

# Stirling Council

2020/21 Annual Audit Report



 AUDIT SCOTLAND

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

November 2021

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# Key messages

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## 2020/21 annual accounts

- 1** We recognise that the entire 2020/21 financial year has been characterised by the significant impact of the Covid-19 pandemic which created additional challenges for both Council and audit staff alike. Consequently, key dates within the Councils financial reporting process have been updated to reflect the revised statutory deadline of 30 November 2021 to publish the audited 2020/21 accounts. The Council prepared its annual financial statements for the year within agreed timescales and the accounts and associated working papers have been prepared to a high standard.
- 2** Nevertheless, our audit identified two significant adjustments that impact on the Councils Group Accounts, both of which have been corrected in the financial statements:
  - The group accounts are made up of four different types of component, the Council itself, Subsidiary organisations, Associates and Joint Ventures. Associates and joint ventures were incorrectly presented within the Group Comprehensive Income and Expenditure Statement. The adjustment to correct this reduced both gross income and expenditure by £50.326 million. This adjustment did not impact the net result for the year; and
  - An error occurred in the elimination of intra-group transactions through the group consolidation process and the adjustment to correct this increased Group Investment Property by £9.325 million and reduced Group Debtors by the same amount. Again, this did not impact on the Council's net result for the year.
- 3** Additionally, the Council identified a further adjustment to the accounts following receipt of updated information from Clackmannanshire and Stirling Integration Joint Board which increased both Gross Income and Expenditure by £5.576 million. As with the previous adjustments this did not impact on the Council's net result for the year.
- 4** Following the correction of these three adjustments our audit opinions on the annual accounts of the Council and its group are unqualified and unmodified and confirm that the 2020/21 Financial Statements present a true and fair view of the financial activities of the Council and its Group. Similarly, our audit opinion on the section 106 charities administered by the council is also unqualified and unmodified.

## Financial management and sustainability

- 5 The Council's financial management is effective with strong budgeting, financial monitoring and reporting processes that are aligned to its corporate priorities. The Council and its wider group financial position is sustainable into the foreseeable future, although Covid-19 continues to add additional pressure and uncertainty.
- 6 The Covid-19 pandemic had a significant impact on the Council's finances during 2020/21. Additional budget pressures totalled £8.888 million for the year and these were addressed through a combination of using Council reserves and additional Scottish Government funding.
- 7 Stirling Council reported a general fund surplus of £16.918 million for 2020/21, which was largely due to the receipt of additional funding to meet Covid pressures in future years. This has resulted in a large increase in the Council's reserves with £17.020 million earmarked for pandemic recovery. It is essential that the Council recognises the non-recurring nature of such reserves and take steps to ensure they are used effectively and in line with Council strategy and strategic objectives.
- 8 The Council has approved a 10-year strategy which includes a three-phase transformation plan to address the longer-term financial challenge. Aligned to this, Stirling Council projects a cumulative £28.278 million budget deficit over the next 5 years and is in the process of reviewing its income and expenditure streams in advance of the 2022/23 budget.
- 9 The financial consequences of Covid-19 are continuing to emerge and the Council will need to update its medium-term financial plan as soon as more clarity on the impacts of Covid-19 become evident.

## Governance and transparency

- 10 The Council has appropriate governance arrangements in place. We recognise that in responding to the Covid-19 pandemic the Council revised its governance arrangements. The new arrangements are appropriate and support good governance and accountability.
- 11 There is effective scrutiny, challenge and informed decision making

## Best Value

- 12 The Council has an appropriate and effective best value framework in place. The Council continues to make positive progress addressing the recommendations contained in our 2018/19 Best Value Assurance Report.

- 13** The Council's Performance management arrangements remained effective during the pandemic.

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# Introduction

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**1.** This report summarises the findings arising from the 2020/21 audit of Stirling Council (the Council) and its group.

**2.** The scope of the audit was set out in our 2020/21 Annual Audit Plan circulated to the Audit Committee in March 2021. 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](#) namely, financial management, financial sustainability, governance and transparency and value for money.

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

- an audit of the annual accounts of the council and its group including the statement of accounts of the three 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
- consideration of the four audit dimensions

**4.** The global coronavirus pandemic has had a considerable impact on Stirling Council during 2020/21. This has had significant implications on how the Council delivers its services. Risks related to the pandemic were included in our Annual Audit Plan, and we have adapted our planned work to address any new emerging risks.

## Adding value through the audit

**5.** We add value to the council through the audit by:

- regularly meeting with management to discuss current issues and share knowledge from the wider public sector
- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

## Responsibilities and reporting

**6.** 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.

**7.** 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.

**8.** 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.

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

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

**10.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

**11.** 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.

**12.** 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

**13.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the

professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £251,680 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** 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](http://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.

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# 1. Audit of 2020/21 annual accounts

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

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## Main judgements

We recognise that the entire 2020/21 financial year has been characterised by the significant impact of the Covid-19 pandemic which created additional challenges for both Council and audit staff alike. Consequently, key dates within the Councils financial reporting process have been updated to reflect the revised statutory deadline of 30 November 2021 to publish the audited 2020/21 accounts. The Council prepared its annual financial statements for the year within agreed timescales and the accounts and associated working papers have been prepared to a high standard.

Nevertheless, our audit identified two significant adjustments that impact on the Councils Group Accounts, both of which have been corrected in the financial statements:

- The group accounts are made up of four different types of component, the Council itself, Subsidiary organisations, Associates and Joint Ventures. Associates and joint ventures were incorrectly presented within the Group Comprehensive Income and Expenditure Statement. The adjustment to correct this reduced both gross income and expenditure by £50.326 million. This adjustment did not impact the net result for the year; and
- An error occurred in the elimination of intra-group transactions through the group consolidation process and the adjustment to correct this increased Group Investment Property by £9.325 million and reduced Group Debtors by the same amount. Again, this did not impact on the Council's net result for the year.

Additionally, the Council identified a further adjustment to the accounts following receipt of updated information from Clackmannanshire and Stirling Integration Joint Board which increased both Gross Income and Expenditure by £5.576 million. As with the previous adjustments this did not impact on the Council's net result for the year.

Following the correction of these three adjustments our audit opinions on the annual accounts of the Council and its group are unqualified and unmodified and confirm that the 2020/21 Financial Statements present a true and fair view of the financial activities of the Council and its Group. Similarly, our audit opinion on the section 106 charities administered by the council is also unqualified and unmodified.

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## **Our audit opinions on the annual accounts are unmodified**

**15.** The accounts for the council and its group for the year ended 31 March 2021 were approved by the Audit Committee on 4 November 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended
- 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 Covid-19 pandemic had a limited impact on audit evidence**

**16.** Covid-19 continues to present challenges for the audit of the annual accounts, both for the Council's finance team and our audit team. The working papers provided by management to support the accounts were comprehensive and the finance staff continued to deliver their high standards of professionalism and support to the audit team which helped ensure a smooth audit process.

