each of the next three years and faces difficult decisions if it is to achieve financial balance in the medium term.

Governance and transparency

- 7 The Council's governance arrangements provide an appropriate framework for decision-making.
- 8 The Council is open and transparent in the way it conducts its business, with public access to meetings of the Council and its committees.

Value for money

- 9 The Best Value Assurance Report for Clackmannanshire Council will be considered by the Accounts Commission early in 2018.
- 10 The Council's arrangements for the publication of statutory performance indicators are satisfactory.

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of Clackmannanshire Council.
2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit and Finance Committee. This report comprises:
 - an audit of the annual report and accounts
 - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:
 - an interim audit of the Council's main financial systems and governance arrangements
 - an audit of the Council's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.
4. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR for Clackmannanshire Council will be considered by the Accounts Commission

early in 2018. The BVAR will provide a detailed assessment of areas within the scope of our Best Value audit work.

5. Clackmannanshire Council is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.
6. Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
7. As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within Clackmannanshire Council to manage its performance and use of resources such as money, staff and assets. Additionally, as indicated above, we report on the Council's Best Value arrangements. In doing this, we aim to support improvement and accountability.
8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
9. This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
10. Our annual audit report contains an action plan at [Appendix 1 \(page 26\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
11. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
13. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

The financial statements of Clackmannanshire Council give a true and fair view of the state of its affairs and of its net expenditure for the year

Our audit opinions are all unqualified. These cover the financial statements, the management commentary, the annual governance statement and aspects of the remuneration report.

We issued an unqualified opinion for the trusts administered by the Council.

Unqualified audit opinions

- 14.** The financial statements for the year ended 31 March 2017 were approved by the Council on 28 September 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements
 - unqualified opinions on the management commentary, the annual governance statement and the remuneration report.
- 15.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Audit of charitable trusts administered by the Council

- 16.** Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.
- 17.** Our duties as auditors of the charitable trusts administered by the Council are to:
- express an opinion on whether the financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
 - read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
 - report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.

The Council's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

18. We issued an unqualified audit opinion in respect of the 2016/17 financial statements of Clackmannanshire Council Sundry Trust Funds.

Submission of the Council's financial statements for audit

19. We received the unaudited financial statements on 30 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, for the first time, the Council's group financial statements included the financial results of Clackmannanshire and Stirling Integration Joint Board.
20. The working papers provided with the unaudited financial statements were of a good standard although a clearer audit trail could have been provided for some account areas. Finance staff provided good support to the audit team during the audit.

Risk of material misstatement

21. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

22. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.
23. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
24. On receipt of the financial statements and following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate. The materiality levels we applied during the audit are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£1.8 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£0.9 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold'	£20,000

Materiality level	Amount
amount. This has been calculated at 1% of overall materiality, rounded up to £20,000.	

Source: Audit Scotland Annual Audit Plan 2016/17

Evaluation of misstatements

- 25.** We identified some monetary errors within the unaudited financial statements which exceeded our reporting threshold. Following discussions with officers, all of these were amended in the audited financial statements.
- 26.** The net effect of these adjustments is to increase the net cost of services in the comprehensive income and expenditure account by £0.1 million and reduce the general fund balance by the same amount.
- 27.** In line with practice at other councils, the comprehensive income and expenditure account has been adjusted to show payments made to and income received from Clackmannanshire and Stirling Integration Joint Board. This increases gross income and expenditure by £16.518 million with no effect on the net cost of services in the comprehensive income and expenditure account or the general fund balance.

Significant findings

- 28.** International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings from the audit

Issue	Resolution
<p>1. Provision for damages claims</p> <p>The Council's 2015/16 financial statements included a provision of £0.3 million to meet the costs of settling a damages claim made against the Council by a contractor. The claim related to the award of a contract for works on Council properties. The provision was based on internal and external legal advice and expert external quantity surveyor advice on the likely outcome of the claim. An element of the claim was settled in 2016/17 resulting in total costs to the Council of £0.816 million. This fully utilised the existing provision and resulted in significant unanticipated expenditure. It is likely that the Council will incur further costs in concluding this action.</p>	<p>An additional provision of £0.150 million is included in the Council's 2016/17 financial statements based on legal advice on the likely final costs for the damages claim.</p>

Other findings

29. During our audit testing we noted differences between the revaluation reserve values recorded in the Council's fixed asset register and the corresponding values recorded in its financial ledger. The individual differences are not material and the net book values for each category of asset have been correctly recorded in the financial statements. It is important that the Council maintains an accurate record of its assets to ensure it correctly accounts for these in future years.

