

Clackmannanshire Council

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Clackmannanshire Council and the Controller of Audit
September 2018

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Key messages

2017/18 annual accounts

- 1 In our opinion, the financial statements of Clackmannanshire Council and its group give a true and fair view and were properly prepared.
- 2 The audited part of the remuneration report, the management commentary and the annual governance statement are consistent with the financial statements and were properly prepared.

Financial management

- 3 Savings agreed at the start of the year were not fully achieved. The council managed to operate within its revenue budget for 2017/18 through compensating savings and by restricting spending.
- 4 Underspending against the capital budget continued in 2017/18, with risks to effective service delivery and improvement.
- 5 The council should ensure that leadership and capacity in its finance function is sufficient to maintain effective financial management and reporting at a time when its finances are under unprecedented pressures.

Financial sustainability

- 6 The council's financial position remains acute. Based on revised assumptions the council is forecasting it now needs to achieve further savings of £32 million over the next three years to balance budgets.
- 7 To date, the council has used reserves and savings to meet funding gaps. The council has reduced its reliance on reserves compared to previous years. For this to continue it must achieve savings this year and take decisive action in setting its 2019/20 budget.

Governance and transparency

- 8 The council's governance arrangements during 2017/18 provided an appropriate framework for organisational decision-making. The council is open and transparent in the way it conducts its business, with public access to meetings of the council and its committees.

Best Value

- 9 The council has started to address the recommendations in the Best Value Assurance Report. It is implementing new management and committee structures and is taking steps to introduce a programme management function. The council now needs to build on this work and take the next steps required to translate structural change into savings and new ways of working that will improve its financial position.
- 10 Substantial management changes are now underway and the council should closely monitor the impact on its services and finances. It should

also build on the external assistance it has secured to date to support further improvements in the areas identified in the BVAR.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Clackmannanshire Council (the council) and its group.
2. The scope of the audit was set out in our Annual Audit Plan presented to the 15 March 2018 meeting of the Audit and Finance Committee. This report comprises the findings from:
 - an audit of the annual accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:
 - a Best Value Assurance Report published in January 2018
 - a review of the council's main financial systems resulting in a management report presented to the Audit and Finance Committee in May 2018
 - an audit of the council and its group's annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - consideration of the four audit dimensions.

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.
5. 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.
6. 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.
7. As public-sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the council's Best Value arrangements and 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 accounts and consideration of the audit dimensions. 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.
10. 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 progress against these.
11. 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 the 2017/18 audit fee of £199,840 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to the council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the council promote improved standards of governance, better management and decision-making and more effective use of resources.
13. 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.
14. 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 2017/18 annual accounts



Main judgements

In our opinion, the financial statements of Clackmannanshire Council and its group give a true and fair view and were properly prepared.

The audited part of the remuneration report, the management commentary and the annual governance statement are consistent with the financial statements and were properly prepared.

Audit opinions on the annual accounts

- 15.** The financial statements for the council and its group for the year ended 31 March 2018 were approved by the council on 27 September 2018. We reported, within our independent auditor's report, that in our opinion:
- the financial statements give a true and fair view and were properly prepared
 - the audited part of the remuneration report, the management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with requirements.
- 16.** We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

The financial statements of the council and its group are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Submission of the financial statements for audit

- 17.** We received the unaudited financial statements of the council and its group on 2 July 2018 as agreed with management. The council has significantly reduced the length of its annual report and accounts and has changed the presentation of information contained in the document. This is a positive development, designed to improve accessibility and the reader's understanding of the council's performance and its financial position.
- 18.** This was a transitional year in terms of the form and content of the annual report and accounts and coincided with changes in the staff involved in their preparation. We noted several presentational and disclosure issues which in our view could have been identified by a more comprehensive review before submission for audit. We discussed these with management who made the required changes in the audited financial statements.
- 19.** In addition, the working papers provided to support the financial statements were incomplete. Standard documentation we require to complete our audit, such as year-end bank reconciliations, was not provided. A clearer audit trail could also have been provided for some account areas.



Recommendation 1

The council should review its arrangements for preparing the financial statements to ensure their quality and accuracy.

20. Finance staff provided good support to the audit team during the audit.

Risk of material misstatement

21. [Appendix 2](#) sets out risks of material misstatement that we identified during the audit 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.

Materiality

22. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

23. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

24. On receipt of the annual accounts and following completion of audit testing we reviewed our planning 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	£1.96 million
Performance materiality	£0.98 million
Reporting threshold	£50,000

Source: Audit Scotland

Evaluation of misstatements

25. There were no material adjustments to the unaudited financial statements arising from our audit. We identified some monetary errors below our materiality level, but which exceeded our reporting threshold. All of these were amended by management in the audited accounts. These include:

- the misclassification of assets under construction (see [Exhibit 3](#), page 9) which reduces the council's non-current assets by £0.39 million and increases its net cost of services by £0.25 million
- a £1.30 million reduction in the council's pension liability to reflect actual asset returns (see [Exhibit 3](#), page 9) which has no net effect on the council's outturn for the year or its general fund balance
- impairment of land which reduces the council's non-current assets by £0.52 million and increases its net cost of services by the same amount
- additional income and expenditure accruals which in total increases the council's current assets by £0.08 million and reduces its net cost of services by the same amount
- inclusion of Coalsnaughton LLP as an associate in the council's group financial statements which increases the assets of the council's group by £1.44 million and has no effect on its net cost of services.

