

Fife Council

2021/22 Annual Audit Report



Prepared for the Members of Fife Council and the Controller of Audit
November 2022

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Key messages

2021/22 annual accounts

- 1 Our audit opinions on the annual accounts of the council, its group and section 106 charities administered by the council are unmodified.
- 2 There were issues with the completeness of non-current asset valuations and a reconciliation for the main general fund bank account was not received by audit until the end of July, following the implementation of a new system in February 2022.
- 3 We recommend that the method of reflecting fair value changes in non-current assets is reviewed.

Financial management and sustainability

- 4 The council underspent its in-year budget by £59 million mainly due to unspent contingencies and grant funding and the general fund balance has increased to £183 million in 2021/22.
- 5 The latest Revenue Budget report identified a surplus of £2 million for 2022/23.
- 6 The latest revenue budget report is projecting a cumulative funding gap of £61 million to 2025/26.
- 7 We identified a number of areas where financial controls can be improved.

Governance, transparency and Best Value

- 8 Fife Council is proactive in ensuring that equality is mainstreamed.
- 9 The council is making slow progress in progressing recommendations from our Best Value Assurance Report published in May 2018.
- 10 Service performance information has been publicly reported for 2021/22, but further improvements are needed to fully comply with the SPI Direction.

Introduction

1. This report summarises the findings arising from the 2021/22 audit of Fife Council (the Council) and its group.
2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the April meeting of the Standards Audit and Risk Committee. This report comprises the findings from an audit of the annual accounts and 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 2021/22 have been:
 - an audit of the annual accounts of the council and its group and the section 106 charities administered by the council, and the issue of independent auditor's reports setting out our opinions
 - a review of the Council's key financial systems
 - an assessment of the Council's approach to implementing the outstanding recommendations included in the Council's BVAR published in May 2018.
 - consideration of the four audit dimensions.

Adding value through the audit

4. We add value to the Council through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) 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

5. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

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

7. As public sector auditors we give independent opinions on the annual accounts. 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.

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

9. 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.

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

Auditor Independence

11. 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 2021/22 audit fee of £547,620 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

13. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23, Azets will be the appointed auditor for Fife Council. We are working closely with the new auditors to ensure a well-managed transition.

14. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016. There are several significant changes introduced by the new Code, namely the integration of Best Value work into wider scope audit work.

15. We would like to thank Standards Audit and Risk Committee members, Executive Directors, and other staff, particularly those in finance for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual accounts

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

Main judgements

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

The annual accounts were submitted for audit in line with our agreed audit timetable, but there were issues with the completeness of non-current asset valuations and a key bank reconciliation.

A reconciliation for the main general fund bank account was not received by audit until the end of July, following the implementation of a new system in February 2022.

We recommend that the method of reflecting fair value changes in non-current assets is reviewed; management oversight of assets under construction is improved and bank reconciliation processes are re-established.

Expenditure on charitable activities in 2021/22 totalled £15,000, which is 53% lower than in 2020/21, with 26 of the 43 Trusts incurring no expenditure.

Our audit opinions on the annual accounts are unmodified

16. The accounts for the Council and its group for the year ended 31 March 2022 were approved by the Standards Audit and Risk Committee on 28 November. 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.

17. Our opinions on the Section 106 charitable Trust accounts for 2021/22 were also unmodified.

The annual accounts were submitted for audit in line with our agreed audit timetable, but there were issues with the completeness of non-current asset valuations and a key bank reconciliation

18. Fife Council published and provided the unaudited accounts to audit on 30 June 2022 in accordance with the statutory timescale. These were formally considered by the Standards Audit and Risk Committee at its meeting on 30 June 2022.

19. The working papers provided with the unaudited accounts were of a reasonable standard and finance staff provided support to the audit team during the audit. However, the council's unaudited accounts did not reflect current value movements in non-current assets (NCA) and this resulted in further audit work to assess required changes. This led to a £32 million movement NCA valuation in the audited accounts ([Exhibit 3](#)). We also encountered delays in receiving an auditable reconciliation of the General Fund bank account ([Exhibit 3](#)). These issues had a significant impact on the audit process.

There were no objections raised to the annual accounts

20. 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 2021/22 accounts.

Overall materiality is £16.5 million

21. 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, we also determine a lower performance materiality threshold.

22. 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.

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

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£16.5 million
Performance materiality	£8.3 million
Reporting threshold	£250 thousand

Overall materiality of the Charitable Trusts is £16,000

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

Exhibit 2

Charitable Trusts materiality values

Materiality level	Amount
Overall materiality	£16,000
Performance materiality	£11,000
Transaction Performance materiality	£400
Reporting Threshold	£300

We have significant findings to report on the audited annual accounts

25. 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 3](#) for the Council and its Group and in [Exhibit 4](#) for the Charitable Trusts.

Exhibit 3

Significant findings from the audit of financial statements of the Council and its Group

Issue	Resolution
1. Year-end valuations of housing, land and	The council made the necessary

Issue	Resolution
<p>buildings.</p> <p>The Code requires councils to measure Non-Current Assets at current value and revalue every five years, or more frequently where there are material changes.</p> <p>In recent years, there have been material annual rises in valuation assessments. In 2021/22 these valuation changes were not reflected in the unaudited statements.</p> <p>The methodology of applying valuation changes to the asset bases should be reviewed. This includes:</p> <ul style="list-style-type: none"> • issues with the housing formulae in spreadsheets (which have been corrected in 2021/22), • whether valuation changes should be reflected in changes to Net Book Values rather than Gross Book Values, • the rebasing of asset lives after each desktop valuation, • the principle of applying a mid-year estimate rather than a year end estimate of BCIS retender prices, • the revaluation programme is maintained on the Estates Module of TF Cloud but asset numbers and values differ from those on the Asset Register. <p>The Code also requires the balance on accumulated depreciation to be eliminated. The unaudited accounts had not eliminated the accumulated depreciation balance for those assets subject to desktop valuation.</p>	<p>adjustments to correct formula errors.</p> <p>Adjustments have been made in the audited accounts to reflect fair value assessments at 31 March 2022 and the Net Book Value of all non-current assets has reduced by £32 million, with reductions in housing of £4 million and other land and buildings of £3 million.</p> <p>Although we identified issues with the Council's methodology, we considered that these did not lead to material misstatements in the estimates of current value at 31 March 2022.</p> <p>Recommendation 1 (Refer Appendix 1, action plan)</p>
<p>2. Transfers and valuation of Assets Under Construction to operational land and buildings</p> <p>The transfer of Madras College from assets under construction to operational Land and Buildings was processed incorrectly leading to an incorrect charge of £11 million to the Comprehensive Income and Expenditure Statement and a similar incorrect credit to the Revaluation Reserve.</p>	<p>Amendments were made in the audited accounts to correct this error.</p> <p>Management review of assets under construction and of completed asset transfers should be improved.</p> <p>Recommendation 2 (Refer Appendix 1, action plan)</p>
<p>3. Bank Reconciliations of the main General Fund account</p> <p>Bank reconciliations were not carried out on a regular basis during 2021/22. Reconciliations were performed weekly From April to June 2021 and</p>	<p>We undertook additional audit procedures on the reconciliation provided on 31 August and concluded it was materially accurate and complete, despite a £1.78m duplicate ledger entry that was corrected on 2 April.</p>