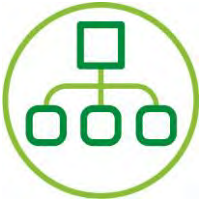
Recommendation 1

The Council should review its fixed asset register and take corrective action to ensure individual assets are accurately recorded.

30. In addition to the monetary misstatements identified above, we also noted a number of presentational and disclosure issues which we discussed with management. These were adjusted and reflected in the final version of the annual report and accounts.

Part 2

Financial management



Main judgements

The Council operated within its revenue budget for 2016/17, partly because spending in key service areas was less than planned. Savings targets for the year were not achieved.

The trend of underspending against the capital budget continued in 2016/17, with risks to effective service delivery and the achievement of the Council's strategic priorities.

The Council has appropriate internal controls in place within main financial systems, with scope to strengthen in some areas.

The Council has made limited progress in investigating National Fraud Initiative matches.

Financial performance in 2016/17

31. The Council recorded a general fund revenue underspend of £1.218 million against its 2016/17 budget of £118.353 million. The Council did not achieve the full level of savings agreed in the 2016/17 budget but was able to deliver services within budget through compensating savings, restricting spending and net underspends within services. The more significant over and underspends are summarised in [Exhibit 4](#).
32. Members are kept informed of the budget position through quarterly outturn reports and regular budget strategy update reports. These reports also provide an update on the Council's progress in achieving agreed savings. The 2016/17 budget included approved savings of £7.501 million of which £4.773 million (64%) were achieved in-year. This shortfall was mainly because savings from voluntary redundancy and from redesign of adult and older people's services were less than anticipated. The Council will need to continue to review budgets closely to identify achievable savings and efficiencies.

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

Exhibit 4

Summary of significant over and under spends against budget in 2017/18

Area	Under/over spend (£m)	Main reason(s) for variance
Underspends		
Housing	£1.477	Rent rebates were less than forecast. There were also reduced costs for billing and assessment.
Development and Environment Services	£0.774	Roads costs were lower than expected due to milder winter weather. Additional efficiencies and cash savings were made in environmental services.
Education	£0.506	Supply teaching costs for secondary schools were less than anticipated.
Overspends		
Social Services	£1.248	Reablement service staff costs and home and residential care services costs were higher than expected.
Resources and Governance	£0.502	Payments for the contract damages claim made against the Council by a contractor were higher than expected.

Source: Council Financial Performance 2016/17 – Draft Final Outturn

Housing Revenue Account

33. The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year.
34. The Council made a budget surplus of £6.175 million in 2016/17 on its HRA. This was higher than the budgeted surplus of £4.918 million, due mainly to reduced costs for property repairs and maintenance and property supervision and management. The Council made a contribution to capital of £4.912 million to fund future improvements to its housing stock to continue progress towards achievement of the Scottish Housing Quality Standard. The residual surplus in the year of £1.263 million was earmarked to support delivery of the Council's housing business plan.
35. The balance on the HRA at the end of the 2016/17 financial year increased to £1.973 million. We concluded that the operation of the Council's HRA is currently financially sustainable.

Borrowing in 2016/17

36. The Council borrows to support its investment and development of long term assets. The Council had outstanding loans of £146.149 million at 31 March 2017, a decrease of £0.216 million on the previous year. The movement was made up of £1.094 million additional borrowing to fund the Council's capital

programme and Private Finance Initiative and finance lease repayments of £1.310 million. The Council's borrowing remained with its external borrowing limit for 2016/17 of £155.850 million set out in its treasury management strategy.

- 37.** During the year Audit Scotland received correspondence on a number of councils using Lender Option Borrower Option (LOBO) loans. This concerned whether these loans represent value for money. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.
- 38.** The Council had around £5 million of these standard LOBOs at 31 March 2017. We have reviewed supporting papers including an analysis of the LOBOs held by the Council and comparable PWLB rates of interest and the Council's treasury management policies and controls. We found no issues with the Council's use of LOBO loans.