26. The net effect of these adjustments is to increase net cost of services in the group comprehensive income and expenditure account by £0.69 million and increase the group general fund balance by £0.61 million.

Significant findings from the audit in accordance with ISA 260

27. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

28. The findings include our views about significant qualitative aspects of the council's accounting practices including:

- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Assets under construction</p> <p>Our audit testing identified that the council has misclassified several assets as assets under construction in the financial statements. Construction of these assets was completed in</p>	<p>The council has adjusted its financial statements to correct these errors. The overall effect is to reduce the council's non-current assets by £0.39 million and increase its net cost of services by £0.25 million.</p>

Finding	Resolution
<p>previous years and some of the assets had been sold. Weaknesses in communication between the council's estates and finance teams meant that the council's fixed asset register and financial ledger had not been updated to reflect these changes. As a result, assets with a total value of £4.63 million were incorrectly disclosed as assets under construction in the accounts presented for audit.</p>	 <p>Recommendation 2 (refer appendix 1, action plan)</p>
<p>2. Valuation of pension assets</p> <p>The council accounts for its share of the assets and liabilities of Falkirk Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS19 reports using estimated data for the final part of the year. Asset returns estimated for the final part of the year were significantly lower than actual returns. As a result, the pension fund assets reported in the accounts presented for audit have been understated by £1.30 million.</p>	<p>The council obtained an updated IAS19 report from the actuary based on actual asset returns. It has adjusted its financial statements to reflect its share of pension fund assets based on this report. This reduces the council's pensions liability by £1.30 million and increases its pensions reserve by the same amount. Local government accounting regulations do not require the general fund to be charged with amounts calculated under IAS19. This means this adjustment does not impact the council's outturn for the year or its general fund balance.</p>

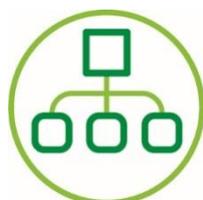
Source: Audit Scotland

Follow up of prior year recommendations

29. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).
30. In total, five agreed actions were raised in 2016/17. Of these, management has fully implemented two. The remaining three have yet to be actioned or have only partly been actioned.
31. Overall the council has made reasonable progress in implementing these actions. For those actions not yet implemented, revised responses and timescales have been agreed with management as set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

Savings agreed at the start of the year were not fully achieved. The council managed to operate within its revenue budget for 2017/18 through compensating savings and by restricting spending.

Underspending against the capital budget continued in 2017/18, with risks to effective service delivery and improvement.

The council should ensure that leadership and capacity in its finance function is sufficient to maintain effective financial management and reporting at a time when its finances are under unprecedented pressures.

Financial performance in 2017/18

- 32.** The council approved its 2017/18 revenue budget of £118.1 million in March 2017. The council revised the budget during the year which resulted in a final budget of £120.5 million. The council recorded a general fund revenue underspend of £4.0 million against its final 2017/18 budget. The more significant underspends are summarised in [Exhibit 4](#).
- 33.** The council's 2017/18 budget included approved savings of £6.8 million of which £4.8 million (70%) were achieved in-year. Planned savings were not fully achieved because:
- the council was unable to implement planned changes to its unsocial hours policy
 - savings from voluntary redundancy and voluntary severance were less than anticipated
 - there was slower than expected progress in implementing service redesign.
- 34.** The council had budgeted to use contributions from reserves of £4.7 million to bridge a budget gap. Although the council did not achieve the full level of savings agreed in the 2017/18 budget it was able to deliver services within budget through compensating savings and planned reductions in spending. This meant the actual contribution from reserves required was £0.7 million.

Financial management is about leadership and capacity in the finance function, sound budgetary processes and effective controls.

Exhibit 4

Summary of significant underspends against budget

Area	Amount	Main reasons for variance
Social Services	£0.9 million	<p>The council has implemented a new delivery model to recruit internal foster carers reducing its use of external foster care providers. This has contributed to reduced spending of £0.7 million on foster and residential care.</p> <p>Income from external care placements was £0.3 million higher than expected.</p> <p>The council has transferred adult social care services to the Clackmannanshire and Stirling Integration Joint Board. The council's social services budget therefore only covers services provided to children.</p>
Development and Environment Services	£1.1 million	<p>Efficiencies, additional income and staff vacancies resulted in a £0.7 million underspend for environmental services.</p> <p>Building operations underspent by £0.2 million due to lower than expected costs for utilities, insurance and office moves.</p>
Education	£1.8 million	<p>The council received pupil equity funding for the 2017/18 academic year (August 2017 to July 2018). The council recorded a £0.8 million underspend reflecting unspent funds at the financial year end.</p> <p>The PPP secondary schools budget was underspent by £0.7 million due to an insurance refund and a reduction in the provision for costs disputed with the council's PPP provider. The council has worked proactively with its PPP provider to demonstrate its position and resolve the dispute in the council's favour.</p>

Source: Clackmannanshire Council

Housing revenue account

35. 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.
36. The council made a budget surplus of £6.3 million in 2017/18 on its HRA which was higher than the budgeted surplus of £5.1 million. This increase was mainly due to staff vacancies and turnover which resulted in reduced costs for property repairs and maintenance and supervision and management.
37. The council has used the HRA surplus to make a £5.7 million capital contribution to fund future improvements to its housing stock. The remaining surplus in the year of £0.6 million is earmarked to support delivery of the council's housing business plan. The balance on the HRA at the end of the

2017/18 financial year increased to £2.6 million. These results indicate that the operation of the council's HRA currently remains financially sustainable.