## **The annual accounts were signed off in line with the timescales permitted to reflect Covid-19**

**17.** As a result of the continuing impact of Covid-19 the submission deadlines for Local Government audited annual accounts and annual audit reports have been set at 30 November 2021.

**18.** The unaudited annual accounts were received in line with our agreed audit timetable. The annual accounts were signed off in line with the revised timetable permitted to reflect the impact of Covid-19.

## **Our audit opinions on Section 106 charities were unmodified**

**19.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Stirling Council are sole trustees, irrespective of the size of the charity.

**20.** The Council are continuing to work with the Scottish Charity Regulator (OSCR) to reach agreement to reduce the number of Trust Funds and transfer the remaining trust balances as appropriate. Until then, the Council continues to administer these charitable trusts.

**21.** Our audit opinions on the Section 106 charities are unmodified.

**22.** Our audit opinions on the annual accounts of the Section 106 charities and are unqualified and unmodified and confirm that the 2020/21 Financial Statements present a true and fair view of the financial activities of the Section 106 charities.

### **There were no objections raised to the annual accounts**

**23.** The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies 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. There were no objections to the 2020/21 accounts.

### **Work on assurance statement for the Whole of Government Accounts has been delayed**

**24.** HM Treasury communicated that the forms required for bodies to complete their Whole of Government Accounts (WGA) submission will not be available until December 2021.

**25.** Management have therefore been unable to populate their submission. Our work on Stirling Council's WGA submission will commence when this is available for audit.

### **Overall materiality for the Councils accounts is £5.1 million and £6.7 million for the Group accounts**

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

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

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

## Exhibit 1

### Materiality values

Materiality level	Council	Group
Overall materiality	£5.100 million	£6.700 million
Performance materiality	£3.060 million	£4.020 million
Reporting threshold	£0.250 million	£0.250 million

Source: Audit Scotland

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

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

## Significant findings from the audit of the financial statements

30. 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 2](#).

## Exhibit 2

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Incorrect treatment of associates and joint ventures in the group accounts</b></p> <p>Stirling Council group includes a number of components classified as associates or joint ventures.</p> <p>The unaudited group accounts incorrectly presented gross income and expenditure for these components within the Group Comprehensive Income and Expenditure Statement rather than the group's share of</p>	<p>This was corrected within the audited accounts.</p>

Issue	Resolution
<p>the net result as required by the accounting standards.</p> <p>To correct for this gross income and gross expenditure were lowered by £50.304 million. The net result of a £2.978 million surplus was correctly accounted for, the adjustment had no impact on the group's overall result for the year.</p> <p>The equivalent adjustment was also made to the 2019/20 comparative figures.</p>	
<p><b>2. Correction of consolidation error</b></p> <p>As part of the preparation of the group accounts, transactions and balances between group components are eliminated through consolidation adjustments.</p> <p>Our audit work identified an error in one of these adjustments between Stirling Council and another subsidiary, Steadfast Homes LLP. The consolidation adjustment incorrectly reduced investment property rather than group debtors. A correction to increase the value of investment property and decrease the value of debtors by £9.325 million.</p> <p>The equivalent adjustment was also made to the 2019/20 comparative figures.</p>	<p>This was corrected within the audited accounts.</p>
<p><b>3. Receipt of updated financial information from Clackmannanshire and Stirling Integration Joint Board</b></p> <p>Stirling Council approved its unaudited accounts on 28 May 2021. Commissioning income and expenditure figures relating to Clackmannanshire and Stirling IJB were included on a preliminary basis.</p> <p>Updated figures were received when Clackmannanshire and Stirling IJB approved their own unaudited accounts on 23 June 2021.</p> <p>The updated figures resulted in a £5.576 million increase to Health and Social Care income and expenditure. There was no impact on the council's net result for the year.</p>	<p>This was corrected within the audited accounts alongside a number of non-material adjustments arising from the receipt of updated information from group components.</p> <p>Further action is required to ensure processes are in place to obtain timely information from group components. See Recommendation 1 below</p>

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## Recommendation 1

Work with partner bodies to increase the accuracy and timeliness of information on group components

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### All identified misstatements have been corrected in the audited accounts

**31.** We 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.

**32.** Non-material changes were required to the unaudited accounts to reflect:

- the guidance around the accounting treatment for Personal Protective Equipment and Covid-19 testing kits issued by Scottish Government and used by Stirling Council
- recognition of the overpayment of care providers in 2020/21
- adjustments arising from the receipt of updated information from group components
- removal of additional payments to Active Stirling from the group accounts

**33.** There were no uncorrected misstatements.

### Progress was made on prior year recommendations

**34.** The council has made progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

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## 2. Financial management

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

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### Main judgements

The Council's financial management is effective with strong budgeting, financial monitoring and reporting processes that are aligned to its corporate priorities.

The Covid-19 pandemic had a significant impact on the Council's finances during 2020/21. Additional budget pressures totalled £8.888 million for the year and these were addressed through a combination of using Council reserves and additional Scottish Government funding.

Stirling Council reported a general fund surplus of £16.918 million for 2020/21, which was largely due to the receipt of additional funding to meet Covid pressures in future years. This has resulted in a large increase in the Council's reserves with £17.020 million earmarked for pandemic recovery. It is essential that the Council recognises the non-recurring nature of such reserves and take steps to ensure they are used effectively and in line with Council strategy and strategic objectives.

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### Budget processes were appropriate and effective

**35.** We observed that senior management and members receive regular and accurate financial information on the body's performance against budgets. We concluded that Stirling Council has appropriate and effective budget setting and monitoring arrangements.

### Stirling Council reported a surplus, but the Covid-19 pandemic had a significant impact on the 2020/21 financial year

**36.** The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**37.** The Covid-19 pandemic had a significant impact on the Stirling Council's 2020/21 budget. The council approved its 2020/21 budget in March 2020, projecting a breakeven position. This budget was set during the onset of the

Covid-19 pandemic and had to be revised throughout 2020/21 to adjust for additional spend and additional funding arising due to the pandemic.

**38.** Overall, the council reported an underspend of £2.815 million on its “business as usual” budget. This excluded covid costs of £8.888 million, which were funded through a mixture of reserves and additional funding from Scottish Government. Additional Covid-19 related funding received from Scottish Government for future years resulted in council reserves increasing by £16.918 million in 2020/21. Exhibit 3 summarises Stirling Council’s 2020/21 budget, and the impact of Covid-19.