Capital programme 2016/17

- 39.** Total capital expenditure in 2016/17 was £16.739 million, of which £8.254 million related to general services and £8.485 million to the HRA.
- 40.** Net capital spend in 2016/17 was £11.107 million below budget (52%). This continues a trend in recent years and follows on from underspends of £13.845 million (70%) and £9.829 million (62%) in 2014/15 and 2015/16 respectively. The HRA accounted for 62% of the total underspend in 2016/17.
- 41.** The underspending in 2016/17 was due to a range of circumstances, the most significant of which are:
- Community Investment Strategy (£3.023 million) – due to delays in progressing a number of individual projects.
 - Childcare Residential Unit (£0.978 million) – the capital investment was deferred to establish need and demand as a consequence of new service delivery models being put in place.
 - HRA (£6.842 million) – due to higher than expected income from sales of Council property and land and delays in the repairs and refurbishment programme.
- 42.** There was regular reporting to members which highlighted the position in the programme. The trend in recent years may be indicative of poor project management or problems with the profiling of expenditure. There is a risk that recurring underspending could lead to slippage in the capital programme which in turn could adversely affect service delivery and achievement of the council's strategic priorities.

Recommendation 2

The Council should review its arrangements for managing the capital programme to ensure they are effective.

Budgetary monitoring and control

- 43.** The detailed scrutiny of financial performance is delegated to the Audit and Finance committee which receives regular revenue and capital monitoring reports. These reports provide an overall picture of the budget position at

service level. The reports also forecast outturn position for the year and include explanations for significant variances against budget. They provide sufficient information to allow members to scrutinise the Council's finances.

Financial capacity within the Council

44. The Section 95 officer (or chief financial officer) is responsible for council finances. At Clackmannanshire Council, the Depute Chief Executive is the Section 95 officer. She is a member of the senior management team and has direct access to the Chief Executive and Council members. We concluded that the Section 95 officer has appropriate status within the Council.
45. The Council has found it difficult to recruit suitably qualified and experienced finance staff. As a result, the finance team has vacancies and management is considering options to increase capacity and to secure succession planning. These include joint recruitment and training arrangements with other Councils.
46. Following the Council elections in May 2017, there a number of new members. It is important that they receive adequate training on how the Council works and how it is financed to support them in their roles. We reviewed the induction training and materials provided to members and concluded that it was fit for purpose. Officers also hold all-member briefings to discuss important areas in more detail, for example the budget setting process.

Internal controls

47. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
48. Our findings were included in our interim audit report that was presented to the Council in June 2017. We identified some areas where controls were not operating as expected or where improvements could be made. No significant control weaknesses were identified which could affect the Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Prevention and detection of fraud

49. We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, fraud prevention and fraud response plan.
50. Based on the evidence we reviewed, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud.

National Fraud Initiative

51. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
52. The latest position on NFI investigations by the Council is summarised in [Exhibit 5](#).

Exhibit 5

National Fraud Initiative

Total number of matches



1,350

Number recommended for investigation



472

Completed/closed investigations



21

Source: NFI website

53. [Exhibit 5](#) shows that the Council has made limited progress in investigating NFI matches with only 2% of matches reviewed as of August 2017. Until matches are investigated, there is a risk that frauds and errors are not identified and continue.
54. We would have expected more prompt engagement from the Council with the NFI exercise, in particular, by commencing match prioritisation and investigation work earlier. Although we understand that action is being taken, we have concerns about the Council's capacity to deliver the NFI exercise.
55. We will be carrying out a final follow-up of NFI match investigations and outcomes in February 2018 by which time we would expect the Council to have completed its work on matches and recorded outcomes in the NFI system. In accordance with our usual practice, we will prepare a biennial national NFI report which will consider the level of engagement in the 2016/17 exercise.

Recommendation 3

The Council should work to complete its review of priority NFI matches and ensure it identifies suitable resource to carry out this work.

Part 3

Financial sustainability



Main judgements

The Council continues to experience acute financial pressures. It has identified substantial funding gaps in each of the next three years and faces difficult decisions if it is to achieve financial balance in the medium term.