Capital programme 2017/18

- 38.** Total capital expenditure in 2017/18 was £17.8 million, of which £11.4 million related to general services and £6.4 million to the HRA. This is an underspend of £10.1 million (36%) on the council's capital programme.
- 39.** The underspend was due to a range of factors, the most significant of which are:
- School estates projects (£2.2 million) – due to delays in progressing work at three primary schools because of bad weather
 - Scottish Futures Trust (£1.9 million) – early receipt of grant funding
 - Clackmannan regeneration (£1.1 million) – due to delays in progressing work due to bad weather
 - HRA (£5.4 million) – due to delays in the repairs and refurbishment programme and energy efficiency works.
- 40.** There is a trend of capital underspending in recent years with underspends of £11.1 million, £13.8 million and £9.8 million in 2016/17, 2015/16 and 2014/15 respectively. We highlighted this in our previous annual audit report and recommended that the council reviews its arrangements for managing the capital programme. The council is reviewing its strategic asset plans and is in the process of developing new plans. It has held a first strategic discussion on the school estate strategy, which is a major part of the council's capital programme, and work is underway to develop a 20 to 30-year capital plan.
- 41.** The capital programme is a major part of the council's plans to achieve savings and improve services. It mainly includes major infrastructure projects that will help the council to deliver services more efficiently. There is a risk that recurring underspending leads to slippage in the capital programme which will affect the council's ability to achieve these aims.



Recommendation 3

The council should press on with work to improve the management of its capital programme.

Borrowing in 2017/18

- 42.** The council borrows to support its investment and development of long-term assets. The council has outstanding loans of £143.3 million at 31 March 2018, a decrease of £2.9 million on the previous year. This consists of external borrowing of £102.0 million and long-term liabilities relating to three school public private partnership leases of £41.3 million.
- 43.** The council sets an authorised limit for external debt in its annual treasury strategy. This provides the maximum figure the council can borrow at any given point. The council also sets a lower operational boundary based on an estimate of the most likely level of external borrowing. The council's borrowing remains within its external borrowing limit of £162.0 million and operational boundary of £152.0 million.

Systems of internal control

44. As part of our audit we identify and assess the key internal controls in those accounting systems which we regard as significant to produce 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.
45. Our findings were included in our management report that was presented to the Audit and Finance Committee in May 2018. We identified areas where controls were not operating as expected or where improvements could be made. Overall, no significant control weaknesses were identified which could affect the council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Budget monitoring

46. The [Local Government in Scotland: Financial overview 2016/17](#) (November 2017) highlighted that good budget processes become increasingly important for councils, like Clackmannanshire Council, which have decreasing and low levels of usable reserves to rely on.
47. In 2017/18 the Audit and Finance Committee was responsible for detailed scrutiny of financial performance. The committee received revenue and capital monitoring reports showing an overall picture of the budget position at service level. The reports also forecast the outturn position for the year and included explanations for significant variances against budget. They provided detailed information which allowed councillors to scrutinise the council's finances.
48. While the council received the unaudited accounts for 2017/18 in June 2018, management did not prepare a final outturn report for councillors setting out details of the financial performance of the council in 2017/18. In contrast to previous years, this means that councillors did not have the opportunity to scrutinise the financial performance of individual services in 2017/18 and investigate the reasons for significant revenue and capital over and underspends. The council's performance in achieving agreed savings was also not reported. This is a significant omission which management has informed us was due to changes in personnel in the finance team.



Recommendation 4

The council should review its year end budget monitoring arrangements to ensure councillors have the information and opportunity to scrutinise the council's finances.

Financial management capacity

49. The section 95 officer (or chief financial officer) in a council is legally responsible for the council's finances. [How councils work: Roles and working relationships: are you getting it right?](#) highlighted the key role of the section 95 officer in ensuring sound financial management. This includes establishing and maintaining internal financial controls and providing professional advice to councillors on all aspects of the council's finances. Access to decision-makers and influence at a senior management level is critical.
50. In 2017/18 the council's section 95 officer was the Depute Chief Executive. In May 2018 the Chief Executive left the council and the Depute Chief Executive was after due process appointed to the role. Since May 2018 the section 95

officer has been the Interim Chief Accountant. The Interim Chief Accountant has direct access to the Chief Executive and is a member of the extended senior leadership group.

51. We have previously reported in the [Best Value Assurance Report: Clackmannanshire Council](#) that the council receives good quality information about its finances and has a clear understanding of the scale of the financial challenge. In the financial circumstances the council faces it is vital that the quality and timeliness of financial information is maintained.
52. In this report we have highlighted that the council could improve the quality of its unaudited financial statements and working papers, and its year-end budget monitoring arrangements. We accept that these issues may reflect the impact of recent management changes on the leadership and capacity of the finance team and may only be temporary. We are also aware that vacancies and staff absence in other services have also made it more difficult for finance staff to get information needed to prepare the financial statements. Nonetheless, in view of the council's acute financial position we believe that it is important to highlight this potential risk in this report to the council.
53. The council has started to implement a new organisational structure with the appointment of the Chief Executive and two strategic directors. The next stage to review services to determine the level at which they are most effectively and efficiently delivered is underway. This includes reviewing the structure of the finance team and agreeing permanent arrangements for the application of the section 95 officer role.



