

Fife Council

2019/20 Annual Audit Report



 AUDIT SCOTLAND

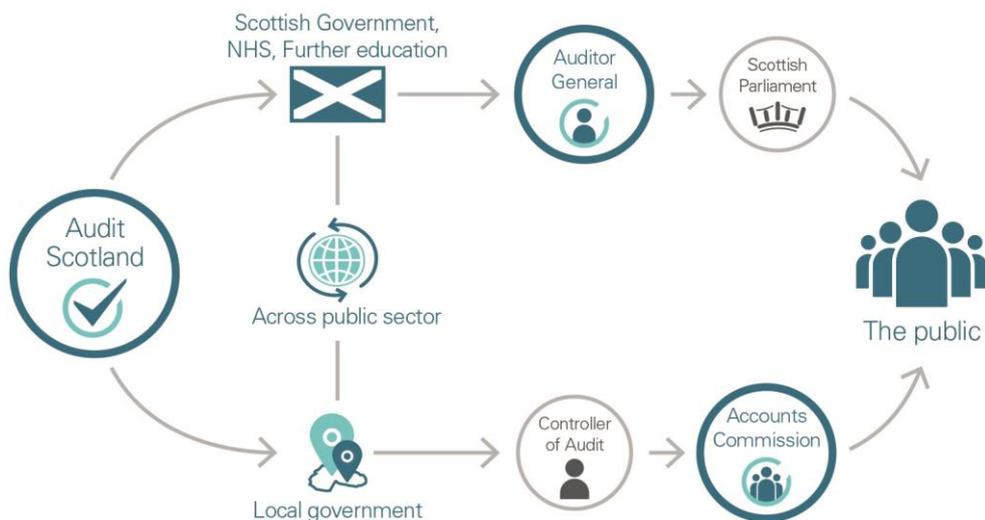
Prepared for the Members of Fife Council and the Controller of Audit

November 2020

Who we are

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

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



About us

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

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

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

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Key messages

2019/20 annual accounts

- 1** Our audit opinions on the annual accounts of the Council, its group and the section 106 charities, administered by the Council, are unmodified.
- 2** An Emphasis of Matter paragraph has been included in the Independent Auditor's Report reflecting the market valuation uncertainty on property values highlighted by the council due to the Covid-19 pandemic.
- 3** The Council has included an adjustment of £8 million in the audited accounts, which reflects a revised and up to date assessment of the pension liabilities, based on new information with regard to the McCloud case.

Financial management and sustainability

- 4** The Council reported an underspend against its 2019/20 budget of £3.3 million after applying £11 million as planned for non-recurring items from useable earmarked reserves. Overall, there was a reduction of £7 million in general fund reserves.
- 5** Services overspent by £8 million, mainly in children and families and adult social care, but this was more than offset by underspends in centrally held budgets. The IJB partnership overspent by £7 million in 2019/20.
- 6** The council achieved 85% of planned efficiency savings of £14 million.
- 7** The 2020/21 budget, set before Covid-19, identified a budget gap of £15 million. The council planned to balance the budget without using reserves and agreed a 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. The Council then allocated a further £3 million to Health and Social Care which was part of additional funding provided late in the budget process which is assumed to be recurring. The council currently forecasts an overspend of £3.5 million.
- 8** The financial impact of COVID-19 is estimated to be £71.5 million in 2020/21 and the council has developed a short-term financial strategy in response as well as revising medium-term financial plans.
- 9** The level of General Fund reserves has continued to reduce and will be depleted, if the current rates continue, over the medium term.

Governance, transparency & best value

- 10** Overall governance arrangements are appropriate but were affected by the Covid-19 pandemic. In general, the council has been slow to fully implement the recommendations set out in our 2018 Best Value Assurance Report. However, we are pleased to note that one action is now complete, and all other recommendations are progressing.
- 11** Performance management information is publicly reported but the content and access need to be improved.

Introduction

1. This report summarises the findings arising from the 2019/20 audit of Fife Council (the council) and its group. The scope of the audit was set out in our 2019/20 Annual Audit Plan presented to the December 2019 meeting of the Standards and Audit Committee. This report comprises the findings from:

- an audit of the annual accounts of the council and its group including the statement of accounts of the 48 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
- audit work covering the Council's arrangements for securing best value relating to financial management, financial sustainability and governance and transparency
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) ([Exhibit 1](#)).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

2. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the council has had to respond to the global coronavirus pandemic. We issued a paper, [Covid-19 How public audit in Scotland is responding](#), setting out Audit Scotland's strategy and approach to our financial and performance audit programmes. It provided detail about the scope, timing and areas of focus for our audit work.