Financial planning

- 56.** It is important that long term financial strategies (typically covering five years or more) are in place which link spending to the Council's priorities. Although councillors approve budgets for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant financial pressures and how these will be addressed.
- 57.** The Council's budget strategy sets out its financial planning assumptions and indicative savings for a rolling four year period. This covers the current year and the following three years. The Council uses scenario planning to forecast cumulative indicative funding gaps in a best, median (most likely) and worst case scenario. These scenarios, which are regularly reviewed, are based on different sets of assumptions for key variables including:
- level of general revenue grant
 - council tax and non domestic rates income
 - pay awards
 - inflation
 - fees and charges.
- 58.** We found evidence that while members received regular updates on the budget strategy throughout 2016/17 and are aware of the spending plans and financial challenges; the Council has yet to develop longer-term financial strategies covering at least five years.
- 59.** The Council describes its approach to financial planning as focusing on:
- reducing expenditure
 - maximising income
 - redesigning service provision

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.

- implementing other targeted initiatives to deliver high quality services to form a sustainable cost base.

These are also the aims of its business change programme, Making Clackmannanshire Better. The Council, through its budget strategy, aligns budget decisions with these aims. Further work is required to ensure there is a clearer link between all budget decisions and the priorities outlined in the Council's corporate plan.

- 60.** The Council is planning to work to ensure savings plans and financial projections reflect the objectives, priorities and structures required to ensure the achievement of the Council's ambitions. This is an important exercise, particularly given that the Council is refreshing its corporate plan, Taking Clackmannanshire Forward.

Recommendation 4

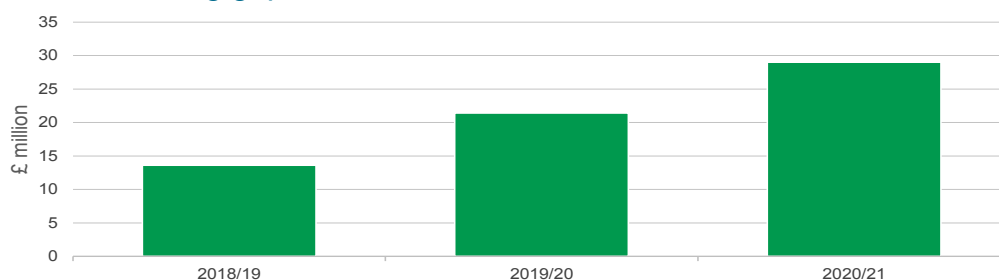
The Council should work to ensure savings plans and financial projections are aligned with its refreshed priorities.

Funding position

- 61.** The Council approved its 2017/18 budget in March 2017. It set a general services revenue budget of £118.096 million which included agreed savings of £6.804 million. This left a budget gap of £3.531 million which the Council plans to meet through contributions from reserves.
- 62.** The Council is facing significant challenges in maintaining a sustainable financial position. These include rising demands for services, increasing costs and reductions in central government funding.
- 63.** The Council is forecasting likely funding gaps for 2018/19 to 2020/21 of £13.618 million, £21.388 million and £28.997 million respectively as illustrated in [Exhibit 6](#). As a proportion of net expenditure these are among the highest funding gaps of any Scottish local authority.

Exhibit 6

Identified funding gaps 2018/19 – 2020/21



Source: Clackmananshire Council: Budget Strategy Update, 31 August 2017

Reserves

- 64.** The level of usable reserves held by the Council decreased from £18.477 million to £16.044 million in 2016/17. The Council's general fund balance was £10.073 million at March 2017. This reserve has no restrictions on its use. Its

main purpose is to provide a contingency to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

- 65.** The Council reviews the level of its uncommitted reserves when setting the budget each year. The Council's reserves strategy specifies that it should retain uncommitted reserves at a minimum level of 3% of net expenditure. The uncommitted element of the general fund at 31 March 2017 was £4.839 million which represents 4.4% of net expenditure. Previous external audit reports highlighted the Council's use of reserves to balance budgets and concluded that this was not sustainable. We concur with this view and note that without further and effective action the Council's stated reserves strategy may be at risk.

Savings plans

- 66.** The Council plans to achieve its 2017/18 savings target of £6.804 million through:
- policy savings = £1.951 million
 - management efficiencies = £2.737 million
 - managed contraction of workforce = £0.391 million
 - service redesign = £0.463 million
 - budget savings approved in 2016/17 = £1.262 million.
- 67.** Officers regularly report progress in achieving agreed savings to the Council and the Audit and Finance Committee. The latest position was reported to the Audit and Finance Committee in September 2017. This indicated that:
- £4.059 million of savings were green (on track to be delivered)
 - £2.040 million were amber (progressing to be delivered or a partial saving will be achieved)
 - £0.705 million were red (unachievable).