### Exhibit 3

#### Impact of Covid-19 on the 2020/21 outturn

		(£ millions)
<i>“Business as usual”</i>	Net Service Expenditure	221.273
	Income	(224.088)
	<b>Surplus</b>	<b>(2.815)</b>
<i>Impact of Covid-19 in 2020/21</i>	Additional pressures due to Covid-19	8.888
	Additional Government funding	(4.695)
	Use of council reserves	(4.193)
	<b>Breakeven</b>	<b>-</b>
<i>Impact of funding received to mitigate the impact of Covid-19 in future periods</i>	Increase in earmarked reserves	(14.103)
	<b>Overall increase in council reserves</b>	<b>(16.918)</b>

Source: Stirling Council 2020/21 Final Outturn Position

### There has been a significant increase in the level of General Fund reserves as a result of Covid-19 funding received for future periods

**39.** One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the Council increased from £28.053 million in 2019/20 to £44.971 million in 2020/21. This was primarily driven by the receipt of £17.020 million of Covid-19 funding in 2020/21 for use in future periods.

**40.** The Council reviews the level of its uncommitted general fund balance when setting the budget each year. The Council’s approved reserves strategy specifies that uncommitted reserves should be between 2% and 2.5% of net budget, while accepting that for a period of time they may be at a level higher than target. The level of uncommitted general fund reserves as at 31 March 2021 was £11.850 million which is approximately 5.3% of the net budget. While 2020/21 is an exceptional year, the target value of uncommitted reserves has been exceeded for the last 3 years. The council should consider whether the existing policy remains appropriate.

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## Recommendation 2

### Assess whether the target value for uncommitted reserves remains appropriate

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**41.** The remaining £33.121 million of general reserves are earmarked for specific purposes approved by the Council, including £17.020 million specifically for Covid-19 recovery which arose due to additional funding from Scottish Government.

**42.** The high reserves position in 2020/21 is likely to be temporary due expected future expenditure on pandemic recovery and the Council's forecast funding gaps in future periods. It is essential that the Council recognises the non-recurring nature of such reserves and take steps to ensure they are used effectively and in line with Council strategy and strategic objectives.

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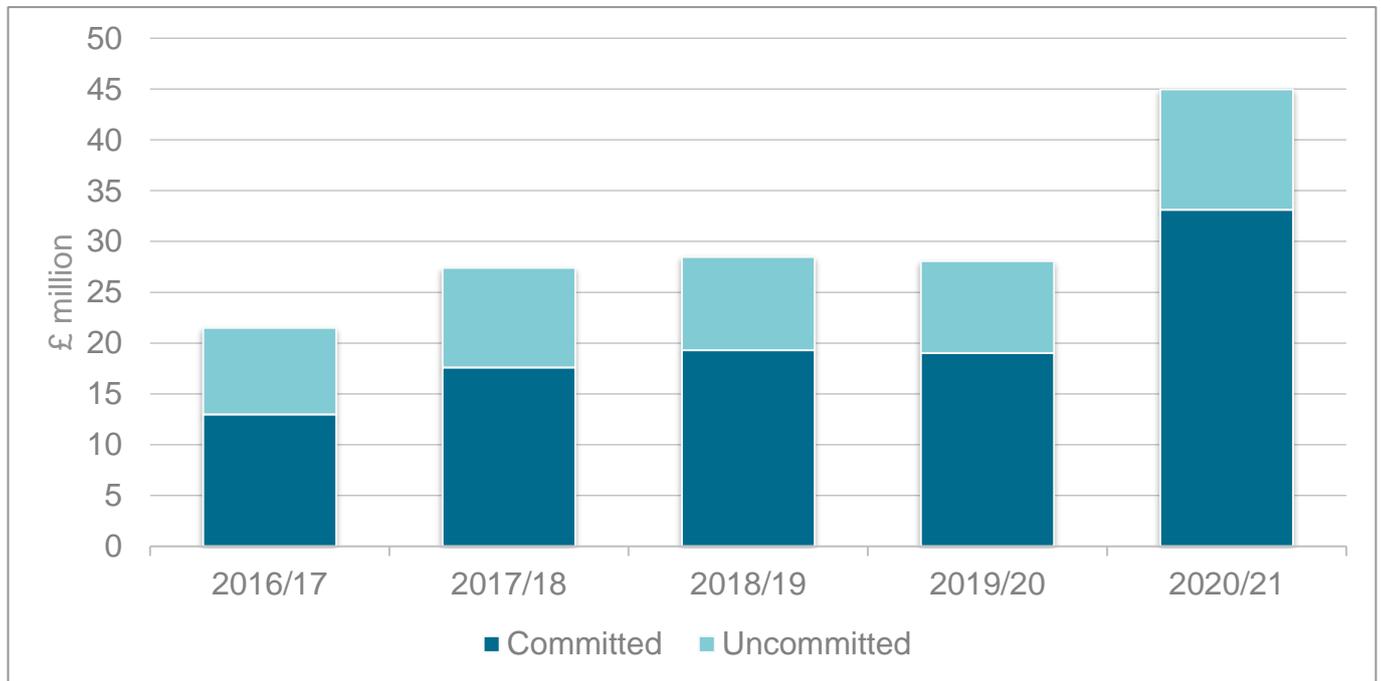
## Recommendation 3

### Ensure that temporary Covid-19 related reserves are directed effectively and line with Council strategy and strategic objectives

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**43.** [Exhibit 4](#) provides an analysis of the general fund over the last five years split between earmarked and uncommitted reserves showing the significant increase in 2020/21.

## Exhibit 4 Analysis of general fund balance



Source: Stirling Council Annual Accounts

### Planned efficiency savings were largely achieved

**44.** The 2020/21 budget set included planned savings split across a large number of different policies and services. Stirling Council has a history of meeting its savings targets and continued this in 2020/21 delivering £4.670 million against a £5.302 million target.

**45.** As noted in paragraph 69, the Council's "Thriving Stirling" 10 year plan recognises that future savings targets will require wider service reform.

### The Council delivered the majority of its capital programme in 2020/21, however slippage against the planned budget was greater than in 2019/20

**46.** The Council set a capital expenditure budget of £30.700 million for 2020/21 in March 2020. The budget was adjusted during the year for the impact of the pandemic, ultimately increasing to £35.605 million. The increase was driven primarily by the receipt of additional capital grant funding.

**47.** Capital expenditure in 2020/21 totalled £25.132 million, which was £10.473 million (29%) under budget. The underspend represents a mixture of slippage and late funding allocations across the capital programme, and resulted in the Council's own assessment of the programme status as "red" on a red/amber/green basis.

**48.** Slippage has occurred across many different projects, often as a result of issues arising from the pandemic. For example, supply chain delays, changes to project scope and labour shortages at contractors. The Council reports that external funders have been contacted to confirm that funding can be carried forward into future years.

**49.** The Council has had a trend of capital underspend over the last 7 years. This has continued in 2020/21, with the added challenges presented by the pandemic resulting in a comparatively large underspend. In our 2019/20 annual audit report we recommended that the Council ensure that any slippage and reprofiling of general fund capital projects continue to support the Council's strategic priorities.