Issue	Resolution
<p>then monthly during July 2021 to December 2021.</p> <p>A new Adelante Smart Pay system was introduced on 23 February 2022 with a final bank reconciliation prepared on the CIVICA system, which was replaced.</p> <p>Following the introduction of Adelante Smart Pay, no further reconciliations were carried out until July 2022. The first bank reconciliation provided to audit was at the end of July, which did not balance, and included 1,500 unmatched bank transactions (payments of £79 million and receipts of £93 million) and 20,000 unmatched ledger transactions (payments of £125 million and receipts of £138 million).</p> <p>This compares to just 69 reconciling items in the previous year's reconciliation at 31 March 2021.</p> <p>Following discussions with management, a series of revised bank reconciliations were provided during August, each showing an improved position on the previous reconciliation. A reasonable year-end bank reconciliation (version 5) was provided on 31 August 2022.</p>	<p>The Council is progressing system reconciliations which have now been completed to the end of September 2022.</p> <p>This issue has been disclosed in the audited Governance Statement.</p> <p>Recommendation 3 (Refer Appendix 1, action plan)</p>
<p>4. Deminimis applied to Social Work Accruals</p> <p>The council has applied a deminimis level to the accrual of social work expenditure to individual providers of £50,000. This represents service provision which has not been paid for by the year end. We estimate that the effect of this is to under-accrue expenditure at the 31 March 2022 by £1.8 million. However, this policy has now been in place for 3 years and the net impact on 2021/22 is only £0.2 million, as a similar amount was under-accrued in 2020/21.</p>	<p>We consider that the deminimis approach to accrual of social work payments is now embedded and demonstrates that there is no material misstatement of expenditure as a result of this policy</p>
<p>5. Revision to loss due to Woodmill fire</p> <p>Following the year-end, the Loss Adjuster has increased the total estimate of claims in respect of the Woodmill High due to fire from £17.5m to £20m. A debtor is included in the accounts for £3m at the year-end and amounts received up to year end are £14.5m. The change in claim ceiling is a non-material adjusting Post Balance Sheet Event and debtors are understated by £2.5m.</p>	<p>The audited accounts have not been adjusted for this change in estimate and the financial statements debtors and income are understated by £2.5 million.</p> <p>We do not consider this to be a material misstatement.</p>
<p>6. Cashflow information provided to the actuary</p> <p>The IAS19 report from the actuary identified five</p>	<p>Although the wrong figure was submitted to the actuary we consider</p>

Issue	Resolution
<p>Council employer contributions at £74.789 million which is £5.4 million lower than the actual per the ledger.</p> <p>Further analysis identified that the wrong figure was reported to the actuary.</p>	<p>that this does not result in a material misstatement in the Council's pension liability and to charges in the Consolidated Income and Expenditure Statement. Charges to the general fund are based on actual contributions recorded in the ledger.</p> <p>Recommendation 4</p> <p>(Refer Appendix 1, action plan)</p>
<p>7. Housing Assets under construction</p> <p>Within the total of assets under construction (AUC) of £93.6 million, the majority is for housing projects (£81.5 million).</p> <p>Evidence based on a sample of projects totalling £28.6 million showed that the AUC amount was overstated. We determined that these projects contained over 188 houses, but 84 of these had been handed over by 31 March 2022 as completed assets. The known overstatement of AUC assets and understatement of completed assets based on the sample is £11.8 million. However beacon valuation adjustments are likely to reduce the valuations of these transfers to 50% or less. Resulting in write downs of £17 million.</p> <p>The council's wider review of the assets under construction category identified 120 council houses, which had been completed, but continued to be treated as assets under construction.</p>	<p>The council has undertaken a wider review of AUC housing assets and determined that the overall misstatement was £27 million.</p> <p>This has been corrected in the audited accounts.</p>
<p>8. Affordable Housing Programme Grant Income</p> <p>Our cut-off testing identified a grant receipt for the purchase of land at Lochgelly Road, Lumphinnans, where both the purchase of the land and the claim submission to the Scottish Government were completed before the year end, but the income was not accrued.</p>	<p>We performed a reconciliation between the general ledger and HARP (SG system for housing grants) which identified three more missed accruals.</p> <p>The audited accounts have not been adjusted for these errors and Capital Grant Income and Debtors are understated by £1.4m.</p>

Exhibit 4

Significant findings from the audit of the Charitable Trusts

Issue	Resolution
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Issue	Resolution
<p>1. “Dormant” charities</p> <p>Expenditure on charitable activities in 2021/22 totalled £15,000, which is 53% lower than in 2020/21, with 26 of the 43 Trusts incurring zero expenditure.</p> <p>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.</p>	<p>Trustees should consider reorganising the charities through merging or winding them up, particularly when they appear to be failing to meet their charitable aims (e.g. by not disbursing funds).</p> <p>Recommendation 5</p> <p>(Refer Appendix 1, action plan)</p>
<p>2. Payment of grants - key controls.</p> <p>Audit testing found one grant which had been awarded, but the claimant had not signed the application form. The grant was requested by the claimant’s social worker who also evidenced that the goods had been purchased and received, but there was no evidence to support delivery of goods to the claimants address. We also found that there are no checks to make sure that monies have been used as intended.</p>	<p>Trustees should make arrangements to perform sample checks each year to ensure that monies have been appropriately granted and have been used for the purposes intended.</p> <p>Recommendation 6</p> <p>(Refer Appendix 1, action plan)</p>
<p>3. Completeness of payments recorded in the ledger and Fife Council Charitable Trusts accounts</p> <p>There is no central record, independent of the ledger, which records all applications received and applications approved.</p>	<p>A central record of applications should be maintained and reconciled to the ledger on an annual basis to provide assurance over the completeness of payments recorded in the ledger and FCCT accounts.</p> <p>Recommendation 7</p> <p>(Refer Appendix 1, action plan)</p>

26. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements [Exhibit 4](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan audit. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 5

Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries and focus on significant risk areas and transactions with related parties.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Performed substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Performed focussed testing of accounting accruals and prepayments.</p>	<p>Results & Significant Judgements:</p> <p>The controls over journal entry processing were appropriate and we noted arrangements for managements review of self-service journals</p> <p>We reviewed unusual journal activity and made enquiries of officers and did not identify any issues.</p> <p>Our testing of individual journals did not identify any significant issues.</p> <p>There was no evidence of significant transactions outside the normal course of business.</p> <p>Principles and methods of preparing accounting estimates were consistent with the prior year and reasonable.</p> <p>Our testing of income and expenditure and accruals and prepayments did not identify any material errors. We noted at Exhibit 3 issues with the Affordable Housing Programme Grant Income and we also identified that the pay award accrual was understated by £0.6 million on the basis of actual payments made in April, but the estimate was reasonably calculated at the year end based on data</p> <p>Conclusion: No issues were identified that indicate management override of controls.</p>
<p>2. Estimation in the valuation of other land and</p>	<p>Review the information provided to the valuer to</p>	<p>Results & Significant Judgements:</p>

Audit risk	Assurance procedure	Results and conclusions
<p>buildings</p> <p>Fife Council hold land and buildings (non-housing) with a NBV of £2,039 million at 31 March 2021. Land and buildings are revalued on a five-year rolling basis. Valuations are carried out by the Council's internal valuer. In intervening years, indexation is applied to reflect movements in BCIS price index.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>The 2021/22 revaluation exercise is planned to cover a significant proportion of the estate.</p> <p>There is a risk that valuations will change significantly in 2021/22 and create material uncertainty over assets not subject to revaluation.</p>	<p>assess for completeness.</p> <p>Evaluate the competence, capabilities, and objectivity of the professional valuer.</p> <p>Complete a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied.</p> <p>Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Examine management's assessment of any assets not revalued in 2021/22 against evidence of changes in other revalued assets.</p> <p>Test the reconciliation between the financial ledger and the property asset register.</p> <p>Perform sample testing of individual asset valuations and lives.</p>	<p>Our assessment of the valuers and the actuaries did not identify any significant issues.</p> <p>Following a review of the approach to indexation the valuers applied a change in methodology in 2021/22. We reviewed the detail of the calculation and considered it to be supported by detailed accurate workings.</p> <p>We note in Exhibit 3 issues with the methodology of NCA fair value adjustments and the data provided to the actuary, but concluded that these issues are not material to the overall valuations in these areas.</p> <p>The financial ledger reconciled to underlying asset records.</p> <p>Our testing of asset lives identified an issue with rebasing of lives at each valuation (Exhibit 3).</p> <p>Conclusion: Although issues were identified with the Council's NCA valuation methodology and data provided to the actuary, we considered that these did not lead to material misstatements at 31 March 2022.</p>

Other areas of audit focus

27. We identified in our 2021/22 Annual Audit Plan one area where we considered there to be a risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider it to represent significant risk. The area of specific audit focus was the pension liability valuation. We considered the reasonableness of actuarial estimates on material elements of the valuation using PwC LLP to review actuarial assumptions across Scottish LGPS and the

accuracy of information provided to the actuary by the council and assurances from the auditor of Fife Pension Fund. We have noted the issues with data provided to the actuary on contributions in Exhibit 3 and Exhibit 5.

Across the UK, a technical accounting issue has been identified covering infrastructure assets.

28. Infrastructure assets typically include highways, footpaths, bridges and culverts and are included at historical cost in the accounts (£322 million at Fife Council). A replaced component of an asset has to be derecognised and at some councils the records of additions were not detailed enough to comply with accounting code requirements. A failure to derecognise assets correctly would have resulted in double-counting and an overstatement of the gross book value; accumulated depreciation and potentially the net book value of the assets.

29. CIPFA/LASAAC considered the matter and proposed amendments to the 2021/22 accounting code to allow a reasonable assumption that the net book value of replaced parts of infrastructure assets are £nil and a temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government has issued Finance Circular 9/2022 to implement these changes.

30. At Fife Council, management considered the records available to support infrastructure additions and have since applied the above statutory overrides and have amended the infrastructure disclosures in the audited accounts.

Identified misstatements of £107 million were identified and the majority (£97 million) was adjusted in the audited accounts.

31. Total misstatements of £107 million were identified, with the majority of these (£97 million) adjusted in the accounts. The adjustments reduced the year-end surplus on the Comprehensive Income and Expenditure statement by £31 million, but with no effect on the General Fund. The most significant adjustments relate to a reduction in the value of non-current assets of £31 million.

32. We have reviewed the nature and causes of these misstatements and have considered the need for further audit procedures. As noted in Exhibit 3, we undertook additional work covering non-current assets, grant accruals and bank reconciliations and concluded that, after audit adjustments, there were no further material errors that arose from the identified issues. We have concluded that the issues have been identified in their entirety and do not indicate further systemic error.

33. Misstatements, totalling £10 million were identified that have not been adjusted by management in the accounts, as they consider the value to be immaterial. If adjusted, these would have reduced net expenditure by £2 million, with a similar impact on the General Fund ([Appendix 2](#)).

The audited charities accounts include unadjusted misstatements

34. Misstatements, totalling £3.5k were identified in the audited charities accounts that have not been adjusted by management due to the low value. These relate to an error of £3k in the unit price used in the calculation of investments in the UK Equity and Growth Fund at 31 March 2022, and a difference of £0.5k between estimated income and actual income in the fourth quarter of the year for Dividends and Interest. If adjusted the value of investments would increase by £3k and debtors and income would increase by £0.5k. 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.

Good progress was made on prior year recommendations

35. The council has made good progress in implementing prior year recommendations, with two recommendations fully implemented and three partly implemented. We found that limited improvements have been made in performance reporting in 2021/22.

2. Financial management

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

Main judgements

The council underspent its in-year budget by £59 million mainly due to unspent contingencies and grant funding.

The general fund balance has increased from £136 million in 2021/22 to £183 million in 2021/22, a significant element of this is unspent Covid-19 funding and other grant support.

We identified a number of areas where financial controls can be improved.

The 2021/22 original budget was set at £899 million

36. The Council approved its three-year budget for 2021/22 to 2023/24 in March 2021. The budget for 2021/22 was set at £899 million and included an agreed savings target of £0.5 million. The Council agreed to freeze council tax at its meeting in February 2021 and received a compensatory allocation from Scottish Government of £6 million. This additional allocation equates to an increase in council tax of around 3%.

Additional funding of £66 million was received during 2021/22

37. During 2021/22 the Council received additional specific Covid funding of £17 million and additional revenue grant funding of £49 million, £48 million of which was received in the last quarter of the financial year.