Services have been asked to identify compensatory savings for those savings that will not be achieved in 2017/18.

- 68.** The Council recognises that it cannot continue to use reserves to meet funding gaps. The Council agreed a new strategic model in March 2017. Successful implementation of the new model for service delivery is necessary if the Council is to meet the funding gaps it has identified for the next three years. The design creates three broad categories of Council service:
- People – services focused on individuals, families or groups of individuals with certain needs
 - Place – services focused on environments and geographic areas
 - Performance – services which support the Council to deliver its people and place priorities.
- 69.** The new model will focus on integrated management of multi-disciplinary teams. The Council plans to review all services to determine the level at which they are most effectively and efficiently delivered. It aims to create opportunities to reduce the level of resources required to deliver services and, as a result, make significant savings. The Chief Executive is developing a new

organisational structure and plans to present this to members for approval by the end of 2017. The Council has yet to identify the savings achievable from redesigning how it delivers services.

Recommendation 5

The Council should work to develop savings plans to address the substantial funding gaps it has identified in each of the next three years. This should include identification of the savings it expects to achieve from its new strategic model.

Part 4

Governance and transparency



Main Judgements

The Council's governance arrangements provide an appropriate framework for organisational decision-making.

The Council is open and transparent in the way it conducts its business, with public access to its meetings of the Council and its committees.

Governance arrangements

70. Members and management of the Council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
71. The Council's corporate governance framework is centred on the full Council, supported by its standing committees. Council and committee meetings are well attended by elected members and papers are subject to a good level of scrutiny.
72. A key feature of the year was political change with changes to the administration of the Council during 2016/17. In May 2016, the SNP administration resigned and Labour took up leadership of the Council in June 2016. The Labour administration subsequently resigned in February 2017, with the SNP taking over as the Council administration. Whilst good governance was maintained it did impact on the business of the council and meant additional pressures on Council staff. For example, in supporting budget revisions.
73. Until June 2016, the Council had a service committee structure with a Resources and Audit Committee chaired by an independent councillor. The Council's governance arrangements were revised following the change in administration. This resulted in the Resources and Audit Committee being replaced with an Audit and Finance Committee chaired by a member of the administration and a Scrutiny Committee chaired by an opposition councillor. Good practice recommends that the Chair of an audit committee should be from the opposition or, in some instances, independent of the Council. We note that the Council has plans in development to refresh decision making arrangements alongside its whole organisation redesign. We will review whether these arrangements support full and effective scrutiny of performance.
74. Overall, we concluded that the Council's governance arrangements provide an appropriate framework for organisational decision-making.

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.

Management commentary and the annual governance statement

- 75.** The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires councils to prepare and publish, along with their financial statements, an annual governance statement and a management commentary (or equivalent) that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer term financial sustainability of the body.
- 76.** Based on our knowledge and work performed, we concluded that the management commentary and the annual governance statement are consistent with the financial statements. We identified some improvements which could be made to the management commentary and annual governance statement. These include:
- a more comprehensive analysis of business performance should be provided in the management commentary
 - the annual governance statement should include more detail on what the Council is doing to address areas it has identified for improvement.

Internal audit

- 77.** Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes. The internal audit function was carried out by an in-house team in 2016/17.
- 78.** The Council began a one year pilot joint working agreement with Falkirk Council on 1 April 2017 for the provision of a jointly resourced internal audit service to Clackmannanshire Council. Falkirk Council provides management and resources under the terms of the agreement. Falkirk Council's internal audit manager is responsible for leading the jointly resourced service. We will review how effectively this arrangement is working as part of our 2017/18 review of the adequacy of internal audit.
- 79.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. We did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. We considered the findings of a number of internal audit reports as part of our wider dimension work.

Transparency

- 80.** Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.
- 81.** There is evidence from a number of sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council and other committees. Minutes of these committee meetings and supporting papers are available on the Council's website.
- 82.** The Council's website provides public access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website provides details of the citizen's panel. The Council makes its annual accounts available on its website.