Adding value through the audit

3. We add value to Fife 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.

4. We aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

5. Fife 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. It 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.

- 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. 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, the financial position, the arrangements for securing financial sustainability and Best Value arrangements. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

6. 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.

7. 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

8. 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 2019/20 audit fee of £522,470 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

9. 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.

Part 1

Audit of 2019/20 annual accounts



Main judgements

Our audit opinions on the annual accounts of the council, its group and the section 106 charities, administered by the council, are unmodified.

An Emphasis of Matter paragraph has been included in the Independent Auditor's Report reflecting the market valuation uncertainty on property values highlighted by the council due to the Covid-19 pandemic.

The Council has included an adjustment of £8 million in the audited accounts, which reflects a revised and up to date assessment of the pension liabilities, based on new information with regard to the McCloud case.

Covid-19 restrictions impacted on the audit and delayed reporting to the Council.

The annual accounts are the principal means of accounting for the stewardship of resources and performance.

Our audit opinions on the annual accounts are unmodified

10. The accounts for the council and its group for the year ended 31 March 2020 were approved by the Standards and Audit Committee on 26 November 2020. 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.

The Council identifies uncertainty in property valuations due to COVID-19

11. The "Emphasis of Matter" section in our Independent Auditor's Report refers to the disclosures in note 3 of the financial statements, which identify a material valuation uncertainty in respect of property valuations caused by the Covid-19 pandemic. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw user's attention to matters which are fundamental to the understanding of the financial statements. Further information is contained in Exhibit 4 below. The audit opinion is not modified in respect of this matter.

The audit opinions on the section 106 charities are all unqualified

12. A separate independent auditor's report is required for the statement of accounts of each registered charity where members of Fife Council are sole

trustees. We received the charities' accounts in line with the agreed timetable and after completing our audit we issued an unmodified audit opinion on the 2019/20 statements.

The audited charities accounts include unadjusted misstatements

13. Total misstatements identified in the audit of the charitable trusts were £3,000. These relate to over accrued investment income. These would have increased net expenditure by £3,000, if adjusted.

14. 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. 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 and materiality.

Two charitable trusts have been transferred to an external charity

15. The OSCR website states that "in general, if a charity does nothing for a prolonged period, it is unlikely to be providing public benefit and this may result in it failing the charity test". In 2018/19 we found that 28 funds (58%) had been inactive for the three years and we continued to recommend further action be taken to address this issue. It is encouraging to note that during 2019/20 we have observed progress by the council to try and release funds/wind up Trusts in order to reduce this number further. We also noted that four Trusts which had been dormant for a few years were active again in 2019/20. During 2018/19 the Council transferred two trusts to an external charity. The transfer was approved by The Office of Scottish Charity Regulator (OSCR).

Covid-19 impacted on the audit of the annual accounts

16. In March 2020, in response to the global Covid-19 pandemic, Scotland went into lockdown. The Scottish Government advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised timetable for the annual accounts. Fife Council published the unaudited accounts on 30 June 2020 in accordance with the original timescale

17. Throughout the audit process there has been on-going discussions with council staff and their support enabled the audit to proceed, however the limitations of remote working did impact on our audit timetable and the audit took longer.

18. The working papers provided to support the unaudited accounts were of a good standard, however as we were unable to access council systems directly, we often had to rely more on council staff to obtain and present audit evidence. This was at a time when council staff were dealing with the significant additional pressures from Covid-19.

No objections were received on the annual accounts

19. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes 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 and there were no objections to the 2019/20 annual accounts.

Whole of Government Accounts

20. In accordance with the WGA guidance we intend to complete the required assurance statement and submit it to the National Audit Office by the extended deadline of 4 December 2020.

Overall materiality is £15 million

21. 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 2](#).

Exhibit 2 Materiality values

Overall materiality	£15 million
Performance materiality	£7.5 million
Reporting threshold	£250,000

22. We also set separate materiality levels for the charitable trusts as outlined in [Exhibit 3](#).

Exhibit 3 Charitable Trusts - materiality values

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

Audit work addressed the main risks of material misstatement

23. [Appendix 2](#) provides our assessment of 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.

We have a number of significant findings to report from the audit

24. 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. The significant findings are summarised in [Exhibit 4](#).

Exhibit 4 Significant findings from the audit of the financial statements

1. Property valuations and Covid-19 uncertainty	The extent and timing of the rolling programme of valuation work has contributed to the view that less certainty
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The Balance Sheet includes property, plant and equipment with a total value of £3,484 million. The Council has a five-year rolling valuation programme as detailed in Note 11.

The COVID-19 pandemic created significant uncertainty over the valuation.

The asset valuer has included a material uncertainty disclosure within the valuation report.

can be attached to the valuation than would otherwise be the case.