The underspend was £59 million, mainly due to unspent contingencies and Covid-19 funding

38. The Council reports an underspend against its 2021/22 budget of £59 million including £39 million of unspent contingencies and £11 million unspent Covid-19 funding.

39. The Council's agreed strategy for financial management is to hold central contingencies balances each year to fund expenditure which cannot be reliably estimated at the time of setting the annual budget. Contingencies balances include funding for pay awards and corporate projects such as workforce change and are passported to services on a needs basis as costs are accurately identified.

40. The level of unspent contingencies has been increasing year-on-year for the last four years, increasing from £3 million in 2018/19 to £39 million in 2021/22, reflecting the late grant and Covid-19 funding and other areas which have not yet been reflected in service budgets. This level of underspend is expected to decrease going forward as additional Covid-19 and other grant funding reduces.

Exhibit 6

Summary of significant underspends against budget

Area	£m	Reason for variance
Underspends		
Contingencies	£39	Savings due to unspent grant funding.
Covid cost pressures	£11	Savings due to unspent Government funding received in last quarter of 2021/22.
Education and Children's Services	£7	Savings mostly attributable to children and families high cost placements and vacant teaching posts.

Source: Fife Council 2021/22 Annual Accounts

Improvements to financial reporting in the Management Commentary were identified

41. The Management Commentary that accompanies the annual accounts should clearly explain how the council has performed against its budget and how this is reconciled to the financial statements.

42. Figures relating to contributions to and from the IJB had not been confirmed and required adjusting by £9 million in the audited accounts. There was also lack of explanation of significant variances regarding contingencies and a lack of clarity over the approved budget and Covid-19 costs and funding. The Council updated the Management Commentary in the audited accounts to address these matters.

Housing revenue account balances reduced by £1 million

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

44. The HRA budget for 2021/22 was £128 million which was financed by income from dwelling rents (£121 million), income from non-dwelling rents (£3 million) and other income (£4 million). There were overspends in a number of expenditure areas, including repairs and maintenance as the number of repairs increased towards the end of the year following relaxation of Covid-19 restrictions. Overspends were partly offset by underspends including the cost of borrowing, however the overall position was a net reduction in balances of £1 million, these were met from existing HRA balances, which reduced to £7 million at 31 March 2022.

Members receive regular budget information and there is a good level of scrutiny, with scope for improvement in information provided

45. We have observed from attendance at Policy and Co-ordination Committee (PCC) that members receive regular financial information on the Council's performance against budgets and there is a good level of scrutiny of the reports presented.

46. There was no mention of significant increases in GRG (£33 million) and Covid-19 funding (£13 million) in the monitoring report which was included in the papers for the March PCC meeting. There can be up to a three month lead in time in reporting of financial information to Committees but significant changes to figures in this period should be highlighted at meetings to fully inform strategic decisions by Members.

Recommendation 8

Members should receive more up to date funding and expenditure figures at committee meetings to fully inform strategic decisions, where there has been a significant change.

The Covid-19 pandemic resulted in costs of £35 million which were funded by the Scottish Government and from reserves.

47. 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.

48. Direct Covid-19 spend is identified by the services in discussion with finance business partners and tracked on a template which is completed as part of the revenue monitoring process.

49. Covid-19 net costs for the year totalled £31 million, £1 million more than the budget, and were funded partly from Government funding received in year (£23 million) and partly from Covid-19 reserves brought forward from 2020/21 (£9 million).

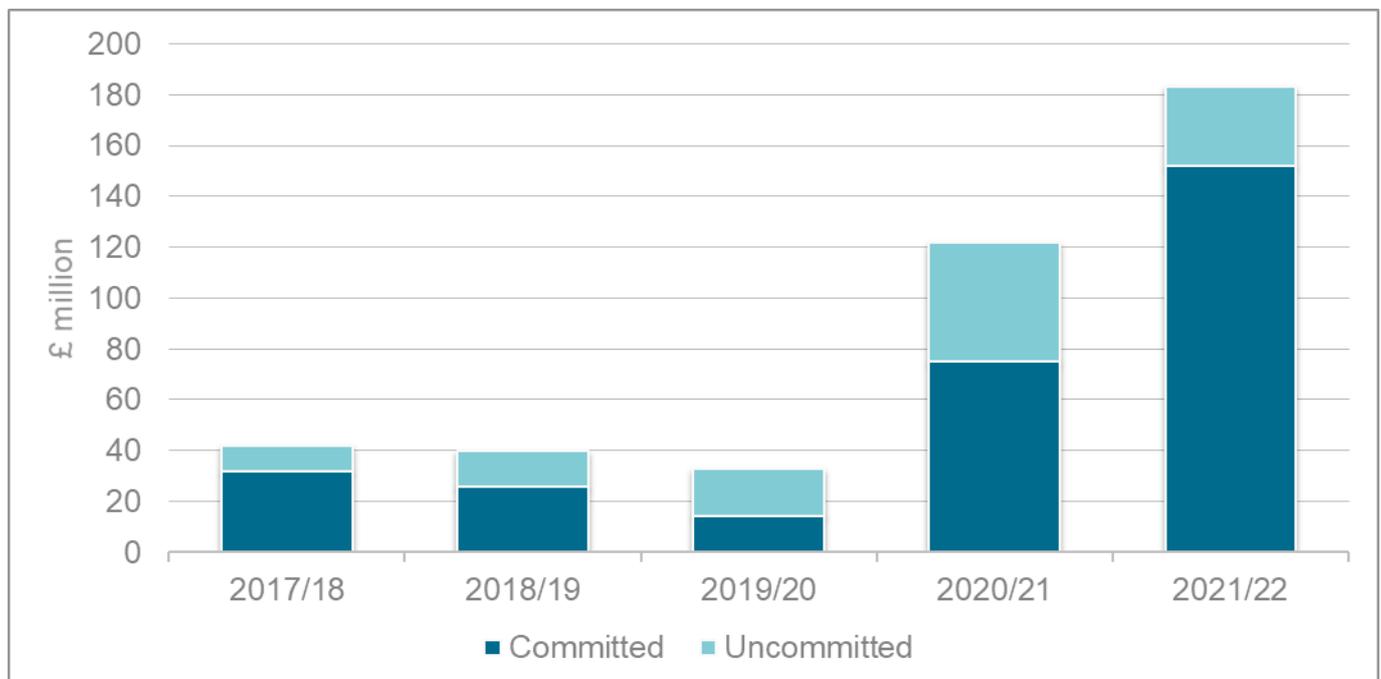
50. The Council ended the year with Covid-19 reserve balances of £66 million at 31 March 2022.

There has been a significant increase in the level of General Fund reserves

51. 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 £172 million in 2020/21 to £212 million in 2021/22.