83. Overall, we concluded that the Council conducts its business in an open and transparent manner.

Integration of health and social care

84. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on 1 April 2016. This brings together NHS and local council care services under one partnership arrangement for each area. Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, to improve their quality of life.
85. The Clackmannanshire and Stirling Integration Joint Board (IJB) is provided in partnership with Stirling Council and NHS Forth Valley and became fully operational on 1 April 2016. The financial transactions of the IJB have been consolidated into the Council's group financial statements.
86. The Council was required to make an additional contribution to the IJB of £0.685 million in 2016/17 in order for the IJB to achieve a breakeven position.
87. The IJB approved the partnership's three year strategic plan in February 2016. The Council delegated adult social care services to the IJB. The plan acknowledges that service redesign is required to meet future demand. The Clackmannanshire and Stirling partnership area has been divided into three localities designed to support collaborative working across primary and secondary health care, social care and third and independent sectors.
88. It is too early for the Council or its partners to demonstrate any significant examples of new ways of working that promote integration or have resulted in improvements to services. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is due in spring 2018. We plan to use the findings of this work to assess progress.

Local scrutiny plan

89. The 2017/18 Clackmannanshire Council Local Scrutiny Plan (LSP), prepared by the Local Area Network (LAN) of scrutiny partners, was submitted to the Council in May 2017. It was presented to the Audit and Finance Committee in September 2017. The LAN did not identify any new scrutiny risks requiring specific scrutiny work during 2017/18. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

Equalities

90. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality by ensuring it is part of their core work. The Act requires that by no later than 30 April 2015, and every two years thereafter, public bodies must publish a report on the progress made to achieve their equality outcomes.
91. We reviewed the Council's Mainstreaming Equality and Diversity in Clackmannanshire 2017-2021 report and concluded the Council has met its statutory duty to:
- publish information on progress made in mainstreaming equality within the Council
 - report on progress made towards achieving equality outcomes published in 2013

- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

- 92.** We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.
- 93.** In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils under-estimated the challenges involved in implementing the Single Status Agreement and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory. Clackmannanshire Council implemented single status in March 2010 and reports that between 2004/05 and 2015/16 it has spent £4.2 million compensating workers who had been unfairly paid and settling equal pay claims.
- 94.** Almost 27,000 equal pay claims across Scotland remain live and Clackmannanshire Council has 58 live claims. Workers could potentially still make new claims against councils. This means that councils need to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty.
- 95.** The Council anticipates that its remaining equal pay claims will be concluded by March 2018.

Part 5

Value for money



Main judgements

The Best Value Assurance Report for Clackmannanshire Council will be considered by the Accounts Commission early in 2018.

The Council's arrangements for the publication of statutory performance indicators are satisfactory.

Best Value

- 96.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period.
- 97.** The Best Value audit work at Clackmannanshire Council is underway and the BVAR will be considered by the Accounts Commission early in 2018.

Following the public pound

- 98.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.
- 99.** The Council's financial regulations contain a specific section on following the public pound. These emphasise that services must adhere to the Council's guidance for allocating funds to external organisations.
- 100.** We concluded that the Council has appropriate arrangements for ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

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

Statutory performance indicators (SPIs)

- 101.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.
- 102.** For 2016/17 two SPIs were prescribed:
- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value

- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

103. Overall, we concluded that the Council's arrangements for publication are satisfactory.

National performance audit reports

104. We carry out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3](#).

105. The Council and the Audit and Finance Committee periodically consider the findings of relevant Audit Scotland reports.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
10	<p>1. Accuracy of asset register</p> <p>During our audit testing we noted differences between the revaluation reserve values recorded in the Council's fixed asset register and the corresponding values recorded in its financial ledger. The individual differences are not material and the net book values for each category of asset have been correctly recorded in the financial statements. It is important that the Council maintains an accurate record of its assets to ensure it correctly accounts for these in future years.</p> <p>Risk</p> <p>Assets are incorrectly accounted for in future financial statements.</p>	<p>The Council should review its fixed asset register and take corrective action to ensure individual asset values are accurately recorded.</p>	<p>Agreed. The asset register is reconciled annually and this will continue to be done at least annually. The differences referred to arose at the time of the migration from a spreadsheet asset register to the Real Asset Management System in 2013.</p> <p>Responsible officer: Chief Accountant</p>
13	<p>2. Capital programme</p> <p>There was significant underspending in the Council's capital programme of £11.107 million (52%). This continues the trend of capital underspends in recent years.</p> <p>Risk</p> <p>Recurring underspending could lead to slippage in the capital programme which in turn could adversely affect service delivery and the achievement of the Council's</p>	<p>The Council should review its arrangements for managing the capital programme to ensure they are effective.</p>	<p>Agreed. This has been reported to Council and Committee on a number of occasions. Significant work has been undertaken over a number of years to reprofile planned project spend in line with the planned activity. However, further progress is needed to improve on the current situation.</p> <p>Options have been considered as part of budget deliberations to restrict capital project activity and take planned revenue</p>