Conclusion: The accounts disclose this increased uncertainty at Note 3 of the financial statements, and we have included an 'emphasis of matter' paragraph in our independent auditors' report to draw attention to the matter.

2. Pension valuations – McCloud liability revision

In January 2017 an employment tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to a new career average scheme, known widely as the McCloud case.

On 16 July 2020, the UK Government released a consultation document on the remedy to the issues. This identified a proposed treatment for pension members affected.

Following this Hymans Robertson (actuary) contacted the Council to advise them that the proposed remedy indicated that the estimated liability should be reduced. A revised basis for determining who the remedy applied to, based on the governments proposed remedy, was more onerous than the actuary's previous estimate.

The Council requested a revised valuation report from the actuary taking into account this adjustment.

Conclusion: The Council has included an adjustment of £7.5 million in the audited single entity accounts and £0.5 million in the audited group accounts which reflects a revised and up to date assessment of the pension liabilities, in line with the proposed remedy issued in July 2020.

3. Pension scheme property valuations (Covid-19)

The IAS19 report received from the actuary, Hymans Robertson, provided the year end pension information for Fife Council. No additional uncertainty was identified in the IAS19 report on the asset values. However, the unaudited accounts of Fife Pension Fund include a Material Valuation Uncertainty note that covers the valuation of the Fund's level 3 investment portfolio, due to the unprecedented set of circumstances caused by the Covid-19 pandemic.

We considered the basis of IAS 19 reporting and the extent of level 3 investments held by Fife Pension Fund (these are the hardest to value as they are not frequently traded and are valued subjectively rather than by reference to market prices). We also considered the normal valuation uncertainty and the relative share of this risk borne by Fife Council.

Conclusion: The uncertainty is disclosed in Note 4 to the accounts and we determined that the matter did not require an 'emphasis of matter' paragraph in our independent auditor's report.

4. Year end creditors/cash balance

Following a review of the year end bank account reconciliations and comparison with the Bank letter issued by RBS we identified that BACS payments totalling £8.55million had left the bank account on 31st March 2020, but the journal to adjust the General Ledger bank account and cash clearing account was processed by the council in the following financial year. This meant that creditors were shown as unpaid in the unaudited financial statements even though they had been paid at 31 March.

The error is not material to the accounts, but the council has considered the error to be significant and corrected it.

Conclusion: The Council has processed an adjustment in the audited accounts, reducing both cash assets and short-term creditors by £8.55 million.

5. Housing benefit overpayment bad debt provision

The accounts include a £6.1 million bad debt provision against housing benefit overpayments without a corresponding debtor in the accounts. A separate £3 million balance for housing benefit overpayments is included but has its own £1.6 million bad debt provision. In our view the debtors balance is understated by £6.1 million.

The issue was identified late in the audit process and officers plan to investigate this further in 2020-21.

Conclusion: We are content with this approach. The amount is below our performance materiality threshold. The matter has been included in the list of unadjusted misstatements at Appendix 3



Recommendation 1

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.

Source: Audit Scotland

Identified misstatements of £18 million were adjusted in the accounts

25. The adjustments had the net effect of increasing total Comprehensive Income and net assets by £6.3 million. There was no impact on the general fund. Two adjustments were in excess of our performance materiality threshold and have been included as points 2 and 4 in [Exhibit 4](#) above.

26. In addition to the total adjustments made there were a further £8.1 million of misstatements identified in [Appendix 3](#) that have not been adjusted. The net effect of these would be increase total comprehensive income and net assets by £6.4million. 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 and materiality. Management have not adjusted these as they consider they are not material to the users of the accounts.

27. 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. Point 2 refers to an adjustment to an estimate which arose due to further information becoming available after the balance sheet date which allowed actuaries to make a more accurate estimate of pension cost based on the proposed remedy to McCloud. Point 4 is a classification adjustment within the balance sheet.

Progress has begun to implement our prior year audit recommendations

28. The Council has begun to implement our prior year audit recommendations, but many are still in progress. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

The council has refined its management commentary

29. Steps have been taken by officers in the Council to refine the Management Commentary in 2019/20. The Management Commentary is clear, concise and provides a balanced summary of financial, and performance information during the year. The final document has reduced in length from 79 pages last year to 69 pages this year. This builds on work in prior years' undertaken by the council to reduce significantly the length of the financial statements. We commend this approach to focusing and reducing the size of the financial statements.

Part 2

Financial management



Main judgements

The Council reported an underspend against its 2019/20 budget of £3.3 million after applying £11 million for one off items as planned from useable earmarked reserves. Overall, there was a reduction of £7 million in general fund reserves.

Services overspent by £8 million, mainly in children and families and adult social care, but this was more than offset by underspends in centrally held budgets.