Recommendation 5

The council should ensure that the actions it is taking secure the leadership and capacity in the finance team to support effective financial management.

Part 3

Financial sustainability



Main judgements

The council's financial position remains acute. Based on revised assumptions the council is forecasting it now needs to achieve further savings of £32 million over the next three years to balance budgets.

To date, the council has used reserves and savings to meet funding gaps. The council has reduced its reliance on reserves compared to previous years. For this to continue it must achieve savings this year and take decisive action in setting its 2019/20 budget.

Financial planning

- 54.** 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. Councillors approve budgets for a single year, but this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant financial pressures.
- 55.** The council has effective arrangements for financial planning. Its budget strategy sets out its financial planning assumptions and indicative savings for a rolling four-year period. The council uses scenario planning to forecast funding gaps in a best, median (most likely) and worst-case scenario. These scenarios, which it regularly reviews, are based on different sets of assumptions for variables such as Scottish Government funding, inflation and pay awards. During 2017/18 this information was regularly presented to councillors in clearly set out reports which update them on predicted funding gaps.

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

Funding position

- 56.** The council approved its 2018/19 budget in March 2018. It set a general services revenue budget of £118.8 million including agreed savings of £7.4 million. This leaves a budget gap of £2.4 million. The council applied a £0.7 million reduction in anticipated demand pressures to the budget which reduces the budget gap to £1.7 million. This will be met through contributions from the capital receipts reserve and uncommitted revenue reserves.
- 57.** The council is facing an acute financial position. Based on revised assumptions it is forecasting annual funding gaps for 2019/20 to 2021/22 of £12.7 million, £9.3 million and £9.9 million respectively. This is a cumulative funding gap of £31.9 million and an increase from the three-year funding gap of £29.0 million reported this time last year. As a proportion of net expenditure this is among the highest funding gaps of any Scottish local authority.

Reserves

- 58.** We reported in last year's annual audit report that continued use of reserves to meet funding gaps is not sustainable. The council has reduced its reliance on reserves compared to previous years. The level of usable reserves held by the

council increased from £16.1 million to £20.0 million in 2017/18. But the council's general fund balance, which is used to provide a contingency to meet unexpected expenditure and cushion the impact of uneven cash flows, decreased from £10.1 million to £9.7 million.

- 59.** 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 three per cent of net expenditure. The uncommitted element of the general fund at 31 March 2018 was £3.8 million which represents 3.6% of net expenditure. This is a reduction of £1.0 million from the position reported in 2016/17 because reserves were applied to bridge the budget gap. This indicates that without further and effective action, the council's reserves strategy may be at risk.

Savings plans

- 60.** The council plans to achieve its 2018/19 savings target of £7.4 million through:

- management efficiencies = £1.6 million
- policy savings = £2.9 million
- service redesign = £0.9 million
- budget savings approved in 2017/18 = £0.5 million
- non-recurring cash savings = £1.2 million
- savings from new organisational structure = £0.3 million.

- 61.** Officers report progress in achieving agreed savings in the budget strategy reports presented to council meetings. The latest position was reported to the August 2018 meeting of the council. This indicated that:

- £1.5 million of savings have been achieved
- £5.2 million are likely to be achieved (progressing to be delivered or a partial saving will be made)
- £0.7 million are unachievable.

Services have been asked to identify compensatory savings for those savings which will not be achieved.

- 62.** The council knows it needs to continue to find and achieve savings, particularly given the low level of available reserves. The council agreed a new strategic model for providing services in March 2017. Implementation started in 2017/18 and created savings of £0.3 million through management changes. The council plans to use the model to create further savings and the conditions for improved services. The council has arranged services into three categories:

- People – services focused on individuals, families or groups of individuals with certain needs
- Place – services focused on environments and geographic areas
- Partnerships and Performance – services which enable the council to deliver its people and place priorities.

63. The new model focuses on greater integration of services, with new ways of working across departments. The council plans to review all services to determine the level at which they are most effectively and efficiently delivered. It aims to generate savings by reducing the level of resources required to deliver services.
64. Senior councillors and chief officers are working together to identify savings priorities which will form the basis for savings plans for 2019/20 and beyond. The council is also reviewing other local authorities' savings plans to ensure it is considering all areas for potential savings. The council will need to make difficult decisions to achieve financial balance in the medium term.



Recommendation 6

The council should build on work underway to develop savings plans to address the substantial funding gaps it has identified in each of the next three years.

EU withdrawal

65. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:
- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
 - Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
 - Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.
66. The council is aware of the risks associated with EU withdrawal and has assessed how it is likely to be affected. It employs very few EU nationals, so does not believe there will be significant workforce implications. It receives EU funding through the EU's European Regional Development Fund and has received guarantees from the UK government that funding will be made available for all existing projects. It has also considered the wider financial impact of Brexit in its budget strategy reports to members.