Page no.	Issue/risk	Recommendation	Agreed management action/timing
	strategic priorities.		savings from the consequential reduction in loan charges. Responsible officer: Executive Director
14-15	<p>3. National Fraud Initiative</p> <p>The Council has made limited progress in investigating NFI matches with only 2% of matches reviewed as of August 2017.</p> <p>Risk</p> <p>The Council does not identify fraudulent activity or errors resulting in financial loss.</p>	The Council should work to complete its review of priority NFI matches and ensure it identifies suitable resource to carry out this work.	<p>Agreed. An approach has been agreed and this is being progressed during Quarter 3 of 2017/18.</p> <p>The Council has made a commitment to completing the review of the NFI matches by February 2018.</p> <p>Responsible officer: Head of Resources and Governance</p>
16-17	<p>4. Financial planning</p> <p>The Council's budget strategy is aligned with the aims of its change programme, Making Clackmannanshire Better. Further work is required to ensure there is a clearer link between all budget decisions and the priorities outlined in the Council's corporate plan. The Council is planning to work to ensure savings plans and financial projections reflect the objectives, priorities and structures required to ensure achievement of its ambitions. This is an important exercise, particularly as the Council is refreshing its corporate plan, Taking Clackmannanshire Forward.</p> <p>Risk</p> <p>Budget decisions do support the Council's priorities.</p>	The Council should work to ensure savings plans and financial projections are aligned with its refreshed priorities.	<p>Agreed. Work is in hand to present the new Corporate Plan linked to the Local Outcome Improvement Plan to Council in November 2017.</p> <p>Financial plans will be reviewed to ensure they remain aligned with the delivery of the stated corporate priorities.</p> <p>Responsible officer: Depute Chief Executive (Section 95 Officer)</p>
18-19	<p>5. Savings plans</p> <p>The Council has identified substantial funding gaps in each of the next three years. It has recognised that it cannot continue to use reserves to meet budget gaps. The Council plans to</p>	The Council should work to develop savings plans to address funding gaps. This should include identification of the savings it expects to achieve from its new strategic model.	<p>Agreed. The Council has a continuous cycle of review to identify potential savings from efficiencies, policy change and redesign activities. This will continue.</p> <p>Work to develop the corporate redesign is</p>



**Page
no.**

Issue/risk

Recommendation

**Agreed management
action/timing**

make significant savings from a new strategic model. It has yet to identify the savings achievable from redesigning how it delivers services.

Risk

The Council is unable to deliver priority services.

progressing and any savings identified will contribute towards closing future years' forecast funding gap.

Responsible officer: Chief Executive/ Depute Chief Executive

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Focused testing of accruals and prepayments.</p> <p>Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We tested journal entries, accruals and prepayments and found no material errors.</p>
<p>2 Risk of fraud over income</p> <p>The council receives around £22m from Council Tax, £23m from housing income and another £22m from other fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p>	<p>Audit work on the National Fraud Initiative (NFI) matches.</p> <p>Confirmation of property and housing numbers and bandings to independent sources.</p> <p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>We found limited investigation work on NFI matches had been carried out. See Appendix 1, point 3.</p> <p>We confirmed property and housing numbers.</p> <p>Our analytical procedures and detailed testing found no material errors or fraud.</p>
<p>3 Risk of fraud over expenditure</p> <p>Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom and the Code of Audit Practice require consideration of fraud over expenditure (excluding payroll costs which are already a core part of annual audits). The council incurs significant expenditure on benefits and grants which require audit coverage.</p>	<p>Audit work on the NFI matches.</p> <p>Specific audit work on benefits and grants.</p> <p>Evaluation of the effectiveness of internal controls for expenditure recognition and recording.</p>	<p>We found limited investigation work on NFI matches had been carried out. See Appendix 1, point 3.</p> <p>We have audited and signed off the education maintenance allowance and criminal justice grant claims. Our audits of the non domestic rates return and housing benefits subsidy claim are ongoing.</p> <p>We tested controls on expenditure recognition and recording and found no significant issues.</p>





