52. The general fund is the largest usable reserve and is used to support the delivery of services. The general fund balance has increased from £136 million in 2020/21 to £183 million in 2021/22 [Exhibit 6](#). As noted at paragraph 47, a significant element of this is unspent Covid-19 support. It also includes increases in grants received for specific purposes (£16 million), the change fund (£10 million) and amounts to cover demographics/pay/pensions pressures (£18 million). The uncommitted element of the general fund balance has reduced from £47 million in 2020/21 to £31 million in 2021/22.

Exhibit 7 Analysis of general fund balance



Source: Fife Council audited accounts

The Council achieved 42 per cent of planned efficiency savings

53. In 2021/22, Fife Council planned to achieve efficiency savings of £2.6 million to address the budgeted funding gap. The Council achieved actual savings of £1.1 million (42 per cent of this total). The shortfall was dealt with by in-year alternative savings, such as alternative cost reductions and unused contingency funding.

Capital expenditure increased in 2021/22 with significant investment in schools.

54. Total capital expenditure in 2021/22 was £164 million (2020/21: £138 million). Major projects included the completion of Madras College, initial site clearance work for the Dunfermline Learning Campus and housing upgrades and new builds.

55. The Council approved its Capital Investment Plan 2022-2031 with a budget of £1,514 million in September 2022. The Plan suggests that capital investment is planned to continue to increase steadily each year over the next three years to £229 million in 2024/25, with a decrease in annual spend thereafter to March 2031. Planned capital investment is expected to reduce to £88 million in 2030/31.

56. The Council is also facing significant risks associated with high inflation and supply chain disruption which is likely to impact on the cost and delivery of the capital plan going forward.

We identified a number of areas for improvement in the financial systems of internal control

57. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan and develop an effective audit approach for the annual accounts.

58. Our 2021/22 testing covered key controls in a number of areas including budget monitoring, payroll, journals, housing rents, council tax, non-domestic rates and IT access. We identified a number of areas where controls can be improved. See Exhibit 8 for details of the key controls risks we identified.

59. These findings impacted on our audit approach where we needed to carry out additional work to enable us to obtain the required assurance for our audit of the annual accounts.

Exhibit 8

Key findings from review of key controls

Audit finding	Additional audit procedures
<p>1. Payroll validation checks</p> <p>There was no positive validation control in operation. However as part of the annual budget setting process, budget holders were provided with detailed staffing costing reports generated from the payroll system.</p> <p>There is a risk that staff remain on the payroll after they have left.</p>	<p>We substantively tested an extended sample of paid employees to ensure they exist as current employees through confirmation to other records.</p>
<p>2. Bank reconciliations</p> <p>An appropriate control did not operate during the whole of 2021/22, mainly due to the introduction of a new cash management system and difficulties in preparing a reconciliation from the new system.</p> <p>We were unable to test user access controls as this had not yet been established in the new system.</p> <p>There are also key dependencies on individual members of staff involved in daily cash clearance, without adequate cover for absence</p> <p>There is a risk that the ledger cannot be reconciled properly to the actual bank movements and this undermines the reliability of financial reporting.</p>	<p>We undertook additional audit procedures on the General Fund bank reconciliation, as provided for audit in August 2022.</p> <p>This process identified reconciling items which should have been corrected prior to the year end. The net effect of these errors is that the Cash balance in the accounts was overstated by £0.5m. These errors were unadjusted and have been included in Appendix 3.</p>
<p>3. Second Officer Checks</p> <p>Council Tax and Housing Benefit</p> <p>In prior years, Revenues Officers in the revenues team carried out sample spot checks over the processing of new or amended claims for housing benefit, council tax reduction and discounts and exemptions.</p> <p>Due to the additional workload on the revenues team as a result of the Covid-19 pandemic these second officer checks were not carried out in 2020/21 or 2021/22.</p>	<p>We performed additional testing of council tax reliefs, discounts and exemptions.</p> <p>Housing benefit expenditure has been agreed to the system generated claim form. We have reviewed the fortnightly payment runs and are satisfied that the expenditure is free of material misstatement.</p> <p>We performed additional testing of NDR reliefs awarded during</p>

Audit finding	Additional audit procedures
<p>NDR reliefs</p> <p>There have been no second officer checks or supervisory checks on the reliefs awarded for NDR during 2021/22.</p> <p>There is a risk that reliefs and discounts are awarded incorrectly. There is also a risk of fraud/error.</p>	<p>2021/22.</p>
<p>4. Control Account Reconciliations</p> <p>The following reconciliations have not been completed timeously during 2021/22:</p> <p>Rent Allowance Bank Account</p> <p>We found that reconciliations were not completed timeously during 2021/22 and were not reviewed by a second officer.</p> <p>The November 2021 reconciliation between the NDR system and ledger was received by audit at the end of August 2022.</p> <p>The March 2022 Rent Allowance Bank Account Reconciliation was received by audit at the end of July 2022.</p> <p>Rent control account</p> <p>The March 2022 Rent reconciliation was received by audit in July 2022. The reconciliation had not been reviewed by a second officer.</p> <p>NDR ledger</p> <p>We found that reconciliations were not completed timeously during 2021/22.</p>	<p>We performed detailed testing on year-end reconciliations.</p>

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

60. 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.

61. We have reviewed the arrangements and concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities. There are also established arrangements to maintain standards of conduct.

National Fraud Initiative

62. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Fife council is proactive in investigating matches and Internal Audit take an active role in reporting the outcomes of NFI activity to the Council Executive Team and Standards Audit and Risk Committee.

63. Some of the areas highlighted in Audit Scotland's [National Report](#), published in May 2022 have been included in the 2022/23 Internal Audit Plan, such as Procurement Cards and Cybersecurity. We considered that the approach was appropriate.

3. Financial sustainability

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

Main judgements

The initial balanced budget for 2022/23 did not require departmental savings or planned use of reserves.

The latest Revenue Budget report identified a surplus of £2 million for 2022/23.

The Council's Revenue Budget report published in August 2022 is predicting a cumulative funding gap of £61 million to 2025/26.

The initial balanced budget for 2022/23 did not require departmental savings or planned use of reserves

64. The General Fund Revenue Budget for 2022/23 of £945 million was approved by the council in February 2022. Initial funding levels were estimated to be £936 million with an opening budget gap of £9 million. Additional funding of £8 million has since been confirmed and an increase of 3% on council tax has been approved resulting in a small projected in year surplus of £4 million against the 2022/23 budget.

65. The 2022/23 budget paper did not require any savings, as the budget strategy agreed by PCC indicated that the services would not be asked for savings, but rather there would be corporate solutions to address the budget gap.