City Region Deal

67. City Region Deals provide city regions with the opportunity to deliver infrastructure, innovation and employment projects to improve economic performance. The UK and Scottish governments both provide funding with councils contributing additional funding. Clackmannanshire and Stirling councils entered a joint bid for a City Region Deal which was approved in 2016.
68. The City Region Deal covers three main themes:
- Investor confidence – increasing private sector investment in the area
 - Inclusive growth – developing the local workforce

- Sustainable place – investment in green jobs, green infrastructure and green energy.
- 69.** Funding will be spent in specific areas of Clackmannanshire in keeping with the targeted nature of the Clackmannanshire local outcome improvement plan.
- 70.** Clackmannanshire and Stirling councils and the UK and Scottish governments reached a head of terms agreement in May 2018. This commits all parties to achieving full implementation of the Stirling and Clackmannanshire City Region Deal. In August 2018 the council agreed governance arrangements for the City Region Deal, which are aligned with the arrangements agreed by Stirling Council. This includes a joint committee established with Stirling Council which will be a decision-making forum for City Region Deal matters.
- 71.** The council launched the Clackmannanshire Commission in September 2018. This is an advisory board of local public, private and third sector organisations which will guide investment, project development and prioritisation.

Part 4

Governance and transparency



Main judgements

The council's governance arrangements during 2017/18 provided an appropriate framework for organisational decision-making. The council is open and transparent in the way it conducts its business, with public access to meetings of the council and its committees.

Governance arrangements

- 72.** In 2017/18 the council's corporate governance framework centred on the Full Council supported by its standing committees. Council and committee meetings are well attended by councillors and papers are subject to a good level of scrutiny. The governance arrangements in place during 2017/18 provided an appropriate framework for organisational decision-making.

Transparency

- 73.** Transparency means the public have access to understandable, relevant and timely information about how the council takes decisions and uses resources such as money, people and assets.
- 74.** Overall, the council conducts its business in an open and transparent manner. Members of the public can attend council and committee meetings. Minutes of these committee meetings and supporting papers are available on the council's website. The website also provides public access to a wide range of information including the register of members' interests, current consultations and surveys, and how to make a complaint. The council makes its financial statements available on its website.
- 75.** The council consulted with residents on savings options in the process of agreeing the 2018/19 budget. It is developing an approach to establish more regular discussions with communities on its acute financial position and the options available to help it address it.
- 76.** We identified during the planning stage of our audit that the council did not have an up to date register of interests for senior officers. There was a lack of available information regarding the interests, financial or otherwise, of senior officers, and a consequent risk of a lack of transparency. The council put a register of senior officers in place during 2017/18. We have reviewed this and are satisfied it provides a timely record of senior officers' interests.
- 77.** The council has significantly reduced the length of its annual report and accounts and has changed the presentation of information contained in the document. This is a positive development, designed to improve accessibility and the reader's understanding of the council's performance and its financial position. The council should continue to identify opportunities to improve the presentation of the financial statements to make them more accessible to stakeholders.

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

Internal audit

- 78.** The council's internal audit function is provided through a joint resourcing agreement with Falkirk Council. Falkirk Council provides management and resources under the terms of the agreement. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit's work we carry out an assessment of its documentation standards, reporting procedures and quality, and whether work is performed in accordance with Public Sector Internal Audit Standards (PSIAS).
- 79.** We reviewed the council's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. We concluded that we would place formal reliance on internal audit's Payroll Transactional Testing audit. We also considered the findings of internal audit reports on cyber security and procurement as part of our wider dimension work.

Management commentary, annual governance statement and the audited element of the remuneration report

- 80.** The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body.
- 81.** Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and the audited element of the remuneration report are consistent with the financial statements.

Standards of conduct for prevention and detection of fraud and error

- 82.** 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 councillors, whistleblowing, fraud prevention and fraud response plan.
- 83.** 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

- 84.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated 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 irregularity.
- 85.** In 2016/17 we reported that the council had made limited progress in investigating NFI matches with only 2% of matches reviewed as of August 2017. We recommended that the council work to complete its review of priority NFI matches and ensure it has suitable resource to carry out this work. The council agreed to address this and made a commitment to complete a review of NFI matches by February 2018.
- 86.** NFI activity is summarised in [Exhibit 5](#). This shows that the council has now investigated all NFI matches recommended for investigation. The council reported its progress with the NFI exercise and response to our

recommendations for improvement to the Audit and Finance Committee in November 2017.

Exhibit 5

NFI activity



1,350

Matches



472

Recommended for
investigation



472

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

Integration of health and social care

87. Clackmannanshire and Stirling Integration Joint Board (IJB) provides health and social care services across the council areas. The IJB includes Clackmannanshire Council, Stirling Council and NHS Forth Valley. In 2017, the council transferred operational responsibility for adult social care services to the IJB. Stirling Council and NHS Forth Valley are working towards delegating services in the same way.
88. The financial transactions of the IJB have been consolidated into the council's group financial statements. The unaudited accounts of the IJB show that it incurred a deficit of £1.1 million. The IJB's financial position was regularly monitored during the financial year. As the extent of the overspend became clear, partners agreed a recovery plan to help mitigate the overspend.
89. The council and its partners will need to assess and demonstrate improvements to the quality or efficiency of services provided under the new arrangements.

Local scrutiny plan

90. The 2018/19 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the council was submitted to the council in April 2018. It was presented to the Audit and Finance Committee in May 2018. The LAN reflected on planned Best Value work and did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2018/19. The council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

Following the public pound

91. 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.
92. 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.
93. 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.

Statutory performance indicators (SPIs)

94. 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.
95. For 2017/18 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.
96. Overall, we concluded that the council's arrangements for publication are satisfactory.

Part 5

Best Value



Main judgements

The council has started to address the recommendations in the Best Value Assurance Report. It is implementing new management and committee structures and is taking steps to introduce a programme management function. The council now needs to build on this work and take the next steps required to translate structural change into savings and new ways of working that will improve its financial position.