The IJB partnership overspent by £7 million in 2019/20. Fife council funded £1.86 million of the overspend in accordance with the integration scheme. The remaining £4.8 million was funded by NHS Fife.

The council achieved 85% of planned efficiency savings of £14 million.

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

The 2019/20 budget was predicated on planned savings of £14 million

30. The council approved its 2019/20 revenue budget in February 2019. The budget was set at £789 million and included:

- Increasing council tax by 3% (£4.7 million)
- A cut to the core IJB funding of £0.8 million
- Approved savings of £4.8m million. These savings were in addition to £9 million savings approved in previous budget rounds and included in the base budget
- Additional investment of £1.1 million, mainly on holiday meals, headstone repairs and amounts devolved to area committees.

31. Various funding adjustments were made during year and the final budget for 2019/20 was £822 million.

The Council reported an underspend against its 2019/20 budget of £3.3 million

32. In June 2020 the Council reported an underspend against its 2019/20 budget of £3.3 million, after applying £11 million as planned for non-recurring items from useable earmarked reserves.

33. Services overspent in total by £8 million. The more significant budget variances at a service level are described in Exhibit 5.

34. The combined effect of the reported underspend and use of reserves is a reduction of £7 million in the general fund balance from £40 million to £33 million.

Exhibit 5

Summary of significant under / overspends against budget

Education and Children's Services - Children and Families	£10.3 (Adv)	The position for the service reflects an overspend for Children and Families Service, mainly due to overspends on third party payments for care placements.
Education (Non-Devolved)	£3.3 (Fav)	Mainly due to the timing of recruiting additional Early Years Officers to match the intake of children throughout the year
Education (Devolved)	£1.7 (Fav)	Due to an underspend on employee costs of £2.8million due to vacant teachers posts. This is offset by an overspend of £1million on supplies and services due to increased spend on stationery, communications and computing equipment.
Health and Social Care – Social care (IJB partnership expenditure)	£1.8 (Adv)	The main variances were an overspend of £2.8 million on adult placements due to increased complexity, demand and risk and an increase in income received from NHS of £1.098m.

Source: Fife Council 2019/20 Annual Accounts

The IJB partnership overspent by £6.6 million in 2019/20. Fife council funded £1.86 million of the overspend in accordance with the integration scheme. The remaining £4.8 million was funded by NHS Fife.

35. Overall, the IJB partnership overspent by £6.6 million in 2019/20. Fife council funded £1.86 million of the overspend in accordance with the integration scheme. The remaining £4.8 million was funded by NHS Fife. The level of overspend reflected an agreement between the Council, NHS Fife and the Partnership to balance the IJB budget over a 3-year period given the need for significant change to deliver a balanced budget.

36. Covid-19 has impacted on both the finance team at the council and our audit team and we have been unable to perform wider code audit work of the financial management arrangements in two areas facing significant pressures:

- Children & Families
- Adult Social Care.

The council achieved 85% of planned efficiency savings

37. In 2019/20, the body planned to achieve efficiency savings of £13.8 million to address the budgeted funding gap. The council achieved actual savings of £11.7 million (85% of this total). The shortfall was dealt with by in-year alternative savings, such as vacancy management and savings on loan charges.

Housing revenue account operated within budget

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

39. During 2019/2020 the total income target of £122 million was met and the HRA made a positive contribution of £0.5 million to balances. The HRA balance within the General Fund Reserve increased from £2.5 million to £3 million at 31 March 2020.

Financial system controls are operating effectively in most areas, but there were some weaknesses

40. 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 body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

41. Our findings were included in our management report that was presented to the Standards and Audit Committee on 31 August 2020. We concluded that the key controls are operating effectively. We identified some control weaknesses covering the timely completion of reconciliations and access to the banking system. We revised our audit approach in response to the weaknesses identified to enable us to obtain sufficient assurance to conclude on the 2019/20 annual accounts.

We were unable to perform wider code governance work in relation to procurement as Covid-19 affected audit work in this area

42. We had planned to assess controls to prevent and detect fraud and corruption in procurement, as part of our wider code governance work, but this has been affected by Covid-19 and we have been unable to complete this work.

Part 3

Financial sustainability



Main judgements

The 2020/21 budget, set before Covid-19, identified a budget gap of £15 million. When the budget was set, the council planned to balance the budget without using reserves and agreed a 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. The council currently forecasts an overspend of £3.5 million.

The financial impact of COVID-19 is estimated to be £71.5 million in 2020/21 and the council has developed a short-term financial strategy in response as well as revising medium-term financial plans.

The level of General Fund reserves has continued to reduce and will be depleted if the current rates continue over the medium term.

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.

The 2020/21 budget, set before Covid-19, identified a budget gap of £15 million before agreeing options to balance the budget. The council currently forecasts an overspend of £3.5 million.