The latest Revenue Budget report identified a surplus of £2 million for 2022/23

66. The most recent Revenue Budget report presented to the Cabinet Committee in November 2022 identified a surplus of £2 million for 2022/23. However, there are still significant ongoing uncertainties and financial pressures associated with the costs of recovery from the pandemic, inflationary pressures and employee costs.

67. These pressures and the projected outturn are being closely monitored and presented to the relevant Scrutiny Committees as part of the Council's wider scrutiny and performance management reporting arrangements.

The Council has a cumulative funding gap of £61 million to 2025/26 with a Medium Term Financial Strategy to close the gap

68. The budget is underpinned by the council's Medium Term Financial Strategy (MTFS). The MTFS is a principles-based plan, which details the latest planning assumptions and is provided to members annually in the third quarter of the year.

69. The latest MTFS reported in August 2022 is projecting provisional cumulative budget gaps of £31 million, £46million, and £61 million for 2023/24, 2024/25, and 2025/26 respectively. The Council recognises that bridging gaps of this magnitude will require major changes to services and how they are delivered and may require the use of general fund balances to provide resource and capacity for transformation.

70. The current economic climate remains uncertain, with the continuing impact of Covid-19 together with the added cost pressures from significant levels of inflation and the cost of-living crisis. The latest cost pressure and inflation figures have been applied in the MTFS. These pressures will continue to present significant challenges to financial planning and the ability of the council to deliver quality services.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

Overall governance arrangements operating throughout 2021/22 were appropriate and operated effectively.

Overall governance arrangements operating throughout 2021/22 were appropriate and operated effectively

71. As previously reported, Fife Council governance arrangements were adjusted as a result of the Covid-19 pandemic. Many changes have now been reversed, as set out in the Annual Governance Statement. All Council meetings have fully resumed and the council has piloted blended committee meetings during 2021/22, with this form of working continuing until a new framework for governance has been adopted.

72. We consider the overall governance arrangements operating throughout 2021/22 were appropriate.

Local Government elections led to a change in administration

73. The Local Government elections held in May 2022, and subsequent meeting of the council, led to a change in council leadership from joint administration to a minority administration with Labour, Liberal Democrat and Conservative councillors voting together to agree a governance structure.

74. The councillors voted for a new system of governance based on a Cabinet structure. The Cabinet Committee is responsible for strategic policy decisions and membership of the Cabinet consists of the Leader of the Council (Chair), six strategic spokespersons and ordinary members up to a total of 21 members.

The new council includes 33 new councillors

75. The elections resulted in the re-appointment of 42 councillors and the appointment of 33 new councillors.

76. The Council plans to develop a training strategy in 2022/23 which will be overseen by cross-party leaders and will cover induction as well as on-going training and development for individual members and groups.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

Fife Council is proactive in ensuring that equality is mainstreamed.

The council is making slow progress in progressing recommendations from our Best Value Assurance Report published in May 2018.

Service performance information has been publicly reported for 2021/22, but further improvements are needed to fully comply with the SPI Direction.

Fife Council is proactive in ensuring that equality is mainstreamed

77. Exhibit 9 out the wider audit dimension risk, we identified in our [2021/22 annual audit plan](#). It summarises the audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 9 Audit dimension risks

Audit risk	Assurance procedure	Results and conclusions
<p>Fairness and Equality</p> <p>In accordance with annual planning guidance issued by Audit Scotland, auditors may carry out specific audit work covering the seven BV characteristics set out in the Scottish Public Finance Manual.</p> <p>There is an expectation that equalities will be advanced through the audit process, and auditors have been</p>	<p>We will review recent Fife Council activity on Fairness and Equality including a review of biennial reporting and action plans.</p>	<p>Results & Significant Judgements:</p> <p>We found that the Council has established equality arrangements and reporting in place.</p> <p>In line with the Equality Act 2010, the Council has developed an approach to mainstreaming equality which is outlined in the council's Equality, Diversity and Human Rights Equality Outcomes 2021-25 report. This report includes the Council's equality outcomes for the next four years and was approved by the Policy and Co-ordination Committee in June 2021. In accordance with the requirements of the Act, progress will be reported to the Committee every two years. The report sets out the Council's achievements in progressing equalities since</p>

Audit risk	Assurance procedure	Results and conclusions
<p>advised to carry out work on the Fairness and Equality characteristic at least once during the audit appointment.</p> <p>Auditors should therefore aim to cover that area in 2021/22 if they have not done so in an earlier year.</p>		<p>2017, including:</p> <ul style="list-style-type: none"> • The Council has incorporated the requirements of Fairer Scotland Duty into the Equality Impact Assessment Guidance, and assessments are required as part of the committee reporting process. • A British Sign Language Implementation Group (BSLIG) has been established. • The Gaelic Language Plan has been in place since November 2015 and a number of activities to promote engagement have been undertaken by the Council. • Work was undertaken to support EU citizens to apply under the EU Settlement Scheme for Settled Status. • Production of an annual Equality and Diversity in Employment report. The Council has Disability Confident Status, is an accredited Living Wage Employer and has recently received bronze accreditation for Equally Safe at Work. • The Equality Outcomes 2021-25 report has taken into account the impact of the COVID-19 pandemic, and the associated challenges have been reflected in the outcomes for the next four year period.

The council is making slow progress in implementing recommendations from our Best Value Assurance Report published in May 2018.

78. 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 has been considered by the Accounts Commission at least once over the last appointment round. The [BVAR report for the council](#) was published in May 2018.

79. Our follow-up review in 2020/21, concluded that there had been slow progress implementing recommendations, but that a further three recommendations were completed last year. Our best value work this year has concentrated on the evidence to support the Council's progress in implementing the five remaining best value recommendations.

80. [Exhibit 10](#) provides a summary of our findings for each of the outstanding recommendations included in the BVAR and our overall assessment of progress made by the Council since 2018. The Council has continued to progress implementing the remaining five recommendations with a further one complete.

81. The Controller of Audit will consider the results of this follow up work and report to the Accounts Commission on the extent of improvements made.