Substantial management changes are now underway and the council should closely monitor the impact on its services and finances. It should also build on the external assistance it has secured to date to support further improvements in the areas identified in the BVAR.

Best Value

- 97.** The statutory duty of Best Value applies to the council as an entity. To assess progress, we consider audit findings across the audit dimensions shown in Exhibit 1 (page 5). This section of our annual audit report reflects this with reference to the Best Value Assurance Report (BVAR) we produced in January 2018 and the Accounts Commission's findings on that report. Specifically, we focus here on the council's progress in implementing the organisational change which the council sees as central in improving its serious financial position.
- 98.** The BVAR explained the background and basis for our conclusion that the council faces an acute financial position. It had made significant savings over recent years but had yet to make the transformational change necessary to secure its financial position. The report made four recommendations:
- Councillors and officers should build on their constructive working relationships to provide the coherent, combined leadership necessary to secure the council's position.
 - The council should consider savings options and decide how best to direct resources to priorities. It should work with communities to develop options and prepare for the difficult decisions it has to make.
 - The council should further develop its working relationships with community planning partners to ensure their combined resource is directed towards the strategic local outcomes.
 - The council should balance the drive for savings with the need for sufficient officer time and skills to support change. It should also consider how it could make more use of external assistance to support improvement.
- 99.** In March 2018 the council agreed an action plan to progress the recommendations of the BVAR. The council has committed to:
- take forward whole organisational redesign and service transformation

Best Value centres on using resources effectively and continuous improvement.

- agree key priorities for future workforce development to enable and support redesign and change
- establish a governance process and structure to drive, oversee and monitor the redesign and change process
- put in place programme management and governance arrangements, as well as other capacity, required to support the transformation process.

100. In its findings, the Accounts Commission requested a further report by the Controller of Audit on the progress made by the council in June 2019, or earlier if the Controller identifies concerns.

Organisational change and transformation

101. The council agreed a new strategic model with three broad categories of service; people, place, and partnerships and performance. It has started to implement its new management structure. Following the appointment of a new Chief Executive in July 2018, and at the time of producing this report, appointments have been made to two of the three new strategic director positions (place, and partnerships and performance). This process has taken longer than the council expected. Consequently, it has made limited direct savings so far from its new model, with £0.3 million achieved in 2017/18.

102. Leadership and capacity for change and improvement was a central theme in the BVAR. The next stage of the council's change programme to review services to determine the level at which they are most effectively and efficiently delivered is underway. In this report we have highlighted issues which may be directly associated with changes taking place, in the context of the annual financial audit, with particular references to finance and estates.

103. In August 2018, the council agreed to establish a Board to oversee the management of change in the council. The membership includes the Chief Executive, strategic directors, the council leader and representatives from each of the three political parties. The council has also agreed to recruit a programme manager to establish and lead a programme management office to support and coordinate the council's change programme.

104. The council implemented a new committee structure in 2018/19 to reflect its new strategic model. Three new service committees, for people, place, and partnerships and performance, have been formed and had their first meetings in August and September 2018. A new audit committee has also been established to replace the Audit and Finance Committee and Scrutiny Committee. The new committee, which will meet for the first time in October 2018, is chaired by a member of the opposition, in line with accepted good practice.

105. Consistent with the BVAR recommendation and the Accounts Commission's findings, the council has secured a range of external assistance to support improvement. Officers are working with Stirling University to better understand how local factors, such as unemployment and deprivation, affect the demand for council services. This will be used to inform early intervention and prevention programmes. It has also received advice from the Improvement Service on setting up its new programme management function. Finally, the council is working with an external specialist to help councillors and officers build the combined, coherent leadership which we believe is critical if the council is to make the substantial savings and shifts in service design and delivery required to deal with its acute financial position. This work will also support development and delivery of the council's updated corporate plan, which is still to be finalised.

106. In summary, the council has started work to address the recommendations of the BVAR. It is implementing new management and committee structures and is taking steps to introduce a programme management function. The next stage to review services to determine the level at which they are most effectively and efficiently delivered is underway. The council now needs to build on this work and take the next steps required to translate structural change into savings and new ways of working that will improve its financial position. The 2019/20 budget will be a crucial test of the council's ambition for transformational change.



Recommendation 7

The council should build on work already underway and take the next steps to secure the changes needed to address its acute financial position.