**50.** Although the Council continues to regularly update members on the status of the capital programme, the risk and recommendation raised in 2019/20 remains relevant in 2020/21. It therefore is reflected here and will be followed up again in the 2021/22 annual audit report.

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### **Recommendation (follow up from prior year)**

The Council should ensure that any slippage and reprofiling of general fund capital projects continues to support its strategic priorities

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### **Financial systems of internal control operated effectively**

**51.** We obtained an understanding of the Council's key financial systems to identify the key financial controls and assess their design and implementation.

**52.** The majority of Council finance staff switched to remote working during 2020/21 in response to the pandemic. We noted that, despite the change to the working environment, the underlying processes could be delivered in largely the same way as previously. This is a testament to the dedication of council staff and the robustness of the processes in place.

**53.** One minor issue was highlighted from our process work. We noted that the periodic reconciliation of accounts receivable not been carried out and signed off for much of the year in line with industry standard practice. Despite this, we did not highlight any issues from our audit of the year end figures within the accounts.

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### **Recommendation 4**

Carry out periodic accounts receivable reconciliations in line with industry standard practice

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**54.** Overall, we concluded that financial systems of internal control operated effectively.

## The Council administered Covid-19 support grants on behalf of Scottish Government

**55.** Stirling Council administered the distribution of Covid-19 support grants on behalf of the Scottish Government, for example small business grants. The total value of grants issued in 2020/21 was £41.544 million.

**56.** As described in the management commentary of the Council's Annual Accounts, these grants were judged to be on an agency basis meaning that they are not included within the Comprehensive Income and Expenditure Statement.

**57.** Our audit work considered management's judgments on the classification of all Covid-19 related funding as agency or principal and we concluded that it was materially accurate.

## Review and assess the Council's valuation methodology

**58.** Stirling Council revalues elements of its fixed assets over a 5-year rolling programme, with different classes of asset being revalued each year. This can lead to significant movements in value, particularly if a large class of asset is due for revaluation in a particular year. Management should consider a valuation methodology whereby 20% of each class of asset is revalued each year, with all assets still being revalued once over a 5-year period. This would reduce the likelihood of uneven valuation movements arising as a result of the specific class of assets due for revaluation in a given year.

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## Recommendation 5

Consider a valuation methodology whereby 20% of each class of asset is revalued each year

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

**59.** The Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

**60.** In addition, we have reviewed the arrangements in place to maintain standards of conduct including the Counter Fraud Strategy and Whistleblowing policy. There are established procedures for preventing and detecting breaches of these standards including instances of corruption.

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# 3. Financial sustainability

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

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## Main judgements

The Council and its wider group financial position is sustainable into the foreseeable future, although Covid-19 continues to add additional pressure and uncertainty.

The Council has approved a 10-year strategy which includes a three-phase transformation plan to address the longer-term financial challenge. Aligned to this, Stirling Council projects a cumulative £28.278 million budget deficit over the next 5 years and is in the process of reviewing its income and expenditure streams in advance of the 2022/23 budget.

The financial consequences of Covid-19 are continuing to emerge and the Council will need to update its medium-term financial plan as soon as more clarity on the impacts of Covid-19 become evident.

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## The Council budget for 2021/22 projects a small surplus

**61.** The financial impact of the pandemic on Stirling Council is likely to extend across several years and could include a reduction in income from business rates and council tax as well as a reduction in fees and charges from, for example, leisure and parking.

**62.** The Council agreed its 2021/22 budget in March 2021, projecting a small surplus for the year. A previously estimated £8 million budget gap was reduced through a combination of better than anticipated local government funding and a reassessment of loans fund payments.

**63.** Uncertainty remains over the level of Covid-19 related spending pressures in 2021/22. It is anticipated that the greatest Covid-19 impact will be loss of income, in particular impacting sport and leisure activities delivered by Active Stirling and supported by the Council. These pressures are not factored into the budget directly. The Council reported that funding (including previously earmarked reserves of £17.020 million) to support Covid-19 related recovery actions totalled £19.9 million in June 2021.

## The longer-term financial challenges that existed prior to the pandemic remain and Covid-19 adds additional pressure and uncertainty

**64.** The council produces a 5-year rolling financial plan alongside as part of its annual budget setting process. In the period 2021/22 to 2025/26 a cumulative budget deficit of £28.278 million is projected.

**65.** The main anticipated budget pressures identified are:

- Increasing pension costs
- Staff pay inflation
- Goods and services inflation

**66.** The projected budget deficit is based on “business as usual” and does not take into account the impact of the Covid-19 pandemic. As noted elsewhere, the Council has carried forward reserves and anticipates additional Scottish Government funding together totalling £19.9 million for Covid-19 recovery 2021/22 and beyond. There remains considerable uncertainty around the longer-term financial impact of Covid-19. While the Council is effectively monitoring Covid-19 related expenditure and budgeting for expected funding, expenditure budgets should be updated to include anticipated Covid-19 spend where possible.

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## Recommendation (follow up from prior year)

The Council should update its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained

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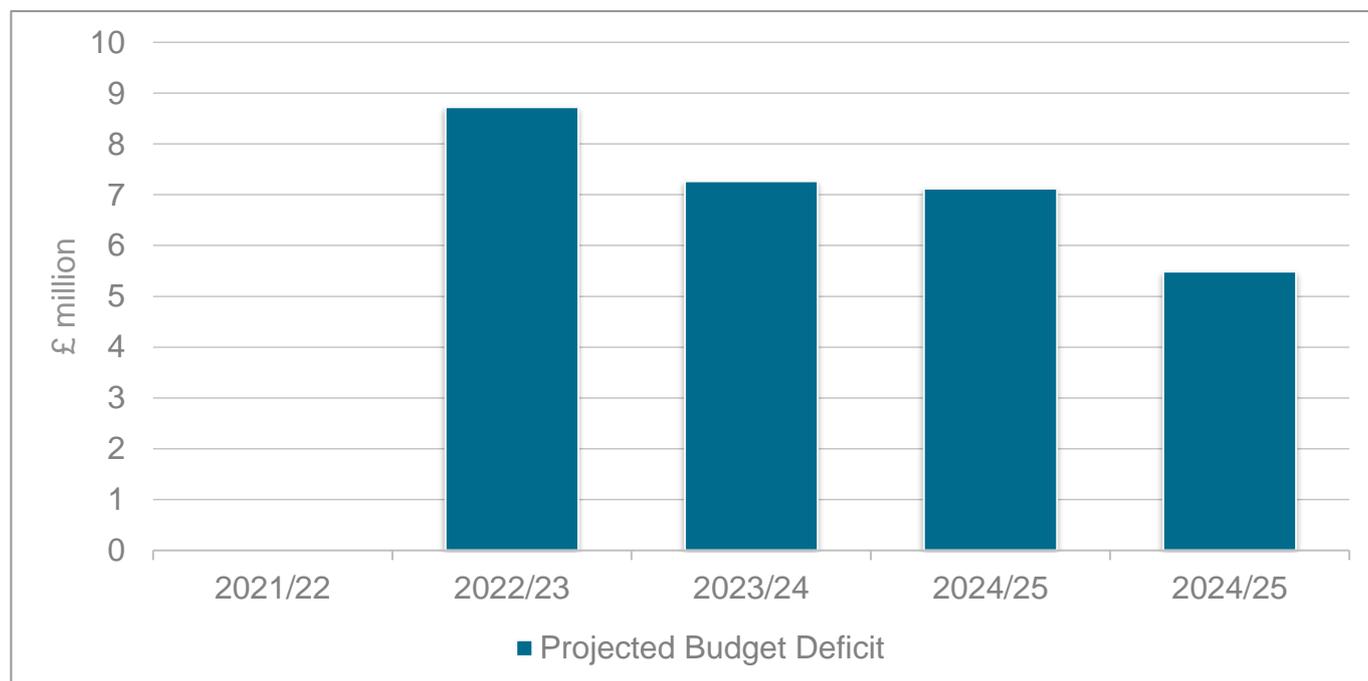
**67.** In response to the projected financial challenges, the Council plans to review some of its fundamental income and expenditure streams, including:

