

Fife Council

2020/21 Annual Audit Report



Prepared for the Members of Fife Council and the Controller of Audit
December 2021

Contents

Key messages	3
Introduction	4
1. Audit of 2020/21 annual accounts	7
2. Financial management	14
3. Financial sustainability	20
4. Governance and transparency	22
5. Best Value	24
Appendix 1	28
Appendix 2	32
Appendix 3	36
Appendix 4	37

Key messages

2020/21 annual accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The audited accounts have been updated to correct a £24 million prior year overstatement in depreciation charges; include Fife council's share of reserves held by the IJB of £15 million and to recognise unspent Early Learning & Childcare grant (£14 million) as income.

Financial management and sustainability

- 3 The council reported an underspend against its 2020/21 budget of £86 million, mainly due to unspent Covid-19 funding received late in the financial year, with General Fund Reserves increasing significantly as a consequence.
- 4 The council received £87 million additional funding for Covid-19 and administered a further £104 million of grant payments to businesses and individuals.
- 5 The introduction of remote working and new systems adversely impacted key controls in 2020/21.
- 6 The Council has a three-year planning horizon and has identified a cumulative core funding gap of £47m to 2024/25 for planning purposes. The Council has plans in place to bridge the funding gap in 2021/22 and is refreshing its approach to identifying solutions in the medium to longer term.

Governance, transparency and Best Value

- 7 Progress against Best Value recommendations continues to be slow but are progressing despite Covid-19.
- 8 A revised Plan for Fife was completed in September aligning it with the reform and recovery programme.
- 9 Some service performance information has been publicly reported for 2020/21, but further improvements are needed.

Introduction

1. This report summarises the findings arising from the 2020/21 audit of Fife Council (the Council) and its group. The scope of the audit was set out in our 2020/21 Annual Audit Plan presented to the June meeting of the Standards and Audit Committee. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four wider audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).

2. The main elements of our audit work in 2020/21 have been:

- an audit of the annual accounts of the Council; its group and the Section 106 charities administered by the Council and the issue of independent auditor's reports setting out our opinions
- a review of the Council's key financial systems
- an assessment of the Council's approach to implementing the outstanding recommendations included in the Council's BVAR published in May 2018.
- consideration of the four wider audit dimensions (financial management, financial sustainability, governance and transparency, and value for money).

Adding value through the audit

3. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

4. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and putting arrangements in

place for governance, propriety and regularity that enable it to successfully deliver its objectives.

5. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code of Audit Practice 2016 and supplementary guidance, and International Standards on Auditing in the UK.

6. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the Council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position,
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

7. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016. and supplementary guidance.

8. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

Auditor Independence

10. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £ 534,970 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. 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 in due course. We would like to thank the management

and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts are unmodified.

The audited accounts have been updated to correct a £24 million overstatement in depreciation charges included in the 2019/20 accounts.

The group accounts have been amended to disclose Fife Council's share of reserves held by the IJB of £15 million.

The unspent Early Learning & Childcare grant of £14 million is now recognised as income rather than as a revenue receipt in advance.

Our audit opinions on the annual accounts are unmodified

12. The accounts for the Council and its group for the year ended 31 March 2021 were approved by the Standards and Audit Committee on 16 December. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

13. Our opinions on the Section 106 charitable Trust accounts for 2020/21 were also unmodified.

Covid-19 had a significant impact on the Council and the audit

14. During 2020/21 the Council has operated in challenging circumstances presented by Covid-19. The introduction of remote working and changes to key systems impacted on the control environment.

15. Fife Council published and provided the unaudited accounts to audit on 1 July 2021 in accordance with the statutory

timescale. These were formally considered by the Standards and Audit Committee at its meeting on 29 June 2021.

16. We continued to audit remotely and Covid-19 has impacted on the volume of audit work and the time taken to complete our audit, due in part to the legacy of 2019/20 impacts of Covid-19. We also undertook additional audit procedures as a result of identified weaknesses in control ([Paragraph 49.](#) and to confirm the operation of controls in the disbursement of Government Covid-19 grants ([Paragraph 38.](#))

There were no objections raised to the annual accounts

17. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their websites that include details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations. There were no objections to the 2020/21 accounts.

Overall materiality of the Council and its Group is £15 million

18. We apply the concept of materiality in both planning and performing the audit, in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

19. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

20. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1.](#)

Exhibit 1

Council materiality values

Materiality level	Amount
Overall materiality	£15 million
Performance materiality	£7.5 million
Reporting threshold	£250 thousand

Overall materiality of the Charitable Trusts is £15,000

We also set separate materiality levels for the charitable trusts as outlined in [Exhibit 2](#).

Exhibit 2

Charitable Trusts materiality values

Materiality level	Amount
Overall materiality	£15,000
Performance materiality	£10,500
Transaction Performance materiality	£250
Reporting Threshold	£150

Appendix 2 identifies the main risks of material misstatement and our audit work performed to address these

21. [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

Accounts were revised to reflect our significant findings

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have reported a number of issues from the work done on the identified risks of material misstatement. These are included in the action plan at [Appendix 1](#).

23. The significant findings are summarised in [Exhibit 3](#) - for the Council and its Group and in [Exhibit 4](#) for the Charitable Trusts.