National performance audit reports

- 107.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published reports which are of direct interest to the council. These are outlined in [Appendix 3](#).
- 108.** Particular reports which the council will find helpful in addressing the challenges it faces include [Local government in Scotland: Financial overview 2016/17](#) and the Best Value Assurance Reports prepared for other councils in 2017 and 2018.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Submission of financial statements for audit</p> <p>This was a transitional year in terms of the form and content of the annual report and accounts and coincided with changes in the staff involved in their preparation. We noted several presentational and disclosure issues which in our view could have been identified by a more comprehensive review before submission for audit. In addition, the working papers provided to support the financial statements were incomplete.</p> <p>Risk</p> <p>Poor quality and inaccurate financial statements are presented for audit and to councillors.</p>	<p>The council should review its arrangements for preparing the financial statements to ensure their quality and accuracy.</p> <p>Paragraph 19</p>	<p>The timing of a number of key staff departures, left the finance team on a steep learning curve for the year end. No additional resources were available to support this process. A number of learning points have been recorded from the process and these will be implemented for the 2018/19 accounts. Including better timetabling, documentation and earlier planning.</p>
2	<p>Assets under construction</p> <p>Our audit testing identified that the council has misclassified several assets as assets under construction in the financial statements. Construction of these assets was completed in previous years and some of the assets had been sold. Weaknesses in communication between the council's estates and finance teams meant that the council's fixed asset register and financial ledger had not been updated to reflect these changes. As a result, assets with a total value of £4.6 million were incorrectly disclosed as assets under construction in the accounts presented for audit.</p>	<p>The council should ensure there is clear and regular communication between the finance team and other service areas, particularly during the financial statements preparation process.</p> <p>Paragraph 28</p>	<p>With the loss of the only Council surveyor and the Capital Investment Group ceasing, communications did fail.</p> <p>A new Capital Operations Group has now been implemented, with communication and joint working now in operation. This has occurred before the audit commenced.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
Risk			
The council is not aware of changes affecting its assets which results in errors in the financial statements.			
3	<p>Capital programme</p> <p>The council's trend of capital underspending continued in 2017/18 with an underspend of £10.1 million on the capital programme which represents 52% of planned spending. The capital programme is a major part of the council's plans to achieve savings and improve services. It mainly includes major infrastructure projects that will help the council to deliver services more efficiently. There is a risk that recurring underspending leads to slippage in the capital programme which will affect the council's ability to achieve these aims.</p> <p>Risk</p> <p>Recurring underspending leads to slippage in the capital programme which affects the council's ability to achieve savings and improve services.</p>	<p>The council should press on with work to improve the management of its capital programme.</p> <p>Paragraph 41</p>	<p>The capital planning priorities are currently under review as the new Strategic Directors begin to review their budgets and long-term capital plans. These are being aligned with the new Corporate plan and LOIP outcomes.</p> <p>During 2018/19 a capital strategy will be produced which will set out the vision and context for these plans.</p> <p>The elected members are actively involved with scrutinising these Capital Asset Plans, monitoring and challenge will be rigorous during 2018/19.</p>
4	<p>Budget scrutiny</p> <p>While the council received the unaudited accounts for 2017/18 in June 2018, management did not prepare a final outturn report for councillors setting out details of the financial performance of the council in 2017/18. In contrast to previous years, this means that councillors did not have the opportunity to scrutinise the financial performance of individual services in 2017/18 and investigate the reasons for significant revenue and capital over and underspends. The council's performance in achieving agreed savings was also not reported. This is a significant omission which management has informed us</p>	<p>The council should review its year end budget monitoring arrangements to ensure councillors have the information and opportunity to scrutinise the council's finances.</p> <p>Paragraph 48</p>	<p>The timetabling of Committee meetings meant that the first opportunity to report the year end draft outturn would have been June, at which, the draft final accounts were also being presented.</p> <p>For 2018/19 a draft outturn will be presented to the June 2019 Audit Committee.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>was due to changes in personnel in the finance team.</p> <p>Risk</p> <p>The council's finances are not adequately scrutinised and services are not held to account for their spending.</p>		
5	<p>Financial management capacity</p> <p>Since May 2018 the section 95 officer has been the Interim Chief Accountant. The Interim Chief Accountant has direct access to the Chief Executive and is a member of the extended senior leadership group. In this report we have highlighted that the council could improve the quality of its unaudited financial statements and working papers, and its year-end budget monitoring arrangements. We accept that these issues may reflect the impact of recent management changes on the leadership and capacity of the finance team and may only be temporary. We are also aware that vacancies and staff absence in other services have also made it more difficult for finance staff to get information needed to prepare the financial statements. Nonetheless, in view of the council's acute financial position we believe that it is important to highlight this potential risk in this report to the council.</p> <p>Risk</p> <p>The finance team does not have sufficient leadership and capacity to support effective financial management.</p>	<p>The council should ensure that the actions it is taking secure the leadership and capacity in the finance team to support effective financial management.</p> <p>Paragraph 53</p>	<p>The vacant statutory posts will be recruited once the Strategic Directors recruitment has been completed.</p> <p>Highly competitive salaries within commuting distance, makes recruiting in Clackmannanshire problematic, within certain staffing areas. Ways to improve this position will be sought as part of the process.</p> <p>A section 95 Officer will be recruited in the year.</p>
6	<p>Savings plans</p> <p>The council knows it needs to continue to find and achieve savings, particularly given its low level of available reserves. It agreed a new strategic model for providing services in March 2017. The new model focuses on greater integration of services,</p>	<p>The council should build on work underway to develop savings plans to address the substantial funding gaps it has identified in each of the next three years.</p> <p>Paragraph 64</p>	<p>The 2019/20 Budget Challenge sessions are well underway, with elected members being fully aware of the need to put in place realistic savings plans.</p> <p>The experience of recent years will now ensure that timescales are more realistic,</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>with new ways of working across departments. The council aims to generate savings by reducing the level of resources required to deliver services. Senior councillors and chief officers are working together to identify savings priorities which will form the basis for savings plans for 2019/20 and beyond. The council will need to make difficult decisions to achieve financial balance in the medium term.</p> <p>Risk</p> <p>The council is unable to deliver priority services.</p>		<p>especially around VS and TVR processes and the resultant savings these produce.</p> <p>The new Strategic Directors are working with their teams to fully review service provision and live within the budget available in future years. This will involve consultation and difficult discussions with the Community.</p>
7	<p>Organisational change and transformation</p> <p>The council has started work to address the recommendations of the BVAR. It is implementing new management and committee structures and is taking steps to introduce a programme management function. The next stage to review services to determine the level at which they are most effectively and efficiently delivered is underway. The council now needs to build on this work and take the next steps required to translate structural change into savings and new ways of working that will improve its financial position. The 2019/20 budget will be a crucial test of the council's ambition for transformational change.</p> <p>Risk</p> <p>The council does not make the transformational change necessary to secure its financial position.</p>	<p>The council should build on work already underway and take the next steps to secure the changes needed to address its acute financial position.</p> <p>Paragraph 106</p>	<p>The restructure included the development of a Project Management Office to ensure that future projects are fully evaluated and costed before implementation.</p> <p>Work has commenced on sourcing an external resource for this and it is hoped that the Change Manager will be in post before Christmas.</p>
Follow up of prior year recommendations			
b/f	<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</p>	<p>The council should review its fixed asset register and take corrective action to ensure individual asset values are accurately recorded.</p>	<p>The council has misclassified several assets as assets under construction in the fixed assets register and financial statements. See action plan point 3.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>		
b/f	<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 strategic priorities.</p>	<p>The council should review its arrangements for managing the capital programme to ensure they are effective.</p>	<p>The council reported another significant capital underspend in 2017/18. See action plan point 4.</p>
b/f	<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>	<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>	<p>The council has now investigated all NFI matches recommended for investigation.</p>
b/f	<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</p>	<p>The council should work to ensure savings plans and financial projections are aligned with its refreshed priorities.</p>	<p>Senior councillors and chief officers are working together to identify savings priorities which will form the basis for savings plans for 2019/20 and beyond.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>		
b/f	<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 make significant savings from a new strategic model. It has yet to identify the savings achievable from redesigning how it delivers services.</p> <p>Risk</p> <p>The council is unable to deliver priority services.</p>	<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>	<p>Senior councillors and chief officers are working together to identify savings priorities which will form the basis for savings plans for 2019/20 and beyond. The council will need to make difficult decisions to achieve financial balance in the medium term. See action plan point 7.</p> <p>The council is in the early stages of implementing its new strategic model and is yet to achieve significant savings.</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 to our wider responsibility under the [Code of Audit Practice 2016](#).