- Considering options for increasing income, including council tax
- Reducing non-essential spend and reviewing discretionary services
- Applying a full cost recovery approach to service income generation
- Applying a zero-based budgeting approach in future

**68.** The review is expected to be completed for the start of the 2022/23 financial year.

## Exhibit 7

### Identified funding gaps 2021/22 – 2025/26



Source: Stirling Council 2021/22 Budget

## The Council has approved a 10-year strategy and a Covid-19 Recovery Plan

**69.** The Council approved its 10-year strategy, “Thriving Stirling” in December 2020. The strategy recognises the need to reform services in response to the identified longer term financial challenge and includes a three-phase transformation programme. The early priorities for the programme include:

- Finalising the governance arrangements, which will include the creation of a Transformation Board led by the Chief Executive.
- Implementation of an Enterprise Resource Planning (ERP) system to create efficiencies from Council IT systems and allow benchmarking of service delivery cost
- Analysing the balance of back office and front-line service delivery staff
- Reviewing procurement and commissioning practices

**70.** The Council has also developed a Covid-19 Recovery Plan, which was approved in June 2021. It sets out 14 priorities, and accompanying actions, which are aligned to the strategic goals within the 10-year Council strategy.

**71.** Recovery actions are to be funded from Covid-19 funding (currently £19.9 million), some of which is held in Council reserves. While the planned recovery actions stretch into the longer term, the recovery funding is one-off in nature.

The Council will have to carefully consider the long-term financial sustainability recovery actions.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

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## Main Judgements

The Council has appropriate governance arrangements in place. We recognise that in responding to the Covid-19 pandemic the Council revised its governance arrangements. The new arrangements are appropriate and support good governance and accountability.

There is effective scrutiny, challenge and informed decision making

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## Governance arrangements throughout the Covid-19 pandemic have been appropriate and operated effectively

**72.** The Covid-19 pandemic began in the weeks prior to the start of the 2020/21 financial year. Initially, all of Council, Committee and Panel meetings were suspended. The Chief Executive was given temporary powers to make urgent business decisions in their absence. Additionally, the Operational Governance Board continued to meet and monitor council performance.

**73.** New arrangements were put in place which enabled the council to carry out a reduced programme of virtual meetings starting in June 2020. A normal programme of meetings was reinstated towards the end of 2020, on a virtual basis.

**74.** Stirling Council made changes to its governance arrangements in response to the pandemic. These have been set out in the Annual Governance Statement in annual report and accounts and included:

- Setting up a short-life working group to assess the impact of Covid-19 on governance (June 2020).
- The update of standing orders to reflect the virtual meeting arrangements (September 2020).
- Setting up a member/officer group to create a Covid-19 recovery plan (March 2021).

**75.** The internal audit 2020/21 work programme was disrupted by the pandemic with less than half of the planned audit reports being delivered. The subsequent

completion of 2020/21 reports that had been deferred into the 2021/22 work programme ensured that there was sufficient evidence to support the conclusions in the Governance Statement.

**76.** We concluded that overall, Stirling Council has appropriate governance arrangements in place which support effective scrutiny, challenge and decision making.

### **Performance reporting in the Management Commentary of the Annual Accounts should be expanded**

**77.** Management Commentaries included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

**78.** The majority of the management commentary is of a good standard and clearly explains the Council's strategy, finances and links to the financial statements. The statutory requirements relating to non-financial performance are met however, there is an opportunity to take advantage of the quality performance reporting that is provided in committee papers to include performance data within the management commentary that is more relevant and specific to the challenges the Council faces.

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## **Recommendation 6**

**Take advantage of the quality performance reporting that is provided in committee papers to include performance data within the management commentary that is more relevant and specific to the challenges the Council faces**

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### **Openness and transparency**

**79.** There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public has access to understandable, relevant and timely information about how the body is taking decisions and using resources.

**80.** 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.

**81.** During the pandemic the Coronavirus (Scotland) Act 2020 suspended some of the requirements for councils to provide the public direct access to meetings. During this time, meetings were recorded and available for viewing after the meeting had taken place. To ensure compliance with the pre-Covid legislation, the Council approved that all Council, committee and panel meetings will be broadcast live on the Council's YouTube channel. This will allow members of the public to view all meetings as they occur.

**82.** Minutes from all council and committee meetings are available on the council website. However, due to a technical issue, full papers are currently only freely available for the most recent meetings. The Council should take action to resolve the issue currently affecting historic meeting papers and ensure these are fully accessible.

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## **Recommendation 7**

**Take action to resolve the issue currently affecting historic meeting papers and ensure these are fully accessible**

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**83.** Overall, we conclude that the council demonstrates a commitment to openness and transparency.

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# 5. Best Value

Using resources effectively and continually improving services.

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## Main judgements

The Council has an appropriate and effective best value framework in place. The Council continues to make positive progress addressing the recommendations contained in our 2018/19 Best Value Assurance Report.

The Council's performance management arrangements remained effective during the pandemic.

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## The council is making good progress in securing Best Value

**84.** Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this period. The BVAR report for the council was published in April 2019.

**85.** In the BVAR, we highlighted key areas where the Council should focus its improvement activities on going forward. The report made ten recommendations relating to areas for further development including:

- the need to introduce a structured approach to self-evaluation to deliver continuous improvement
- demonstrating the use of benchmarking and customer satisfaction information to identify areas for improvement
- improving public performance reporting, to show a summary of the Council's performance against the business plan objectives
- developing a more regular and structured approach to staff consultation and engagement.