Exhibit 3

Significant findings from the audit of the Council and its Group

Issue	Resolution
<p>Corrections to asset lives and depreciation</p> <p>Note 11 in the unaudited accounts detailed depreciation charges of £49 million for 2020/21 and £71 million 2019/20. We investigated this significant reduction between the two years and found that depreciation charges in 2019/20 had been overstated by £24 million. Asset lives for some school components had been incorrectly updated in the asset register in 2019/20 to reflect indexation valuations which were undertaken in March 2020.</p>	<p>The audited Annual Accounts depreciation charges have been updated to reflect the correct depreciation charge of £46million for 2019/20.</p>
<p>Accounting for Covid-19 personal protective equipment (PPE) and testing kits</p> <p>Due to the late publication of guidance and availability of information, unaudited annual accounts did not account for Covid-19 PPE equipment and testing kits. These were supplied, free of charge, to local authorities in 2020/21 by National Services Scotland (NSS).</p> <p>NHS NSS data on PPE issued to community hubs was not agreed until the end of June. Fife Council received £7 million of stock based on NSS records.</p> <p>LASAAC guidance to practitioners in July 2021 was only produced after the draft accounts were completed, however the guidance advised on the accounting treatment of PPE and testing kits.</p>	<p>Audited accounts were updated once the guidance was issued, to recognise the receipt and use of this equipment in 2020/21.</p> <p>In accordance with the LASAAC guidance, an additional £1 million of income and expenditure is disclosed in the audited accounts. There was no net impact on the Council's reserves and balances.</p> <p>Officers determined that £6 million of equipment had been passed on to external organisations such as care homes. This is correctly classified as agency funding and is not recognised in the Comprehensive Income and Expenditure Statement.</p>
<p>Integration Joint Board adjustments</p> <p>The accounts were amended to correctly disclose Fife Council's share of reserves held by the IJB and to ensure the level of commissioning funding and income agrees to the disclosure in the IJB accounts.</p>	<p>Management have adjusted for this in the audited 2020/21 Annual Accounts with adequate disclosure provided.</p>

Issue	Resolution
<p>The IJB had a balance of reserves of £30 million at 31 March 2021 and Fife council's share of this balance was £15 million.</p>	
<p>Social care year end accruals – external providers</p> <p>Fife Council has a policy to accrue for individual expenditure items over £50k at the year end</p> <p>In 2020/21, Social care services changed the way they applied the policy and rather than applying it to invoices within individual ledger codes it was applied to individual suppliers.</p> <p>The year- end accrual for 2020/21 totals £1 million, but if the figure been calculated on the same basis as prior years, the accrual would have been £3 million. This would have increased social care expenditure by £2 million.</p>	<p>We considered the estimate in accordance with ISA 540 and have concluded that the change in the application of the Council's policy is reasonable but optimistic.</p>
<p>Accounting treatment ringfenced grants</p> <p>Fife Council accounted for an Early Learning & Childcare grant totalling £37 million as a revenue receipt in advance. Only £23 million of income had been credited to services in 2020/21 with the balance of £14 million included in current liabilities in the balance sheet. The Scottish Government increased councils' flexibility in applying this grant due to Covid-19 in 2020/21.</p> <p>The treatment was consistent with prior years but does not comply with the Code which requires grants to be recognised immediately as income unless any conditions have not been met. No conditions are attached to the grant.</p>	<p>The audited accounts have been adjusted to recognise the total Early Learning & Childcare grant as income in 2020/21.</p> <p>Income to services has increased by £14 million with a corresponding increase in reserves.</p> <p>No prior year adjustment has been required to 2019/20 figures as these sums were not material in previous years.</p>

Exhibit 4

Significant findings from the audit of the Charitable Trusts

Issue	Resolution
<p>“Dormant” charities</p> <p>In general, if a charity does nothing for a prolonged period, it is unlikely to be providing</p>	<p>The Council is continuing to take action to address “dormant” charities. In 2020/21, a</p>

Issue	Resolution
public benefit and this may result in it failing the charity test.	further three charitable trusts were closed and the balances transferred to agreed recipients.
<p data-bbox="113 371 783 483">Controls should be set up to ensure that grants have been used for the purposes intended.</p> <p data-bbox="113 495 783 607">The Charitable Trusts awarded 66 grants totalling £85,095 to support local communities.</p> <p data-bbox="113 618 783 797">Satisfactory controls are in place and are operating effectively for the approval and payment of grants, but there are no checks to make sure that monies have been used as intended.</p>	<p data-bbox="783 371 1511 517">Trustees should make arrangements to perform sample checks each year to ensure that monies granted have been used for the purposes intended.</p>
<p data-bbox="113 842 783 909">Area Committees should approve all grants</p> <p data-bbox="113 920 783 1144">Audit testing found one instance of a grant for £8,000 which had been awarded without approval of the relevant area committee. We are satisfied that this was an isolated failure of control due to remote working arrangements forced by Covid-19.</p>	<p data-bbox="783 842 1511 943">Approval of the grant has since been reported to the Trustees and has been confirmed as satisfactory.</p>

Identified misstatements of £45 million were adjusted in the Council and Group accounts

24. Total misstatements identified were £45 million. We considered the need for further audit procedures and extended our checks on asset lives following the last revaluation and have concluded that the misstatements identified arose from issues that have been isolated in 2019/20 and identified in their entirety and do not indicate further systemic error.

25. Management have not adjusted for the items in [Appendix 3](#), as they consider the net impact of £0.260 million would not have a material impact on the accounts.

The audited charities accounts include unadjusted misstatements

26. Total misstatements identified in the audit of the charitable trusts were £3,800. These relate to under accrued investment income and an understated accrual of funds transferred from Stuart Bursary to St Andrews University. We considered whether we needed to amend our audit procedures further and have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

Decisions to correct misstatements lie with the Committee

27. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers.

Good progress was made on prior year recommendations

28. The Council has completed one of our four prior year recommendations. One recommendation remains outstanding with the remaining two in progress. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

The council reported an underspend against its 2020/21 budget of £86 million, mainly due to unspent Covid-19 funding, a large proportion of which was received late in the financial year, with General Fund Reserves increasing significantly as a consequence.

The Council received £87 million additional funding for Covid-19 and administered a further £104 million of grant payments to businesses and individuals.

The introduction of remote working and new systems adversely impacted key controls in 2020/21.