Exhibit 10

Progress in implementing best value recommendations

BVAR Recommendation	Progress in implementing each recommendation
<p>2. The framework for managing performance against the Plan for Fife should be finalised as early as possible</p>	<p>Complete</p> <p>The Council and Partnership Board approved a revised Plan for Fife in September 2021. A revised framework for managing performance was also agreed. A Leadership Board and boards for key priorities have been set up and delivery plans are being developed along with reporting mechanisms.</p>
<p>3. The Council should develop a range of delivery plans to support the identified actions and wider ambitions outlined in the Plan for Fife. These actions should be measurable with clear deadlines</p>	<p>In progress</p> <p>Delivery plans are in place covering all of the Plan for Fife recovery and renewal priorities and ambitions. Delivery plan actions are being progressed and monitored by Plan for Fife Delivery Boards and the relevant strategic partnerships.</p>
<p>4. The Council's new programme board should ensure alignment between the aims of the Plan for Fife and service change plans. It should develop a focus on outcomes rather than being led by budget-changes</p>	<p>In progress</p> <p>The revised Fife Partnership structure is designed to provide the focus, leadership drive and accountability that will be needed to support the renewal of our public services, through the Council's commitment to community wealth building. It has three features:</p> <ul style="list-style-type: none"> • a leadership group with a focus on ensuring the alignment of key plans and strategies, supporting place leadership, and shaping and delivering actions on community wealth building • programme leadership boards for each of the recovery and renewal priority areas • a reporting relationship to the key areas of partnership working, providing a basis for

BVAR Recommendation	Progress in implementing each recommendation
	<p>ensuring alignment of delivery plans and strategies.</p> <p>Council assessment: Amber/in progress</p>
<p>5. The Council should work with Fife Health and Social Care Partnership and NHS Fife to accelerate the redesign of adult health and social care services and mitigate medium-term financial pressures</p>	<p>In progress</p> <p>The Council continues to work in partnership to support delivery of a medium term financial strategy (MTFS). There is regular dialogue between partners to ensure both a shared understanding of the budget gap and also robust savings to ensure financial sustainability over the medium term.</p> <p>The medium term financial strategy was not refreshed in 2022 to allow the key strategic documents of the Health and Social care Partnership to align. Approval of the strategic plan is imminent and the MTFS will follow shortly afterwards.</p> <p>The PMO has now been created and appropriate governance through a transformation board is in place.</p> <p>Council assessment: Amber/in progress</p>
<p>7. The Council should extend its improvement methodology on raising educational attainment in deciles 1-3 to a broader range of young people</p>	<p>In progress</p> <p>Strategic oversight for Attainment Reform is being led by the Education and Children's Services Directorate. The primary drivers for improvement in attainment and closing the attainment gap: equity; high quality learning, teaching and assessment; improved attendance and engagement will continue to frame the Council's improvement activity moving forward. The improvement work undertaken as part of this approach has already had a significant impact, with Fife projects and individuals winning in 4 of the 11 categories at the 2021 National Quality Improvement Awards.</p> <p>A key focus in developing the next phase of this programme is to ensure that learning</p>

BVAR Recommendation	Progress in implementing each recommendation
	<p>gained from this work can be scaled up to achieve a system-level impact for learners with varied needs and from all social contexts. The voices of the children and young people, and their families, will continue to underpin the Council's on-going evaluation of what works best to improve the outcomes of all.</p> <p>Council assessment: Amber/in progress</p>

Service performance information has been publicly reported for 2021/22, but further improvements are needed to fully comply with the SPI Direction.

82. 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.

83. 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.

84. We have previously reported issues with the development of performance reporting in the Council and improvements required to the presentation of performance information on the Council's website for the Council to comply fully with the Accounts Commission Direction. There has been limited progress in this area and there is still scope to improve the accessibility and comparability of performance information available to the public. Improvements are expected to progress in the coming months:

- The performance indicators used by each Service are being reviewed to agree which measures are relevant to them.
- New guidance and a template has been produced for the annual Service Performance reports. This is being introduced for the 2021/22 reports, which started being presented to Scrutiny Committees in

November 2022. Performance indicators used in the reports are expected to include Local Government Benchmarking Framework and Plan for Fife measures.

- The Council has an online Community Portal which contains information on the Plan for Fife and local areas. It is intended that this site will be developed with the addition of performance information in early 2023.

National performance audit reports

85. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 3](#).