**86.** We followed up on BVAR recommendations in our 2019/20 annual audit and reported that the council had made positive progress. This continues to be the case in 2020/21, although a number of agreed actions have been delayed as the Council focussed on responding to the pandemic, including:

- The implementation of an interactive public performance monitoring tool
- The implementation of a digital staff engagement tool

## Performance management arrangements remained effective during the pandemic

**87.** Our Annual Audit Plan included a risk relating to the Council's ability to exercise effective performance management during the pandemic.

**88.** At the outset of the pandemic in March 2020 the Council's normal committee schedule was suspended, meaning that normal performance reporting was not possible. As noted in paragraph 72 the Operational Governance Board continued to meet during this time and papers to the board included detail performance reporting, similar to that going to committee under normal circumstances. Performance management arrangements through committees resumed towards the end of 2020.

**89.** Service performance was impacted by the pandemic in a number of ways:

- School premises were closed and education was delivered remotely
- Access to respite services for carers through the Children and Family services were suspended
- Regulatory inspections were suspended, often due to the closure of related businesses during lockdown
- In person visits from the Children and Families service were reduced
- Libraries were closed

**90.** Overall, the council's ability to monitor and manage performance remained effective during the pandemic, but we recognise that, service performance and delivery was impacted in a number of ways.

## Statutory performance indicators (SPIs) are being monitored

**91.** The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. 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.

**92.** The Accounts Commission issued a revised 2018 Statutory Performance Information 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

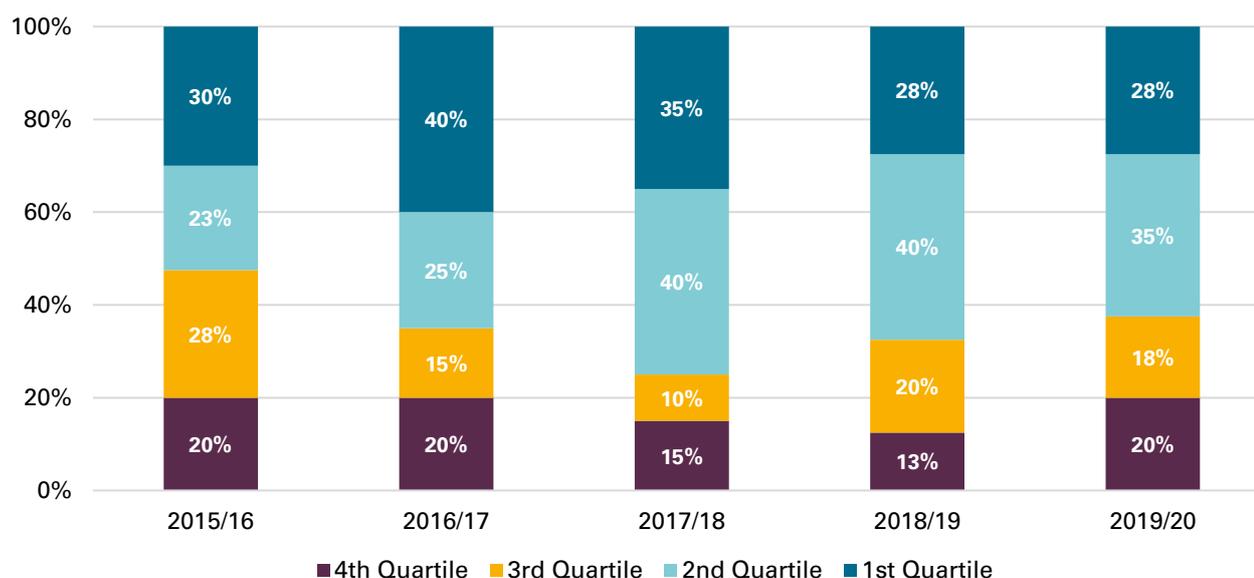
**93.** We evaluated Stirling Council’s arrangements for fulfilling the above requirements as part of our 2019/20 audit and concluded these were effective. As noted in paragraph 88, the pandemic has not significantly impacted the Council’s ability to collect data on performance. Data on 2020/21 SPIs is expected to be reported in December 2021.

## Stirling Council continues to perform well in comparison to other councils

**94.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**95.** Stirling Council continues to perform well in comparison to other councils as shown in [Exhibit 10](#).

### Exhibit 10 Stirling Council LGBF relative performance 2015/16 to 2019/20



Note: Measuring council performance involves considering how all councils are performing, from lowest to highest for each indicator. From this, it is possible to see how one council compares with all other councils. Relative performance against other councils is divided into four equal bands, or quartiles. The first quartile contains the best-performing councils for that indicator and the fourth quartile contains the poorest-performing councils. The above data is based on 40 indicators which have been reported every year in the LGBF since 2013/14. Source: Audit Scotland, and Local Government Benchmarking Framework, Improvement Service, 2018/19

## **The Council is in the process of updating corporate performance measures**

**96.** As noted in paragraph 69, the council approved a new 10-year strategy in December 2020. Management are in the process of revising the corporate key performance indicators in line with the updated strategy.