The 2020/21 original budget was set at £841 million

29. The Council approved its three-year budget for 2020/21 to 2023/24 in February 2020. The budget for 2020/21 was set at £841 million and included an agreed savings target of £6 million, an increase in Council tax of 4.84% (£7 million) and a reduction in health and social care grant of £2 million.

Covid-19 additional funding was £87 million

30. Since February 2020 the Council has received £87m additional Covid-19 funding and increased revenue grant. Almost 50% of the additional Covid-19 funding was received in the last month of the year.

31. Initial estimates of Covid-19 cost pressures reported in May 2020 were £78 million. These forecasts were updated throughout the year and by January 2021 the estimate had fallen to £51 million in line with actual reported Covid-19 expenditure.

The underspend was £86 million, mainly due to unspent Covid-19 funding

32. In June 2021 the Council reported an underspend against its 2020/21 budget of £72 million, including £58 million of unspent Covid-19 funding. The

final outturn figure for 2020/21 is a surplus of £86 million taking in to account the post audit adjustment of £14 million. ([Exhibit 2](#)). The more significant underspends are summarised in Exhibit 5.

Exhibit 5 Summary of significant under/overspends against budget

Area	£m	Reason for variance
Underspends		
Covid-19 funding	£58	Carried forward to 2021/22
Contingencies	£12	Set aside as part of the Council's budget process, no longer required due to other cost reductions and additional government funding.
Loan charges	£8	The Council applied the income method for re-profiling loans fund advances with one investment relating to on-lending to National Housing Trust, generating £7 million.

Source: Fife Council 2020/21 Annual Accounts

The housing revenue account operated within budget

33. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set a level which will at least cover the costs of its social housing provision.

34. During 2020/21 the total income target of £126 million was met and the HRA made a positive contribution of £5 million to General Fund balances. The HRA balance within the General Fund Reserve increased from £3 million at 31 March 2020 to £8 million at 31 March 2021.

The Council did not use fiscal flexibilities in 2020/21

35. Fiscal flexibilities, agreed between the Scottish Government and CoSLA, were made available to local authorities to address the short-term funding pressures they faced due to Covid-19. The Council elected not to use the fiscal flexibilities available in 2020/21 and will review for 2021/22.

The Council administered £104 million of grants to businesses and individuals on behalf of the Scottish Government

36. The Scottish Government asked Councils to administer a significant element of its Covid-19 economic support package. This involved the rapid development of systems and processes to provide direct payments to eligible businesses.

37. The Small Business Support Grant and Retail, Hospitality and Leisure Support Grant were administered primarily by Fife Council's revenues service with a total of £59 million paid out, predominantly in the first quarter of 2020/21.

38. A further £37 million was paid out through the Strategic Framework Business Fund, (SFBF). The Council's Economic Development service was responsible for approving grants and payments were made on the Council's behalf by its subsidiary: Business Gateway Fife.

39. We reviewed the arrangements and controls implemented by Fife Council and Business Gateway Fife for processing grant applications to ensure only entitled applicants received payments and concluded that these were appropriate.

40. Fife Council acted as an agent in administering grants on behalf of the Scottish Government. The income and expenditure relating to these grants is therefore not included in Fife Council's Income and Expenditure for the year. Full details have been disclosed in the Management Commentary.

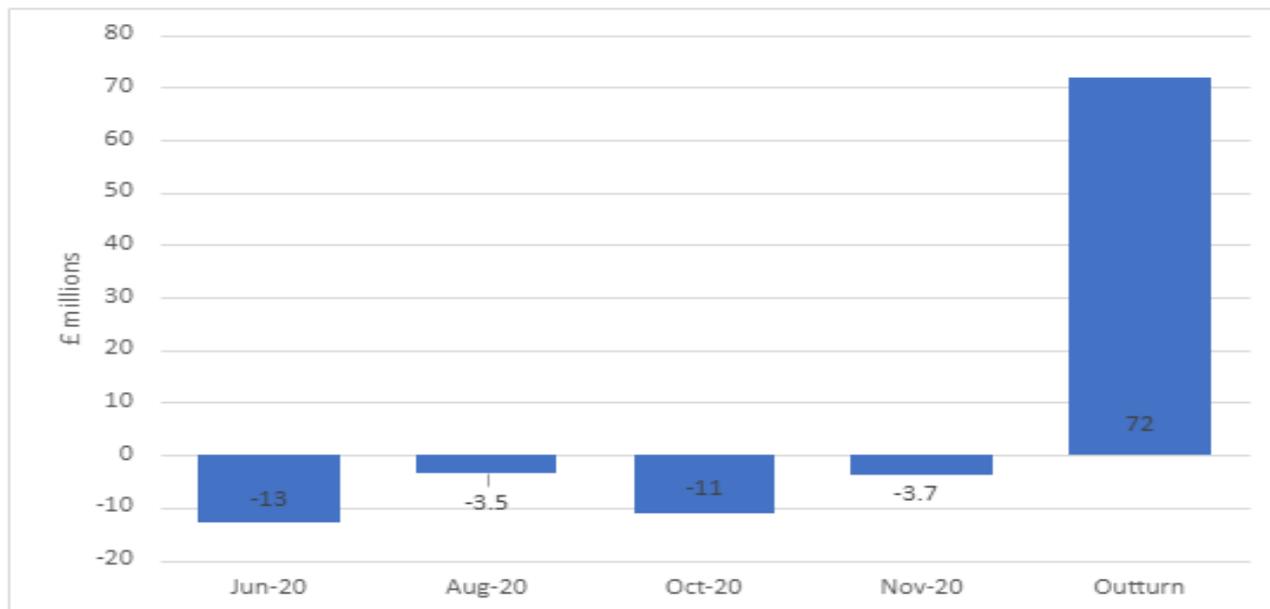
Financial management was challenging as the Council responded to continually changing Covid-19 pressures and funding

41. As reflected in [Exhibit 6](#), financial management was challenging during 2020/21, as forecasts of Covid-19 pressures and associated funding continually changed. Covid-19 cost pressure reports were submitted to Policy and Co-ordination (P&C) committee meetings in May, June and July 2020. In August 2020 the Council agreed a short-term financial strategy and full budget monitoring reports were submitted to P&C meetings in August and November 2020 and February 2021.