43. The council approved its 2020/21 budget in February 2020. The budget which was set at £841 million identified a budget gap of £15 million. The council planned to balance the budget without using reserves and agreed a 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.

44. Since February the council has received £6.4m additional funding and increased revenue grant. The Council allocated £3m of the additional funding to Health and Social Care. The latest council projections in August 2020 forecasts an overspend of £3.5 million for 2020/21, before any use of balances. However, the Council anticipates additional funding being distributed by the Scottish Government reflecting the loss of income scheme which would reduce the overspend significantly and minimise the use of balances.

45. In February 2020, prior to the COVID pandemic, the medium-term financial plan projected cumulative funding gaps of £32.9 million for the period 2020 – 2023, but these have now been revised.

The financial impact of COVID-19 is estimated to be £71.5 million in 2020/21 and the council has developed a short-term financial strategy in response as well as revising medium-term financial plans

46. In July 2020, the council estimated the net financial impact of COVID to be £78 million. The latest council projections show a slight reduction in overall financial pressures to £76 million, £71.5 million of which relates to pressures resulting from

COVID-19. The council has developed a short-term financial strategy for 2020-21 in response to the pressures which has been approved by committee throughout its development. Medium term financial plans have recently been updated and now project a funding gap of £30.2 million from 2021/22 to 2023/24. The council is reviewing various options to balance the budget for 2021-24.

47. The council is now facing more challenges and uncertainties than usual and has therefore reported that the budget process has been reduced to one year instead of the normal three-year period, however medium-term financial planning continues in preparation for future years. The principles of the Medium-Term Financial Strategy (MTFS) will continue to apply.

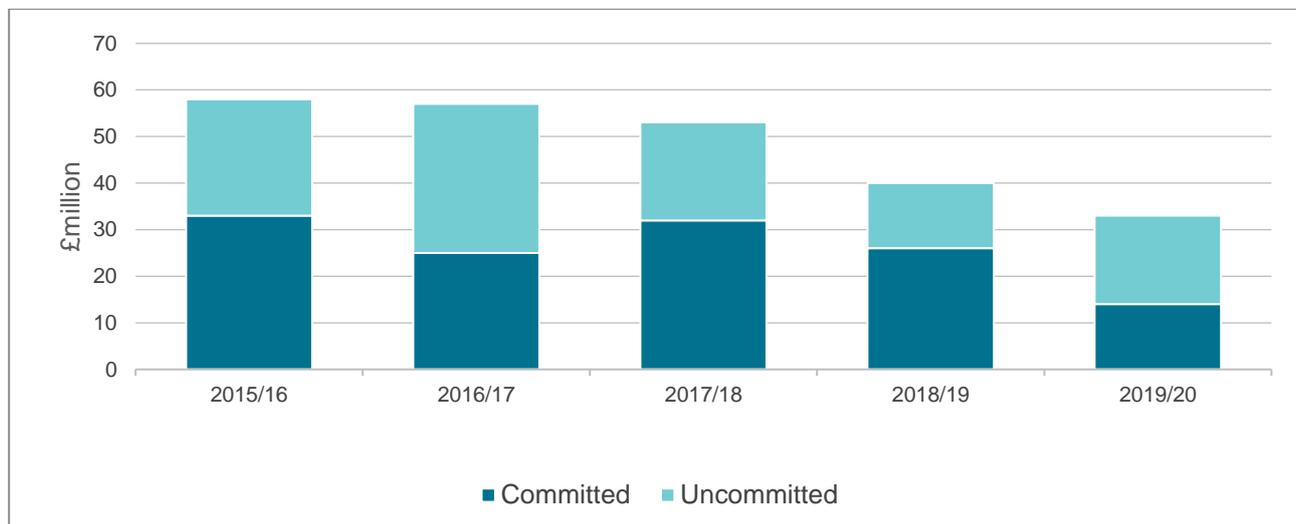
The level of General Fund reserves has continued to reduce and will be depleted if the current rates continue over the medium term

48. One of the key measures of the financial health of a body is the level of reserves held. The council has an agreed policy to maintain a minimum uncommitted reserve balance of 2% over a three-year period. The level of usable reserves held by the council decreased from £41 million to £33 million in 2019/20. £14 million of this balance has already been earmarked for specific projects leaving an uncommitted balance of £19 million which is within the minimum agreed 2%.

49. [Exhibit 5](#) provides an analysis of the general fund balances over the last five years split between committed and uncommitted reserves. The chart highlights the reduction of the General Fund balance from £58 million at 31 March 2016 to £33 million at 31 March 2020.