## **National performance audit reports**

**97.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 3](#).

# Appendix 1

## Action plan 2020/21

### 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Receipt of data from group components</b></p> <p>One material audit adjustment and a number of non-material adjustments were processed as a result of updated information being received from group components after the preparation of Stirling Council's unaudited Annual Accounts.</p> <p>Risk – Late receipt of information increases the likelihood of misstatement in the accounts.</p>	<p>Work with partner bodies to increase the accuracy and timeliness of information on group components.</p>	<p>Agreed action:</p> <p>The Council's Finance team will meet with relevant partner bodies to discuss and agree actions to ensure the receipt of accurate and timely information for inclusion in the Council's draft Abstract of Accounts.</p> <p>Responsible officer: Accounting Operations Manager</p> <p>Agreed date: February 2022</p>
<p><b>2. Target value for uncommitted reserves</b></p> <p>Stirling Council has exceeded the target level of uncommitted reserves set out by its reserves policy for the last 3 years.</p> <p>Risk – There is a risk that the benchmark used to assess reserves levels is no longer appropriate.</p>	<p>The council should assess whether the target value for uncommitted reserves remains appropriate.</p>	<p>Agreed action:</p> <p>Consideration of the reserves strategy will form a key component of the 2022/23 revenue budget process. The current target of 2%-2.5% of total budget was set some years ago, and has been exceeded with Council approval. Given the continuing financial uncertainty within local government, exacerbated by the challenges of the Covid-19 pandemic, consideration will be given to resetting the target level for the coming years.</p> <p>Responsible officer: Chief Finance Officer</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Ensuring effective use of temporary reserves arising to fund the Council's pandemic response</b></p> <p>Stirling Council's earmarked reserves relating to the pandemic response totalled £17.020 million as at 31 March 2021.</p> <p>Risk – Without careful consideration, there is a risk that this temporary funding is not used effectively.</p>	<p>The Council should ensure that temporary Covid-19 related reserves are directed effectively and line with Council strategy and strategic objectives</p>	<p>Agreed date: February 2022</p> <p>Agreed action:</p> <p>The use of Covid-19 funding has been considered and reported to the Council for decision on their deployment. This includes the mitigation of income loss and the funding of additional costs related to costs. Furthermore, the Member/Officer Covid Recovery Group has been considering the deployment of funding towards any measures necessary to address the harmful impacts of the pandemic. This considered and structured approach will be maintained.</p> <p>Responsible officer: Chief Finance Officer</p> <p>Agreed date: February 2022</p>
<p><b>4. Periodic accounts receivable reconciliations</b></p> <p>Accounts receivable reconciliations were not carried out for and signed off for much of the year.</p> <p>Risk – The lack of periodic reconciliations increases the risk of errors within receivables going unnoticed.</p>	<p>Management should carry out periodic accounts receivable reconciliations in line with industry standard practice</p>	<p>Agreed action:</p> <p>Since the outset of the pandemic back in March 2020, the Creditors team have experienced significantly increased levels of workload as a result of required changes to invoice payment processes, the provision of support to the various Scottish Government business support and vulnerable persons support schemes, together with the impact of remote home-working. The prioritisation of such tasks meant that the reconciliations were not undertaken as periodically as they might normally have been and as things settle, we would expect to return to normal practices.</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>Processes will be re-stated to ensure that accounts receivable reconciliations are carried out and signed off on a regular basis throughout the year.</p> <p>Responsible officer: Finance Team Leader (Corporate Accounting)</p> <p>Agreed date: with immediate effect</p>
<p><b>5. Valuation methodology</b></p> <p>Stirling Council currently revalues fixed assets over a 5-year rolling programme with different classes of asset being revalued each year.</p> <p>Risk – Movements in valuation may be uneven over the 5-year programme.</p>	<p>Management should consider a valuation methodology whereby 20% of each class of asset is revalued each year.</p>	<p>Agreed action:</p> <p>A report on the implications from any potential change to the current asset valuation methodology will be prepared for the Chief Finance Officer's consideration and decision. This will not result in a change for the 21/22 accounts as the valuation process for this year is already underway.</p> <p>Responsible officer: Senior Estates Surveyor and Finance Team Leader (Corporate Accounting)</p> <p>Agreed date: January 2022</p>
<p><b>6. Performance reporting within the Management Commentary</b></p> <p>Non-financial information within the Management Commentary meets the statutory requirements but could be improved.</p> <p>Risk – There is a risk the Council misses an opportunity to give a high quality review of its performance within the Annual Accounts.</p>	<p>The Council should take advantage of the quality performance reporting that is provided in committee papers to include performance data within the management commentary that is more relevant and specific to the challenges the Council faces</p>	<p>Agreed action:</p> <p>The Council will continue to review and further improve on the disclosure of all non-financial performance information within the Management Commentary.</p> <p>Responsible officer: Accounting Operations Manager</p> <p>Agreed date: 31 March 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>7. Accessibility of meeting papers</b></p> <p>Full meeting papers, including detailed reports, are only freely available on the Council website for the most recent meetings.</p> <p>Risk – There is a risk that the Council isn't being fully transparent.</p>	<p>The Council should take action to resolve the issue currently affecting historic meeting papers and ensure these are fully accessible</p>	<p>Agreed action:</p> <p>As per paragraph 82 of the report, minutes of all council and committee meetings are available on the Council's website. These are held within a back end system that also holds all associated papers. Until the very recent emergence of a technical issue relating to the interface between the back end system and some web browsers, all papers were available alongside the minutes to all users. Minutes and all papers can still be accessed by those using the Firefox or Internet Explorer web browsers.</p> <p>Digital and IT colleagues are working on a fix to remedy this as soon as possible. In the longer term, work is ongoing on the development of a new Council website that will remove this issue and ensure that all minutes and papers are available irrespective of the web browser used.</p> <p>It should be noted that the minutes and papers relating to the most recent committee cycle are currently available on the website and, in the meantime, all previous papers are available on request via the Council's Democratic Service. A message has been added to the website to explain that and provide an email address for requests.</p> <p>Responsible officer: Chief Governance Officer</p>

Issue/risk	Recommendation	Agreed management action/timing
		Agreed date: with immediate effect