42. The Council was predicting a slight overspend throughout 2020/21 until the end of February 2021. The slight overspends changed to a significant surplus at the end of March 2021 following receipt of the additional £41 million of Covid-19 funding. By June 2021 the outturn position was a surplus of £72 million. The final outturn post-audit is a surplus of £86 million.

Exhibit 6

Outturn projections (£ million) including Covid-19 pressures and additional funding

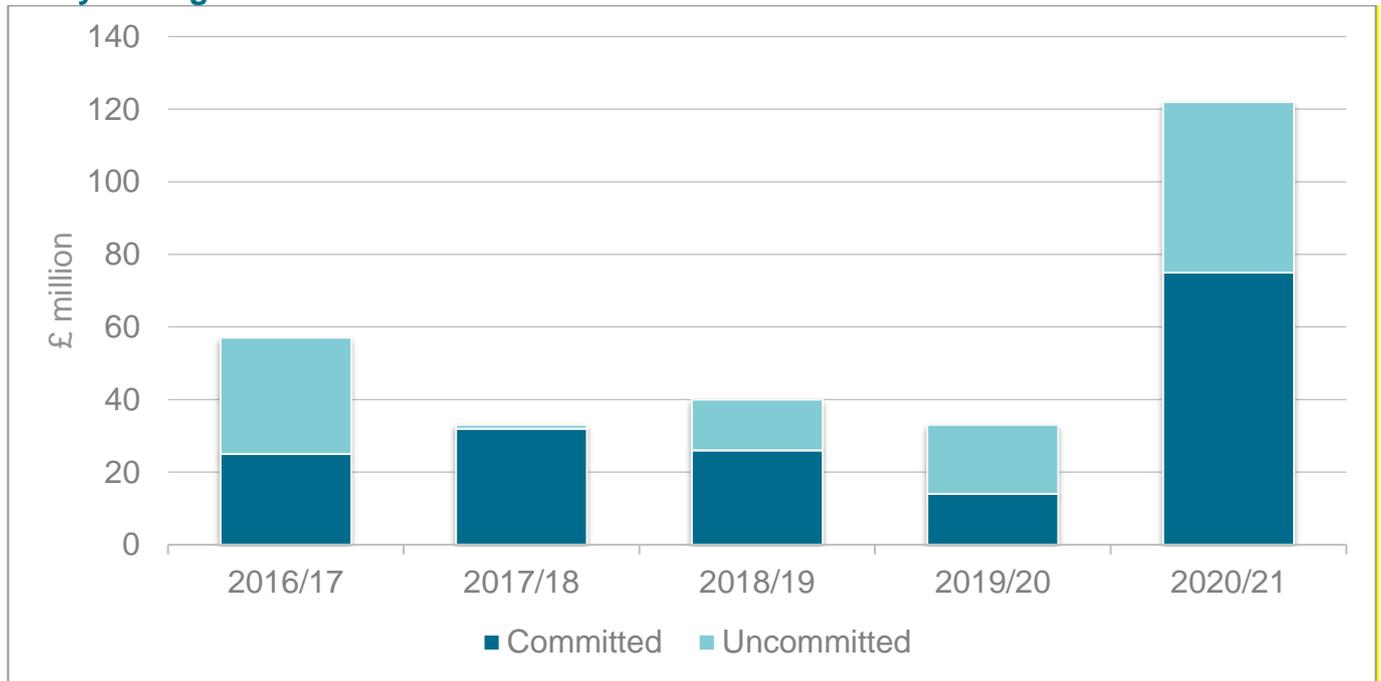


General Fund reserves have increased significantly

43. The level of usable reserves held by the Council increased from £33 million in 2019/20 to £136 million in 2020/21, due to the underspend. £89 million of these reserves are held as earmarked balances, with £47 million held as uncommitted balances to provide against unforeseen circumstances. £58 million of the increase in balances represents government funding received but not used in 2020/21. A significant amount of the government funding was received in the last month of the financial year ([Paragraph 30.](#)) and was carried forward to be applied in 2021/22 and beyond.

44. [Exhibit 7](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves.

Exhibit 7 Analysis of general fund balance



Source: Fife Council audited accounts

The Council achieved 65 per cent of planned efficiency savings

45. In 2020/21, Fife Council planned to achieve efficiency savings of £13 million to address the budgeted funding gap. The Council achieved actual savings of £8 million (65 per cent of this total). The shortfall was dealt with by in-year alternative savings, such as alternative cost reductions, unused contingency funding and a change in accounting treatment of loan charges.

The introduction of remote working and new systems impacted on the operation of key controls

46. The significant challenges associated with COVID-19 and the subsequent introduction of remote working and new systems adversely impacted key controls in 2020/21. The Council implemented new general ledger, accounts payable and payroll systems during 2020/21. These went live in July 2020 and November 2020 and have been used to produce the 2020/21 financial statements. As part of our work, we tested and confirmed the accuracy of the transfer of balances to the new general ledger system and we also reviewed the processes and controls in the new systems.

47. Our management report presented to the Standards and Audit Committee on 7 October 2021 detailed our findings from the review of systems of internal controls. We concluded that the introduction of remote working and new systems impacted on the operation of key controls.

48. Budget monitoring was not as systematic in 2020/21 as in previous years. Detailed budget monitoring reports were not systematically produced for scrutiny by all budget holders. However, at a Council-level, due to the challenging nature of the emerging Covid-19 pandemic, the Council prioritised more frequent higher-level risk-based monitoring and forecasting. Financial reporting to P&C committee increased during 2020/21 and targeted reviews were performed rather than the usual systematic process for all services and cost centres.