Exhibit 5 Analysis of general fund balance

The total general fund has decreased each year from 2015/16



Fife Council audited accounts

50. Fife council has increased the use of reserves in the last two years to fund planned non-recurring expenditure including workforce change, support to children and families and specific areas of spend such as items carried forward due to timing. Prior to 2015/16 there was an agreed strategy to increase reserves above the normal policy level to fund pending equal pay costs.

51. Although the total General Fund balances has reduced, the unearmarked element has increased in 2019/20 to £19 million, providing a contingency fund to

meet unexpected financial pressures and to cushion the impact of uneven cash flows.

52. The average use of general fund reserves cannot be maintained over the medium term and should this trajectory continue (at 22 per cent a year on average), the council could run out of general fund reserves within the next five years. The council is aware of this risk and is continuing to work to maintain reserves with the agreed 2% policy.



Recommendation 2

The council needs to continue 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.

Part 4

Governance and transparency



Main Judgements

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

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

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

53. As part of our audit process we are continually assessing the governance arrangements with Fife Council. Our previous year's conclusion is still relevant: that appropriate governance arrangements are in place to support decision making.

54. 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 report and accounts. These were significant and allowed the body to manage the unprecedented nature and scale of the threat to its communities and staff. We note that the following steps were taken:

- 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 have been asked to work from home where possible.
- Restricted services have operated in areas such as household waste, housing repairs and registrations.
- All council meetings were initially cancelled and have since resumed on a staggered basis. The Policy and Coordination Committee and the Planning Committees met remotely three times in May, June and July. Full Council and Standards and Audit Committee met for the first time remotely in August and all other committees have now resumed or are due to resume by the end of 2020.
- Proposals tabled at the August council meeting included a revision to the committee structure to better suit the recovery period.

55. Remote meetings have been held using Microsoft Teams, relatively successfully with members of the public able to watch live online. Remote meetings will continue to be the default for the remainder of the year and so the council is revising standing orders to reflect the practicalities of such meetings. Only Licensing committees are planned to resume in person with suitable social distancing arrangements, as these require more public involvement.

56. In August 2020 Audit Scotland published [a Guide for audit and risk committees](#). The guide recognises the key role that audit committees have to play in scrutinising public sector bodies' governance arrangements as they respond to the pandemic.

Openness & Transparency

57. Minutes of the committee meetings and supporting papers are readily available on the Council's website. The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint.

58. 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 three councillors have not updated the register of interests since 2017.



Recommendation 3

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

Part 5

Best Value



Main judgements

In general, the council has been slow to fully implement the recommendations set out in our 2018 Best Value Assurance Report. However, we are pleased to note that one action is now complete, and all other recommendations are progressing.

Performance management information is publicly reported but the content and access need to be improved.

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

In general, the council has been slow to fully implement the recommendations set out in our 2018 Best Value Assurance Report. However, we are pleased to note that one action is now complete, and all other recommendations are progressing.

59. Best value is assessed over the audit appointment, as part of the annual audit work. This year we continued to follow up best value audit work progress made by the council in response to the best value report published in May 2018.

60. A summary of the BV report findings, the council's response to the report, and the results of our follow up work were reported in our 2019/20 Interim management report considered by the Standards and Audit Committee in August 2020.

61. In general, our view is that the Council has been slow to fully implement the recommendations set out in our 2018 Best Value Assurance Report. However, we are pleased to note that one action is now complete, and all other recommendations are progressing. Going forward, the Council needs to ensure it has sufficient management resources to deliver planned changes and support improvement in outcomes.

Performance management information is publicly reported but the content and access need to be improved

62. 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, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

63. Information on how Fife Council is performing is publicly available on the performance page of its website. Information is gathered from statutory

performance indicators, local government benchmarking framework indicators and other sources.

64. Service performance reports include a variety of performance indicators, however there are very limited cross-references to the services' role in delivering the outcomes stated in the Plan for Fife.

65. The performance section of the Council's website does not contain clear and current links to individual service reports. Steps should be taken to ensure that members of the public can easily access fair, balanced and engaging performance information.



Recommendation 4

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.

National performance audit reports

66. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 4](#).