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>8. Capital Programme</b></p> <p>The general fund capital programme experienced slippage in 2019/20. The general fund has experienced slippage in each of the last six financial years.</p> <p><b>Risk:</b> There is a risk that ongoing slippage could impact the Council's priorities.</p>	<p>The Council should ensure that any slippage and reprofiling of general fund capital projects continues to support the Council's strategic priorities.</p> <p><b>Update Nov 2021:</b></p> <p>Capital slippage increased in 2020/21, this recommendation from our 2019/20 report remains relevant.</p>	<p>In Progress</p> <p>Revised action:</p> <p>The progress of the 2021/22 capital programme is being reassessed in the light of the labour market and supply chain problems currently being experienced, and mitigating actions are being considered where appropriate. Officers continue to monitor and report on the milestones on individual projects</p> <p>Responsible officer: Chief Finance Officer</p> <p>Revised date: 31 March 2022</p>
<p><b>9. Financial Sustainability</b></p> <p>The Covid-19 pandemic has introduced further financial challenges.</p> <p><b>Risk:</b> The Council may not be able to deal with future financial challenges and deliver required savings without adversely impacting service delivery.</p>	<p>The Council should update its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.</p> <p><b>Update Nov 2021:</b></p> <p>The Council the monitors Covid-19 impact and anticipates pressures in the next financial year. However, the medium and long term plans do not take into account the impact to Covid-19. As a result, this recommendation remains relevant.</p>	<p>In Progress</p> <p>Revised action:</p> <p>The Council has already considered the impact of the Covid-19 pandemic and has taken decisions to deploy funding to mitigate the impact during 2020/21 and 2021/22. The ongoing impact on income and expenditure will continue to be monitored and if necessary built into future financial plans.</p> <p>Responsible officer: Chief Finance Officer</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>10. Senior Councillor Remuneration</b></p> <p>The total spent by the Council during 2019/20 was £191,961 meaning that the actual remuneration paid to Senior Councillors exceeded the maximum allowed by £15,279.</p> <p><b>Risk:</b> There is a risk the Council continue to breach the regulations.</p>	<p>The Council should review the structure of its Senior Councillors to ensure it does not breach Regulation 9 of the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007</p> <p><b>Agreed action in Nov 2020:</b></p> <p>The recent resignation of an elected member from the Council's Administration has had the impact of reducing the number of Senior Councillors by one.</p> <p>The Council will review the structure of its Senior Councillors immediately following the next Council elections in May 2022.</p> <p>Responsible officer: Chief Governance Officer</p> <p>Agreed date: with immediate effect and with a further review in May 2022</p>	<p>Revised date: February 2022</p> <p>Agreed action not due until May 2022.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p>	<p>Our audit work did not highlight any instances of fraud arising from management override of control.</p>
<p><b>2. Fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure, due to the variety and extent of expenditure in delivering services.</p> <p>Stirling Council incurs significant expenditure on a range of activities. The extent of expenditure means there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.</p>	<p>Detailed testing of expenditure transactions focusing on the areas of greatest risk and whether expenditure is recorded in the correct accounting year.</p> <p>Walkthrough and testing of controls identified within key financial systems.</p>	<p>Our audit work did not highlight any instances of fraud over expenditure.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>3. Estimates and judgements in the valuation of land and buildings</b></p> <p>Stirling Council held land and buildings with a net book value (NBV) of over £374.492 million as at 31 March 2020. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations. The impact of COVID-19 gave rise to a material valuation uncertainty within the 2019/20 valuations, and may have a similar impact in 2020/21 depending on guidance issued by RICS.</p>	<p>Completion of 'review of the work of Management's expert' for the professional valuer.</p> <p>Review of external valuations performed in year, assessing whether they have been performed using an appropriate and relevant valuation basis/methodology by suitably qualified individuals.</p> <p>Review of the controls in place by management to limit the risk of material misstatement within the valuation.</p> <p>Review of the information provided to the valuer to assess for completeness</p> <p>Review and assess the reasonableness of external valuations.</p> <p>Assess the Council's compliance with any relevant Covid-19 guidance issued by RICS in relation to land and buildings property valuations.</p>	<p>We noted no issues with:</p> <ul style="list-style-type: none"> <li>- the reliability of the professional valuer or the reasonableness of estimates they provided.</li> <li>- the controls management put in place or the accuracy of the information provided for the valuation</li> <li>- compliance with the most up to date RICS guidance in relation to land and buildings property valuations during pandemic.</li> </ul>
<p><b>4. Estimates and judgements in the valuation of the pension liability</b></p> <p>Stirling Council recognised a net liability of £210.961 million relating to its share of Falkirk Pension Fund at 31 March 2020. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates, and changes can result in material changes to the valuation.</p>	<p>Completion of 'review of the work of Management's expert' for the Council's actuary.</p> <p>Assess the completeness and accuracy of information provided by the Council to the Falkirk Pension Fund to support the triennial revaluation process.</p> <p>Review of the controls in place by management to limit the risk of material misstatement within the pension liability.</p>	<p>We noted no issues with:</p> <ul style="list-style-type: none"> <li>- the reliability of the actuary or the reasonableness of estimates they provided.</li> <li>- the controls management put in place or the accuracy of the information provided for the valuation</li> </ul>

Audit risk	Assurance procedure	Results and conclusions
<p>Additionally, the triennial valuation exercise will take place for the pension fund and impact on the 2020/21 annual accounts. This exercise is more detailed than the annual valuations and will also set employer contributions rates for the next three years.</p>		
<p><b>5. Impact of additional funding and expenditure due to Covid-19 on the financial statements</b></p> <p>The Covid-19 pandemic has resulted in significant financial pressures for the council. The Scottish and UK governments have announced a range of additional funding streams for the council to support frontline services and help the council manage the financial pressures caused by Covid-19. Additional funding received via General Revenue Grant by 31 March 2021 is expected to be material in value.</p> <p>The impact of Covid-19 has resulted in an associated increase in expenditure, with some new expenditure streams in 2020/21. The result of which is anticipated additional expenditure of £10.7 million related to Covid-19 activities.</p>	<p>Understand how the council has processed and controlled the Covid-19 related income and expenditure.</p> <p>Assess how the additional income and expenditure has impacted on the financial statements</p> <p>Consider how the management commentary reports on the Covid-19 related income and expenditure.</p>	<p>We concluded that Covid-19 related expenditure was processed through existing control processes and was correctly presented within normal Council expenditure.</p> <p>We reviewed management's process for identifying and recording Covid-19 related income. We noted no issues in how this was classified within the accounts.</p> <p>We noted one issue relating to the recognition of Covid-19 personal protection equipment and testing kits provided by Scottish Government. This resulted in an accounting adjustment to recognise £0.932 million of stock within the council balance sheet.</p> <p>We concluded that the impact of Covid-19 income and expenditure was clearly reported within the Management Commentary of the Annual Accounts.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Financial Sustainability</b></p> <p>Stirling Council has identified a long term budget gap for a number of years, in 2019/20 the 10-year shortfall was estimated to be £60 million arising from funding and demand pressures.</p> <p>Despite the council having developed savings plans and been largely successful in achieving these, the magnitude of the budget gap represents a risk.</p> <p>The COVID-19 pandemic has introduced additional cost, additional uncertainty and has disrupted the council's ability to implement plans in response to the budget gap.</p> <p>As a result, there is a risk to financial sustainability and the sustainability of services in future.</p>	<p>Review of financial reports and papers such as budget monitoring reports, 2021/22 budget, medium and long-term savings plans and financial outlook papers.</p> <p>Review of assumptions and judgements in financial reports and papers for reasonableness.</p>	<p>The Council continues to forecast a challenging medium to long term financial position, and intends to respond though its transformation plan set out in the 10 year "Thriving Stirling" plan.</p> <p>We confirmed assumptions and judgements used by the council in its forecasting are reasonable.</p> <p>The Covid-19 pandemic adds additional pressure and uncertainty. The impact of this is not currently included within the Council's forecast.</p> <p>We recommend that The Council updates its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.</p>
<p><b>2. Performance Management</b></p> <p>The COVID-19 pandemic has significantly altered how the council delivers many of its services and also added additional responsibilities, for example the administration of business support grants.</p> <p>The continuing pressures of the pandemic, both operational and financial, result in a risk that Stirling Council will not be able to exercise effective performance management during 2020/21.</p>	<p>Review of the performance management arrangements in place during the year to understand the Council's response to the evolving situation</p>	<p>We concluded that performance management arrangements remained in place during the pandemic.</p> <p>The Council approved its Covid-19 Recovery Plan in June 2021 which sets out a large number of actions in response to the pandemic.</p>

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# Appendix 3

## Summary of national performance reports 2020/21

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### April

[Affordable housing](#)

### June

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

[Local government in Scotland Overview 2020](#)

### July

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

### January

[Digital progress in local government](#)

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

### February

[NHS in Scotland 2020](#)

### March

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

# Stirling Council

## 2020/21 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)