49. In response to these control issues, we increased our substantive testing of journals, accruals, non-pay expenditure and payroll. We established that year-end reconciliations existed and increased our testing of any reconciling items. We identified some minor errors ([Appendix 2](#)

50.) with staff costs but concluded that there were no material errors in the financial statements.

51. Council Officers are working with the software supplier to resolve ongoing issues with the Teachers Pay and Leave Specification. This is a complicated process which is not yet providing accurate information. Due to the higher than expected error rate, all new starts, leavers and contract changes are being checked to confirm accuracy and corrected as appropriate.

Recommendation 1

The Council should ensure that systematic budget holder level budget monitoring is re-introduced.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

52. Fife Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

53. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Fife council is proactive in investigating matches and reporting the outcomes of NFI activity. The Council is currently progressing 1,700 matches which were received in August 2021, with 4,500 matches having been investigated to date. Outcomes will be reported in due course.

3. Financial sustainability

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

Main judgements

The Council has a three-year revenue budget to 2023/24 which is underpinned by the council's Medium Term Financial Strategy.

The Council has a three-year planning horizon and has identified a cumulative core funding gap of £47m to 2024/25 for planning purposes. The Council has plans in place to bridge the funding gap in 2021/22 and is refreshing its approach to identifying solutions in the medium to longer term.

The Council approved a three-year revenue budget to 2023/24

54. The council approved a three-year revenue budget for the period to 2023/24 in March 2020.

55. The Council agreed to freeze Council Tax for 2021/22 and the covering report highlighted there was scope for £4 million investment in the financial year 2021/22 but estimated funding gaps totalling £34 million over the following two years.

56. The budget is underpinned by the council's Medium Term Financial Strategy (MTFS). The MTFS is a principles-based plan which details the latest planning assumptions and is provided to Members annually in September.

The core budget cumulative funding gap is currently estimated to be £47 million to 2024/25

57. The most recent budget planning assumptions reported to the Policy and Co-ordination committee in September 2021 separates the recurring core budget from the temporary financial impact of Covid-19. The plan identifies an increase in cumulative funding gap in the core budget from £34 million in March 2021 to £47 million in September 2021 for the period 2021/22 to 2024/25 due to adding an additional year to the assumptions and an assumed reduction in grant funding in addition to increases in pay and pension costs.

Covid-19 cost pressures and balances

58. The financial consequences of Covid-19 are difficult to predict but are expected to continue in future years. Covid-19 cost pressures are estimated to be around £32 million in 2021/22. Additional GRG of £17 million for 2021/22 has been provided in relation to continuing costs of the pandemic. The council has

reported that this additional funding coupled with the £58 million of unspent Covid-19 balance brought forward from 2020/21 will be sufficient to cover the current level of estimated costs associated with Covid-19 in 2021/22 without applying uncommitted general fund reserves and ensuring that the continuing financial impact in future years can be managed to a certain degree.

59. Officers have detailed plans identifying future Covid-19 pressures and allocation of balances but have not yet shared the plans with Members of the Council.

The council is working to identify solutions to bridge the core funding gap for the period 2022-2025

60. The council is working to identify solutions to bridge the core funding gap for the period 2022-2025 and is continuing to use the principles in the MTFS as estimates to cost pressures change and increases to levels of funding are agreed.

Recommendation 2

Council officers should share detailed plans identifying future Covid-19 cost pressures and allocation of balances with Members of the Council.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

Governance and transparency arrangements are appropriate but were affected by Covid-19.

Governance and transparency arrangements are appropriate, but were affected by COVID-19

61. As part of our audit process we continually assess the governance arrangements within Fife Council. Our previous year's conclusion is still relevant: that governance and transparency arrangements are appropriate.

62. The impacts of Covid-19 from March 2020 on the Council's governance arrangements have been set out in the Annual Governance Statement in the Council's Annual Accounts. These were significant and allowed the body to manage the unprecedented nature and scale of the threat to its communities and staff. In particular:

- the Council's committee structure was suspended with the Chief Executive being granted temporary delegated authority for critical decisions that would normally require committee approval.
- all staff were asked to work from home where possible. Since October 2021, the Council has begun implementing blended working for some staff and Members.
- all Council meetings were initially cancelled and all have since resumed on a staggered basis. The P&C Committee met more frequently during 2021. P&C sub-committees were established with powers to take decisions on day-to-day operational activities.

Standing orders were amended and a temporary variation to financial regulations was agreed for a period of six months to

allow the implementation and operation of the supplier relief scheme

63. The new way of operating due to the Covid-19 pandemic gave rise to some operational/procedural issues:

- Standing Orders were amended to enable the smooth running of remote Council and Committee meetings.
- A temporary variation to the Financial Regulations was initially agreed for a period of six months and has now been extended to March 2022 to allow the implementation and operation of the supplier relief scheme (designed to assist suppliers who are critical to the operation of the Council).

Thirteen councillors have not updated the register of interests since 2019

64. In 2019/20 we reported that three councillors had not updated the register of interests since 2017. Audit work in 2020/21 identified that a total of 13 councillors have not updated the register of interests since 2019.

Recommendation 3

Councillors should be reminded of the requirement to keep the register of interests up to date to ensure compliance with the code of conduct.

Common Good Fund

65. We have previously reported that the 2014 Common Good policy is ambiguous about the use of Common Good funds. The policy was due to be reviewed by the council in early 2021 but this has been delayed due to pressures brought about by the pandemic. A review of the Common Good policy is now scheduled for completion in 2022.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

Progress against Best Value recommendations continues to be slow, but a further three (of eight) are now complete and others are progressing despite Covid-19.

A revised Plan for Fife was completed in September aligning it with the reform and recovery programme.