67. 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 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1.	<p>Housing benefit overpayment bad debt provision</p> <p>Our audit work identified a bad debt provision for housing benefit overpayments which had been recognised in the accounts without a corresponding gross debtor balance.</p> <p>Risk: The debtors balance in the accounts is understated.</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>(Paragraph 24.)</p>	<p>The issue was identified late on in the audit process. Officers will investigate the accounting arrangements for Housing Benefit Overpayments both in terms of Debtors and associated Bad Debt Provision and will reflect this in 2020/21.</p> <p>Finance Operations Manager</p> <p>31 March 2021</p>
2.	<p>General Fund balance</p> <p>There has been a continuing deterioration of the General Fund balance from £58million at 31 March 2016 to £33million at 31 March 2020.</p> <p>Risk: The average use of general fund reserves cannot be maintained over the medium term and should this trajectory continue (at 22 per cent a year) , the council could run out of reserves within the next five year.</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>(Paragraph 52.)</p>	<p>The use of general fund reserves has been planned and part of an agreed approach to support and fund specific one-off items where no recurring budgets exist.</p> <p>The reserves position and evaluation of associated financial risks facing the Council are considered on a regular basis when planning and managing the financial position of the Council.</p> <p>General Fund reserves are projected to remain above the policy limit of 2% over the three financial years, however, this position will be kept under continual review.</p> <p>Executive Director Finance and Corporate Services</p> <p>Ongoing</p>



No. Issue/risk

Recommendation

Agreed management action/timing

<p>3 Register of interests</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 three councillor's have not updated the register of interests since 2017.</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>Councillor's should be reminded of the requirement to keep the register of interests up to date to ensure compliance with the code of conduct. (Paragraph 58.)</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 where there is no change to their interests. Where no response is received, the matter is escalated to the political group leader. The three Members that have not responded since 2017 have been contacted individually out with the 6 monthly reminder system and will continue to be reminded that a response is required and that a failure to respond may lead to a breach of the Councillors' Code of Conduct.</p> <p>Head of Legal and Democratic Services 30 November 2020</p>
<p>4 Service Performance Reporting</p> <p>The Plan for Fife is the council's strategic operating plan. Service performance reporting should be centred on progress with achieving the plan outcomes. There are limited references to the Plan in current service performance reports.</p> <p>The council's performance section of its website is currently the primary means for providing public access to performance information. The information on the website is incomplete and does not facilitate access to the latest reports.</p> <p>Risk: Service performance is not being assessed in the context of the council's strategic outcome objectives and is not readily accessible by the public.</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. (Paragraph 65.)</p>	<p>Updates and improvements to publicly available performance reporting and website will be actioned.</p> <p>Alignment will be strengthened further as part of the refresh of the Plan for Fife for 2021/22 onwards</p> <p>Corporate Development Service Manager 30 November 2020</p>



No. Issue/risk



Recommendation



Agreed management action/timing

Follow up of prior year recommendations

b/f1	Revaluation of Council assets	Annual reviews should be carried out to determine whether interim revaluations are required to any specific class of assets to ensure the balance sheet value is up to date.	Complete An indexed revaluation of the school estate was applied in 2019/20.
b/f2	Housing benefits overpayments	A robust audit trail to support invoicing from the CARS system must be developed as soon as possible.	In progress Progress has been made and a breakdown of the 2018/19 balance by account has been provided. More work was planned but has been put on hold due to the pandemic. Finance Operations Manager 31 March 2021
b/f3	Compliance with the charity test	The review of the ability of the 48 trusts to meet the charity test should be undertaken as a matter of priority and the decision not to reduce the number of charitable trusts should be reconsidered.	In progress During 2019/20 we have observed progress by the council to try and release funds/wind up Trusts in order to reduce this number further. Head of Communities 31 March 2021
b/f4	Charitable trust bank balance	The level of cash balances required should be reviewed and any surplus funds invested to achieve a better return.	Complete The council has established a policy on the level of cash balances and has introduced regular reporting to Common Good and Investments Sub-Committee.
b/f5	Health and social care challenges	The Council should work closely with its health and social care partners to accelerate the redesign of adult health and social care services and mitigate medium term financial pressures.	In progress The transformation programme has been refreshed and governance arrangements have been strengthened during 2019/20 however progress has been delayed as a result of the focus on the pandemic rather than transformation. The governance arrangements in place will allow focus to return to transformation in the months ahead when the impact of COVID-19 subsides. Chief Executive 31 March 2021

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](#).

Financial statements issues and risks		
<p>1 Risk of 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>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. 	<p>Results – Our work on journals, accruals and prepayments did not identify any evidence of management interference. Our review of the current year valuation exercise is considered under the estimation and judgements risk below. 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 caused by fraud in income</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. The Code of Audit Practice broadens the scope of the fraud risk to include external fraud risks which may affect public sector bodies. Fife Council process and account for taxation reliefs where there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Establish and test the operation of key controls over relevant systems. • Detailed substantive testing of transactions focusing on the areas of greatest risk including council tax exemptions and NDR reliefs. 	<p>Results – We did not identify any significant issues from our testing of income controls and transactions.</p> <p>Conclusion – No fraud issues identified.</p>
<p>3 Risk of fraud over expenditure</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. The Code of Audit Practice broadens the scope of the fraud risk to include expenditure and external fraud risks which may affect public sector bodies. Fife Council process and account for welfare benefits where</p>	<ul style="list-style-type: none"> • Establish and test the operation of key controls over relevant systems. • Detailed substantive testing of transactions focusing on the areas of greatest risk including housing benefit payments. 	<p>Results – We did not identify any significant issues from our testing of expenditure controls and transactions.</p> <p>Conclusion – No fraud issues identified.</p>

there is an inherent risk of fraud.