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 consideration of 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>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We tested journal entries, accruals and prepayments and reviewed accounting estimates and found no material errors.</p>
<p>2 Risk of fraud over income</p> <p>The council receives a significant amount of income in addition to Scottish Government funding, for example council tax and charges for services. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Testing of key controls.</p> <p>Focused substantive testing on higher risk areas.</p>	<p>Our analytical procedures and substantive testing found no instances of fraud over income.</p> <p>We identified some controls weaknesses from our testing of key controls. We carried out additional work to give us assurance over the accuracy of the council's financial statements.</p>
<p>3 Risk of fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give consideration of the risk of fraud over expenditure. The extent of expenditure, for example on benefits and grants, means that there is an inherent risk of fraud.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Testing of key controls.</p> <p>Focused substantive testing on higher risk areas.</p>	<p>Our analytical procedures and substantive testing found no instances of fraud over expenditure.</p> <p>We identified some controls weaknesses from our testing of key controls. We carried out additional work to give us assurance over the accuracy of the council's financial statements.</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</p> <p>The council projects it will have to achieve savings amounting to £29 million of its current budget in the years 2018 to 2021. This is about a quarter of the current budget of £118 million.</p> <p>There are increasing financial pressures due to demand, for example adult social services within the Integration Joint Board.</p> <p>There is a risk that the council will find it increasingly difficult to meet savings targets in future years and maintain financial sustainability.</p>	<p>Assess the achievement of savings and the council's progress against funding gaps.</p> <p>Review the sustainability of the budget strategy and savings plans.</p>	<p>The council did not fully achieve agreed savings in 2017/18 but was able to deliver services within budget through compensating savings, restricting spending and net underspends within services.</p> <p>The council's financial position remains acute and is worsening. It needs to achieve further savings of £32 million over the next three years.</p>
<p>5 Service transformation</p> <p>The council is starting a programme of change designed to achieve savings and improve services.</p> <p>There is a risk that the council is unable to achieve the service transformation required to address its financial challenge whilst having sufficient officer time and skills to support change.</p>	<p>Assess progress on the four main themes of the transformation programme, including progress on the workforce strategy and the corporate plan.</p> <p>Follow-up recommendations in the January 2018 Best Value Assurance Report and the issues raised in the Accounts Commission's findings.</p>	<p>We have reported the council's progress with its plans to achieve savings and improve services and address the recommendations of the Best Value Assurance Report in part 5 of this report.</p>
<p>6 Openness and transparency</p> <p>The council does not have an up to date register of interests for senior officers. There is a lack of available information regarding the interests, financial or otherwise, of senior officers, and a consequent risk of a lack of transparency.</p>	<p>The council has undertaken to produce a register of senior officer interests as part of the processes for producing the annual governance statement. We will review the process and documentation as part of the financial statements audit.</p>	<p>The council put a register of senior officers in place during 2017/18. We have reviewed this and are satisfied it provides a timely record of senior officers' interests.</p>

Appendix 3

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Local government relevant reports

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

Clackmannanshire Council

2017/18 Annual Audit Report

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