Service performance information has been publicly reported for 2020/21, but further improvements are needed.

Progress against Best Value recommendations continues to be slow, but a further three (of eight) are now complete and others are progressing despite Covid-19

66. Best value is assessed over the audit appointment, as part of the annual audit work. This year we continued to follow-up progress made by the Council in response to the Best Value Assurance Report (BVAR) published in May 2018, which contained eight recommendations agreed with the Council. In response to this, the Council produced an implementation plan setting out the proposed actions to address the recommendations.

67. Our follow-up review in 2019/20, concluded that there had been slow progress implementing recommendations, but that one recommendation was completed last year concerning neighbourhood plans.

68. Our best value work this year as concentrated on the evidence to support the Council's progress in implementing the other remaining best value recommendations. [Exhibit 8](#) provides a summary of our findings for each of the outstanding recommendations included in the BVAR and our overall assessment of progress made by the Council since 2018.

A revised Plan for Fife was completed in September 2021

69. As noted below, three of the remaining BVAR recommendations relate to the implementation and development of the Plan for Fife. This is the single plan developed by Fife Council and its community planning partners. The plan was refreshed in September 2021 to reflect the changing demands caused by the pandemic and align it with its reform

and recovery programme. Two of the three actions connected to this plan have not yet been fully implemented.

Exhibit 8

Progress in implementing best value recommendations

BVAR Recommendation	Progress in implementing each recommendation
<p>2. The framework for managing performance against the Plan for Fife should be finalised as early as possible</p> <p>3. The Council should develop a range of delivery plans to support the identified actions and wider ambitions outlined in the Plan for Fife. These actions should be measurable with clear deadlines</p> <p>4. The Council's new programme board should ensure alignment between the aims of the Plan for Fife and service change plans. It should develop a focus on outcomes rather than being led by budget-changes</p>	<p>The Council and Partnership Board approved a revised Plan for Fife in September 2021. A revised framework for managing performance was also agreed.</p> <p>Work to develop detailed delivery plans for the revised actions is still ongoing. Revised governance arrangements for the plan have been introduced but it is too soon to assess their impact.</p> <p>Amber/in progress</p>
<p>5. The Council should work with Fife Health and Social Care Partnership and NHS Fife to accelerate the redesign of adult health and social care services and mitigate medium-term financial pressures</p>	<p>The Council has worked in partnership to deliver a medium-term financial strategy (MTFS) for 2020/23. Around 75% of the recurrent savings achieved by year three of the strategy are expected to come from service redesign and transformation.</p> <p>The delivery of transformation and change has been impacted due to Covid-19. However, the Chief Finance Officer of the IJB took on responsibility for transformation projects in July 2021 and a project management office is being set up.</p> <p>Work on refreshing transformation projects, and the framework in which they operate, is now underway. These are looking at the balance of care and support provided 'at home' and 'in homes' through the home-first and bed-based initiatives. These aim to reduce the dependency on more expensive residential and nursing homes and better</p>

support people at home in order to cope with the needs of an ageing population.

Amber/in progress

6. As a partner in the Fife Health and Social Care Partnership, the Council should seek early agreement over roles and responsibilities, so that the management and governance arrangements of the FHSCP support the significant service redesign challenges it faces

The revised integration scheme has now been approved by ministers for application in 2021/22.

The revised integration scheme clarifies the IJB's responsibilities for strategic direction and operational oversight with operational delivery being the responsibility of the IJB chief officer who is accountable to the constituent bodies in that role.

Complete

7. The Council should extend its improvement methodology on raising educational attainment in deciles 1-3 to a broader range of young people

A key priority for the Council, as set out in the 2021-23 Education and Children's Services Directorate plan, is to ensure a sustained closing of the attainment gap for all disadvantaged and vulnerable children. The Attainment Reform programme provides an overarching framework for this work, as part of the Council's recovery and reform agenda. This work is further developing the Directorate's use of improvement methodologies and improving the use of tracking and monitoring data, to ensure that these are fully embedded across all schools.

Amber/in progress

8. The Council should continue its new approach to managing sickness absence rates

A Health, Safety and Wellbeing Strategy has been finalised and refers to the organisation moving to a supportive culture focussed on wellbeing. The strategy provides good direction for the organisation going forward.

Complete

70. Fife Council is continuing to implement the recommendations set out in our 2018 BVAR. We are pleased to note that although progress remains slow, that despite Covid-19, a further two actions have been finalised in 2020/21 and all other recommendations are progressing.

Service performance information has been publicly reported for 2020/21, but further improvements are needed.

71. The Accounts Commission issued a revised Statutory Performance Information (SPI) Direction in December 2018 which requires a Council to report:

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

72. We have previously reported issues with the development of performance reporting in the Council and we found that only limited improvements have been made in performance reporting in 2020/21. Service performance information was reported to committees in autumn 2021, with links to the reports available on the council's website. This was the first batch of performance reports since the implementation of the new Oracle Cloud system and reports are still being developed, for example on sickness absence. There is still scope to review and improve the presentation of performance information on the Council's website, before the Council can comply fully with the Accounts Commission Direction. This would include:

- facility to review data on the website and interrogate it rather than just read separate reports on each service.
- some form of overall assessment on Council performance to provide an accessible overview to residents.
- detailed assessment of service performance against the Plan for Fife.

73. The Council continues to submit data for the Local Government Benchmarking Framework (LGBF) but information on 2020/21 and in some cases 2019/20 (educational attainment) will not be publicly available until January /February 2022.

National performance audit reports

74. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland published a number of reports which may be of interest to the body. These are outlined in [Appendix 4](#).

75. Fife Council has a system in place for reviewing national reports and disseminating relevant reports to senior managers, however there is no formal mechanism to ensure they are presented to members through consideration at committees.