Audit risk	Assurance procedure	Results and conclusions
<p>4 Estimation and judgements</p> <p>There is a degree of subjectivity in the measurement and valuation of the material account areas of non current assets, provisions and pension liabilities. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of non current assets.</p> <p>Review of the work of the actuary and the pension assumptions used.</p>	<p>We reviewed the work of the Council's valuer and the actuary and found no issues.</p> <p>We found no significant issues from our substantive testing of non current assets.</p>
<p>5 Consolidation of Health and Social Care costs: Integration Joint Board (IJB)</p> <p>The IJB transactions will be consolidated into the accounts of the council for the first time in 2016/17.</p> <p>The council needs to agree a timetable and approach to obtaining the IJB figures for consolidation, and assurances required for the group governance disclosures. As this is the first year, there is a risk that the timetable may not be achieved. There is also an increased risk of errors in accuracy and disclosure.</p>	<p>Consider the timetable and process for consolidation of the group accounts.</p> <p>Consider the assurances obtained by the council's S95 officer for the group governance disclosures.</p> <p>Agree the consolidation adjustment is accurate and correctly disclosed.</p> <p>Confirm that any balances relating to IJBs have been agreed by the partner bodies.</p>	<p>We reviewed the timetable, S95 assurances, consolidation adjustment and IJB related balances and found no significant issues.</p>
<p>6 Implementation of new financial ledger system</p> <p>The council is implementing the new system during 2016/17 to replace its existing system. The opening balances were journaled into the new system in December 2016.</p> <p>There is a risk that the information from the new system used to prepare the financial statements may contain errors.</p>	<p>Review of internal audit's work on the project's progress.</p> <p>Walk through testing of the ledger and controls testing of reconciliations and journals.</p> <p>Focussed substantive testing on opening balances.</p> <p>Substantive testing of ledger transactions and balances through the audit work on income, expenditure and balance sheet items.</p>	<p>We reviewed internal audit's work, carried out walk through and controls testing of reconciliations and journals, and substantively tested opening balances, ledger transactions and balances. We found no significant errors.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>7 Financial sustainability</p> <p>The council's 2016/17 Financial Plan identified a budget gap of £7.5m to be addressed by efficiency measures. The November 2016 financial monitoring report highlighted that this gap had reduced to £2.5m, with almost 50% of the gap in social services.</p>	<p>Review financial monitoring reports and the financial position.</p> <p>Undertake specific audit work on financial planning and governance. This will include assessing the robustness of longer term financial planning.</p>	<p>Our conclusions on the Council's financial sustainability are reported in part 3 of this report.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Delivering recurring efficiency savings is increasingly challenging and represents a risk to the financial sustainability of the council.</p>		
<p>8 Transformation of services</p> <p>The Local Area Network reported in 2016 that the council's transformation programme has been slower than anticipated and was not sufficient to meet the objectives, financial challenges and reestablishment of stand alone education and social work services. It concluded that Best Value audit work is required on the council's leadership, governance and financial sustainability.</p>	<p>A Best Value Assurance Report will be published in early 2018.</p>	<p>Best Value audit work is underway. The Council's Best Value Assurance Report will be discussed by the Accounts Commission early 2018.</p>
<p>9 Members</p> <p>Council elections are to be held in May 2017 and there are indications that a number of elected members are or may be standing down. This will represent a loss of skills experience amongst members. To ensure members fully understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, appropriate development and training will be required.</p>	<p>Monitor the council's arrangements for developing members and preparations for inducting newly elected members.</p>	<p>We reviewed the induction training and materials provided to members and concluded it was fit for purpose. We participated in one of the induction training sessions.</p>

Appendix 3

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

Local government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Social work in Scotland](#) – September 2016

[How councils work – Roles and working relationships in councils](#) – November 2016

[Local government in Scotland: Financial overview 2015/16](#) – November 2016

[Local government in Scotland: Performance and challenges 2017](#) – March 2017

Clackmannanshire Council

2016/17 Annual Audit Report

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