4 Estimation and judgements

There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

- Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions.
- Review appropriateness of actuarial assumptions and results including comparison with other councils.
- Establish officer's arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.
- Review actual experience of significant estimates made in the prior year.

Results – Our assessment of the management experts and the estimates provided for non-current assets and pensions did not identify any significant issues.

As reported in Exhibit 4 of the report, after reflecting on the UK Governments proposed response to the 2019 McCloud judgement, the actuary indicated that a potentially significant adjustment to the Council's pension liability was required. A revised IAS 19 report was prepared by the Actuary which led to an adjustment in the accounts.

Conclusion – The pensions valuations were amended in the audited financial statements. We did not identify any significant issues related to the valuation of non-current assets.

Wider dimension issues and risks

6 Financial management & financial sustainability

Current budget monitoring reports project a year end overspend of £4.5 million. Within the forecast there are significant service overspends on the Children' & Families (£10 million) and Health & Social Care (£12 million) budgets.

Current risk share arrangements as part of health and social care integration mitigate the council's exposure to Health & Social Care overspends. These arrangements will be considered as part of the review of the Integration Scheme in 2020.

The increasing financial pressures on the Children' & families and Health and social care budgets continue to pose a risk to the council's level of uncommitted reserves. Current forecasts indicate a general fund balance of £13 million will remain at the year end.

- Undertake a detailed review of the financial management arrangements in two areas facing significant pressures:
 - Children & Families
 - Adult Social Care.
- Review budget monitoring reports and the financial position at the year end.
- Assess the impact of 2019/20 financial performance and forecast 2020/21 outturn on future financial sustainability.
- Assess the impact of any changes to the risk share arrangements for the Integrated Joint Board.

Results – The council's overall 2019-20 outturn position improved significantly by the year end, resulting in a £3.3 million surplus.

The 2019-20 service overspend against the Children & Families budget remained at £10 million though steps taken to address this have been reflected in a reduced forecast overspend for 2020-21 of £3.7 million.

While the overall Health & Social Care budget position improved in 2019-20, the overspend on council delivered services included a £2.8 million overspend on Adult social Care. The 2020-21 outturn position will be significantly impacted by the COVID-19 pandemic.

No changes to the Integration Scheme had been agreed by November 2020.

We were unable to progress work on the planned detailed reviews of Children & Families and Adult Social Care prior to the introduction of COVID-19 restrictions in March 2019.

Given the situation and level of contact required with service delivery

staff we decided not to carry out this element of our work this year.

Conclusion – Financial management and sustainability are an ongoing risk for the council.

7 Governance and transparency – Procurement fraud

Public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisation. Procurement is one area where there is a specific risk to local authorities. Procurement is a significant strand of the council's Changing to Deliver programme and occasional correspondence has been received by both internal and external audit on procurement practices at the council. There is a risk that Fife Council counter-fraud arrangements are not effective in countering the risk of procurement fraud.

- Assessment of controls around procurement including review of relevant policies and procedures, staff training provision and recognition of procurement fraud as a risk in operational risk registers.
- Review of procurement exercises to assess compliance with procurement policies and procedures.

Results – We were unable to progress work on procurement in this area prior to the introduction of COVID-19 restrictions in March 2019. and we prioritised our audit of the financial statements.

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000 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.

	Dr £000	Cr £000	Dr £000	Cr £000
1	Property, Plant Equipment			(1120)
	Short Term Debtors		1120	
2	Cash and Cash Equivalents		662	
				(662)
3	Investments (Opening Balance)		292	
	Gain on Disposal	(292)		
4	Bad Debt Expense	(6113)		
	Short Term Debtors		6113	
	Net impact	(6405)	8187	(1782)

Notes:

Entry 1 relates to the incorrect inclusion of a VAT charge in the cost of an Asset under construction (MA 44753)

Entry 2 relates to a bank deposits received on 31st March that were incorrectly accounted for in 2020/21 financial year (MA 44497)

Entry 3 relates to a valuation increase on employment land that was not recognised in 2018/19, consequently the gain on disposal has been understated in the 2019/20 accounts (MA 43513)

Entry 4 relates to the inclusion of a bad debt provision for housing benefit overpayments without a corresponding debtor (MA47060)

Appendix 4

Summary of national performance reports 2019/20



		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

Fife Council

2019/20 Annual Audit Report

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