Appendix 1

Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Budget Monitoring and control</p> <p>The new general ledger system and budgeting module introduced in July 2020 did not include the systematic production of routine and systematic pay and non-pay budget monitoring reports for scrutiny by budget holders.</p> <p>Risk: Unexpected financial outturns develop during the year and reduced scrutiny of detailed reports increases the risk of fraud and error remaining undetected.</p>	<p>The Council should ensure that routine and systematic budget monitoring for budget holders is re-introduced to ensure that figures included in financial reports are accurate and to support effective decision making.</p> <p>Paragraph 49</p>	<p>Routine systematic budget monitoring at budget holder level has been re-introduced.</p> <p>Head of Finance</p> <p>Complete</p>
<p>2. Covid-19 cost pressures and balances</p> <p>Officers have detailed plans identifying Covid-19 pressures and allocation of balances but have not yet shared the plans with Members of the Council.</p> <p>Risk: – Members are not fully informed.</p>	<p>Council officers should share detailed plans identifying Covid-19 cost pressures and allocation of balances with Members of the Council.</p> <p>Paragraph 58</p>	<p>The financial consequences of COVID-19 have fluctuated significantly over the course of the pandemic. Detailed information and assumptions have been used to estimate the future temporary costs of COVID-19 as being in the region of £25m over the next three years.</p> <p>These estimates will be revisited again as part of the budget process in the new year and will be updated in</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>light of the circumstances associated with the pandemic at that stage. At present the anticipated costs can be contained within the ear-marked reserves set aside for this purpose.</p> <p>Head of Finance</p>
<p>3. Register of interests b/f from 2019/20</p> <p>Local Councillors are required to follow a code of conduct and declare any interests, gifts or hospitality which may influence any decisions they may make as a Councillor. This register is updated as information from Councillors is received and reviewed annually every August. We noted that 13 Councillors have not updated the register of interests since 2019.</p> <p>Risk: There is a risk that interests are not always declared and influences on decision making processes are not always transparent.</p>	<p>Councillors should be reminded of the requirement to keep the register of interests up to date to ensure compliance with the code of conduct.</p> <p>Paragraph 61</p>	<p>Although completion and updating of their Register of Interests is the responsibility of individual members, officers do send out two reminders each year. These reminders ask members to respond, even when there is no change in their interests. Where no response is received, the matter is escalated to the political group leader.</p> <p>The standards and Audit Committee also receive an annual report on the outcomes of the Standards Commission for Scotland hearing process, which includes cases relating to register of interest code breaches. Training on the code is also provided to members on an ad hoc basis</p> <p>Officers will continue to remind Members as well as contact those individually reminding them that failure to respond may lead to a breach of the Councillors' Code of Conduct</p> <p>Head of Legal and Democratic Services</p> <p>31 March 2022</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Housing benefit overpayment bad debt provision</p>	<p>The Council should review its processes for recording housing benefit overpayment debt in the annual accounts and establish whether the current debtor balances and associated bad debt provision are complete and correctly valued.</p>	<p>Complete</p> <p>The Council has performed a review of Statutory Penalties and Housing Benefit Overpayments and adjustments have been made to the Audited Accounts to reflect an increase in the General Fund Useable reserves at 1 April 2019 of £12 million and at 1 April 2020 of £13 million.</p>
<p>b/f 2. General Fund balance</p>	<p>The Council needs to ensure it has sufficient contingency to deal with unexpected financial pressures and is not going to deplete its General Fund reserves over the medium term.</p>	<p>Ongoing</p> <p>The Council has reported its commitment to maintaining a sustainable level of core funding going forward and £58 million of unused Covid-19 funding has been included in the accounts as an earmarked balance to support ongoing costs of the pandemic and recovery funding.</p>
<p>b/f 3. Register of interests</p>	<p>Councillors should be reminded of the requirement to keep the register of interests up to date to ensure compliance with the code of conduct.</p>	<p>Outstanding.</p> <p>Refer to 2020/21 action plan point 2.</p>
<p>b/f 4. Service Performance Reporting</p>	<p>The Council should more clearly align service performance reporting to the Plan for Fife in order to effectively demonstrate the Council's progress in achieving its strategic outcomes. The performance section of the Council's website should contain clear and current links to individual service reports.</p>	<p>In progress</p> <p>We found that limited improvements have been made in performance reporting in 2020/21. Service's performance management information was publicly reported in November 2021. There is still scope to review and improve the presentation and timeliness of performance</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>information on the Council's website.</p> <p>Work is in progress to move to a more interactive online reporting tool which will deliver the facility to review data on the website and interrogate it rather than just read separate reports on each service. This will be rolled out to the whole Council performance reporting for the 2021/22 reporting cycle.</p> <p>Linkage to P4F - Now that there is an agreed and approved plan for the P4F it allows more opportunity to ensure linkages between P4F and performance are made. We will also strengthen the need to align to the P4F in the revised guidance to services</p> <p>Programme Manager End December 2022</p>

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 conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</p> <p>Reviewed accounting estimates for biases.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p> <p>Focused testing of accruals and prepayments</p>	<p>Results: Our work on journals and prepayments did not identify any issues.</p> <p>One issue has been raised in relation to accruals. See Exhibit 2. Where a change in the application of the accruals de-minimis of £50,000 in Social Work resulted in a reasonable though optimistic estimate of total accruals. The impact was below our performance materiality.</p> <p>There were no significant transactions outside the normal course of business.</p> <p>Conclusion: No issues were identified that indicate management override of controls.</p>
<p>2. Risk of material misstatement in estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, and pensions. This subjectivity represents an increased risk</p>	<p>Assessed the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions.</p> <p>Reviewed appropriateness of actuarial assumptions and results including comparison with other Councils.</p>	<p>Results: Our assessment of the management experts and the estimates provided for pension valuations did not identify any significant issues.</p> <p>The basis of estimates in housing and other land and buildings was appropriate, this included management review of any increase in</p>

Audit risk	Assurance procedure	Results and conclusions
<p>of misstatement in the financial statements.</p> <p>As a result of the Covid-19 pandemic, valuers issued material uncertainty declarations as part of their valuations of non-current assets and some pension fund investments in 2019-20. If this remains in place for 2020-21, disclosures in the accounts will be required.</p>	<p>Performed a walkthrough of the process of valuation to understand the basis for significant judgements.</p> <p>Established officers' arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.</p> <p>Considered the impact of any material uncertainty in valuations on our audit opinion.</p>	<p>years between valuation exercises.</p> <p>We found one material error in the valuation of other land and buildings which was caused by an error in the depreciation charged for a small number of schools in 2019/20.</p> <p>Management have adjusted the accounts to correct the error.</p> <p>Conclusion: The valuations of other land and buildings were correctly stated in the audited financial statements.</p>
<p>3. New financial and payroll systems</p> <p>During 2020/21, Fife Council introduced new general ledger, accounts payable and payroll systems. The systems went live in July 2020 and November 2020.</p> <p>The new systems will be used to produce the 2020/21 financial statements, and, as with any major change in financial systems, there is an increased risk of misstatement in the figures and balances.</p>	<p>Establish, review and test the controls in place within the general ledger, accounts payable and payroll systems.</p> <p>Confirmed the completeness and accuracy of the balances transferred from the old systems to the new.</p>	<p>Results: We confirmed the accuracy of balances transferred from the old system to the new ledger.</p> <p>Our substantive testing in payroll identified an underpayment of one leaver and of a new starter; two miscalculations of outstanding annual leave and overpayment of an individual on maternity leave.</p> <p>Conclusion: There were control issues as a result of the new systems at a time when staff were working from home due to Covid-19 restrictions. There were also more errors identified in our audit testing, but we were able to conclude that these were not material to the financial statements.</p>
<p>4. COVID-19</p> <p>Covid-19 has had a significant impact on the Council in the 2020/21 audit year:</p>	<p>Reviewed the 2020-21 outturn position and assess the impact of Covid-19 related expenditure and funding on the Council's reserves position.</p>	<p>Results: Overall, financial management was challenging during 2020/21 as forecasts of Covid-19 pressures and associated funding continually changed.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>•Financial Management – increases in expenditure caused by the pandemic have been largely met through additional Scottish Government grants and increased flexibilities for certain areas of funding and accounting practices. In February, the Council was forecasting a deficit of £3.6 million at 31 March 2021.</p> <p>•Financial reporting - The Council is required to make judgements on the correct accounting treatment in relation to additional funding arrangements – including whether the Council is acting as agent or principal.</p> <p>•Administration of business support grants - Fife Council has been asked to administer more than £90 million of Covid-19 business support grant payments on behalf of the Scottish Government in 2020-21. Nearly £30 million of this has been paid by Business Gateway Fife on behalf of the Council. There is a risk that the internal controls and governance arrangements were not suitably robust to mitigate fraud.</p>	<p>Reviewed treatment and disclosure of COVID-19 funding in the 2020/21 accounts and confirm that this is in line with Scottish Government and CIPFA/LASAAC guidance on accounting.</p> <p>Held discussions with management during the year to consider the use of financial flexibilities.</p> <p>For the most significant support grants (by value), established the conditions attached and the associated controls implemented over these.</p> <p>Confirmed existence and operation of these controls by completing a walkthrough.</p> <p>Reviewed potential NFI data matches.</p>	<p>Detailed budget monitoring was not as systematic in 2020/21 as in previous years.</p> <p>The Council received £87 million additional Covid-19 funding and administered £104 million of grants to businesses and individuals, with appropriate controls in place.</p> <p>Conclusion: The Council has put procedures in place to administer and track Covid-19 expenditure and funding.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>4. Financial sustainability Scottish Government Covid-19 funding is unlikely to be</p>	<p>Reviewed the impact of Covid-19 on the 2021/22</p>	<p>Results: Efficiency savings</p>

Audit risk	Assurance procedure	Results and conclusions
<p>recurring. The Council's ability to achieve efficiency savings has been impacted by the pandemic with only 52% forecasted to be achieved in 2020-21 compared to 85% in 2019-20.</p> <p>Current risk share arrangements as part of health and social care integration are being considered as part of the review of the Integration Scheme due for completion by 31 March 2021. With a relatively low level of general fund reserves, the medium-term financial outlook presents a risk to the financial sustainability of the Council.</p>	<p>budget and medium-term financial plans.</p> <p>Assessed the impact of any changes to the risk share arrangements for the Integrated Joint Board.</p>	<p>Overall, the Integrated Joint Board has improved and strengthened its financial management arrangements. The revised Integration Scheme has now been approved by constituent bodies for application in 2021/22, following final approval by the Scottish Government. The IJB made a total surplus of £30million in 2020/21 of which £15 million is the Council's share.</p> <p>Conclusion: The financial outlook has improved though this may be temporary due to the significant level of unspent Covid-19 funding by the Council and the IJB. The Council needs to develop medium term plans for core and Covid-19 budgets.</p>

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £250k and request they be corrected.

The table below summarises uncorrected misstatements that were identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements however we request that they be corrected.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1. HSC Expenditure		(260)		
Prepayments			260	
2. ECS Expenditure	300			
HSC Expenditure		(300)		
Net impact		(260)	260	

Notes:

1. A prepayment made to Fife College for HSC training to be delivered in 2021/22 affecting IJB services
2. A missed accounting entry to transfer costs from HSC to ECS affecting IJB services (Both of these misstatements would require corresponding reductions in funding income from the IJB, but an increase in the Council's share of the IJB reserve)

Appendix 4

Summary of national performance reports 2020/21

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Fife Council

Draft 2020/21 Annual Audit Report

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