86. 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 2021/22

2021/22 and prior year (b/f) recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Methodology applied to year end valuations of land and buildings</p> <p>The methodology of applying fair value changes to the asset bases should be reviewed. This includes:</p> <ul style="list-style-type: none"> • issues with the housing formulae in spreadsheets (which have been corrected in 2021/22) • whether fair value changes should be reflected in changes to Net Book Values rather than Gross Book Values • the rebasing of asset lives after each desktop valuation • the principle of applying a mid-year estimate rather than a year end estimate of BCIS retender prices. <p>Risk: Issues with the methodology introduces material issues with the estimate of year end fair value.</p>	<p>The Council should review identified aspects of its fair value assessment of Non Current Assets at the year end.</p> <p>Although a five-year rolling revaluation programme is permitted per the Code of Audit Practice, significant movements in intervening years may suggest that revaluing each class of assets once every five years is not sufficient and this should be reconsidered, particularly as inflationary pressures are having a significant impact on retender and rebuild prices.</p> <p>Exhibit 3</p>	<p>The Council already has systems in place for reviewing in year changes to individual assets (extensions, demolitions, damage, etc) and to consider changes in the markets (including construction costs). We are therefore satisfied that any substantial in year movement in values will be captured.</p> <p>The resources are not available for an increase in revaluation frequency and it is considered that the improvements carried out over the past five years have addressed the issue of potential large five yearly increases. Part of this is the agreement with External Audit that all Depreciated Replacement Cost valuations will be indexed annually on the 31 March. This has been in place since 2018 and has worked well to date. After further research by the Estates Team a paper was produced and shared with External Audit earlier this year. This suggested</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>a change to the basis of indexation to address potential errors in the method. No objections were received and this new method was introduced. It was recommended that a further review be carried out in a few years.</p> <p>I am satisfied that this will address any concerns on in year changes in value.</p> <p>Senior Manager Property Services</p>
<p>2. Transfers and valuation of Assets Under Construction to operational land and buildings</p> <p>The transfer of Madras College from assets under construction to operational Land and Buildings was processed.</p> <p>A transfer of 120 completed council houses had not been processed.</p> <p>Risk – Adjustments between asset classes on completion of constructed assets are materially incorrect.</p>	<p>Management review of assets under construction and of completed asset transfers should be improved.</p> <p>Exhibit 3</p>	<p>Year-end procedures will be enhanced to ensure that any assets under construction that have been completed are transferred to operational land and buildings. This has been actioned retrospectively for 2021-22 and will be reflected in future years processes.</p> <p>Finance Operations Manager</p> <p>Complete for 2021-22 30 June 2023 for future.</p>
<p>3. Bank Reconciliations of the main General Fund account</p> <p>A new Adelante Smart Pay system was introduced on 23 February 2022 with a final bank reconciliation prepared on the CIVICA system, which was replaced.</p> <p>Following the introduction of Adelante Smart Pay, no further reconciliations were carried out until July 2022. The first bank reconciliation provided to audit was at the end of July and included 1,500 unmatched bank transactions (payments of £79 million, receipts of £93 million) and 20,000 unmatched ledger</p>	<p>The Council needs to implement a sound system of internal control over the Adelante Smart Pay system and prepare frequent and timely reconciliations.</p> <p>Exhibit 3</p>	<p>The new income management system went live just before the end of the financial year. This was extremely challenging but was essential due to previous contractual arrangements ending. However, good progress has been made in updating processes and to bring reconciliations up to date and ensure controls are</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>transactions (Payments of £125 million and Receipts of £138 million).</p> <p>Following discussions with management, a series of revised bank reconciliations were provided between July and August each showing an improved position on the previous reconciliation. A coherent year end bank reconciliation (version 5) was provided on 31 August 2022.</p> <p>Risk – A delay in preparing and authorising reconciliations increases the risk of fraud and error in the ledger, as transactions are not confirmed to third-party evidence (bank).</p>		<p>operating effectively.</p> <p>The timing of reconciliations needs to be considered to ensure that system matched transactions are correctly reflected and avoid the need for manual reconciliations retrospectively.</p> <p>Finance Operations Manager</p> <p>31 March 2023</p> <p>Further development work is continuing with the software supplier to develop reports, summation of transactions and automatic matching.</p> <p>Finance Operations Manager</p> <p>30 September 2023</p>
<p>4. Cashflow information provided to the actuary</p> <p>The IAS19 report from the actuary identified Fife Council employer contributions at £74.789 million which is £5.4 million lower than the actual per the ledger. Further analysis identified that the wrong figure was reported to the actuary.</p> <p>Risk – the pension liability is materially misstated in the financial statements.</p>	<p>Management should review figures submitted to the actuary for accuracy and completeness.</p> <p>Exhibit 3</p>	<p>Year End procedures will be reviewed and updated to include increased level of checks in the process.</p> <p>Finance Operations Manager</p> <p>31 March 2023</p>
<p>5. Dormant Charities</p> <p>Expenditure on charitable activities in 2021/22 totalled £15,000, which is 53% lower than in 2020/21, with 26 of the 43</p>	<p>Trustees should consider reorganising the charities through merging or winding them up, particularly</p>	<p>It is recognised that expenditure has dipped. The option of merging or winding up will continue to</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Trusts incurring zero expenditure.</p> <p>Risk - 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.</p>	<p>when they appear to be failing to meet their charitable aims (e.g. by not disbursing funds).</p> <p>Exhibit 4</p>	<p>be reviewed.</p> <p>In addition, promotion of the funds will again be taken forward in each of the Council areas.</p> <p>Dialogue to take place with Legal and Finance Services to explore rationalisation of charities</p> <p>Community Manager (Area)</p> <p>31 December 2023</p>
<p>6. Charities - Key Controls</p> <p>Audit testing found one grant which had been awarded but the claimant had not signed the application form. The grant was requested by the claimant's social worker who also evidenced that the goods had been purchased and received but there was no evidence to support delivery of goods to the claimants address. We also found that there are no checks to make sure that monies have been used as intended.</p> <p>Risk - there is a risk of fraudulent claims.</p>	<p>Trustees should make arrangements to perform sample checks each year to ensure that monies have been appropriately granted and have been used for the purposes intended.</p> <p>Exhibit 4</p>	<p>Standard process to be developed including sample checks to confirm the outcome achieved through the dispersal of charitable funds aligns with the purposes intended</p> <p>Community Manager (Area)</p> <p>31 March 2023</p>
<p>7. Completeness of payments recorded in the ledger and Fife Council Charitable Trusts accounts</p> <p>There is no central record, independent of the ledger, which records all applications received and applications approved.</p> <p>Risk – there is a risk that payments recorded in the ledger and the financial statements are incomplete.</p>	<p>A central record of applications should be maintained and reconciled to the ledger on an annual basis to provide assurance over the completeness of payments recorded in the ledger and FCCT accounts.</p> <p>Exhibit 4</p>	<p>A central record of applications and a reconciliation process will be developed and introduced.</p> <p>Responsible Officer: Community Manager</p> <p>Date due 31 March 2023</p>
<p>8 Improvements in budget reporting</p> <p>Members should receive more up to date funding and expenditure figures at committee meetings to fully inform strategic decisions, where there has</p>	<p>Members should receive more up to date funding and expenditure figures at committee meetings</p>	<p>The announcement of a significant number and frequency of funding streams and grants was exceptional due to</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>been a significant change.</p> <p>Risk – Members are not fully informed when making strategic decisions.</p>	<p>to fully inform strategic decisions, where there has been a significant change.</p> <p>Paragraph 46.</p>	<p>COVID-19 and unlikely to be repeated.</p> <p>However, reviews for additional funding will take place as part of the routine reporting process.</p> <p>Head of Finance</p> <p>Immediate</p>
<p>b/f 9. Budget Monitoring and control</p>	<p>The Council should ensure that routine and systematic budget monitoring for budget holders is re-introduced to ensure that figures included in financial reports are accurate and to support effective decision making.</p>	<p>Complete</p> <p>The council has implemented a revised reporting format for budget monitoring. Four full exercises were completed in year but officer checking of the accuracy of reports will be better evidenced.</p>
<p>b/f 10. Covid-19 cost pressures and balances</p>	<p>Council officers should share detailed plans identifying Covid-19 cost pressures and allocation of balances with Members of the Council.</p>	<p>Complete</p> <p>Direct covid spend is identified by the services in discussion with finance business partners and tracked on a template which is completed as part of the revenue monitoring process. Explanations for service variances, included in the monitoring reports to PCC during the year, highlighted the main covid costs and funding source.</p>
<p>b/f 11. Register of interests</p> <p>b/f from 2019/20</p>	<p>Councillors should be reminded of the requirement to keep the register of interests up to date to ensure compliance with the code of conduct.</p> <p>Completion and updating of the Register of Interests is the responsibility of individual</p>	<p>Complete</p> <p>Reminders were issued during 2021.</p> <p>We performed a review of the Register of Interests and found it to be up to date and accurate with one exception.</p>

members. Officers send out two reminders each year. Where no response is received, the matter is escalated to the political group leader.

b/f 12. General Fund balance

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.

The Council has reported its commitment to maintaining a sustainable level of core funding going forward.

Complete

Covid-19 funding has increased reserves and the levels of current underspend and projected pressures do not suggest any medium-term concerns, at this time, that the General Fund will be depleted. Though increased inflationary pressures and the one off use of Covid-19 reserves will mean that the position will need to be kept under review.

b/f 13. Service Performance Reporting

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. We found that limited improvements have been made in performance reporting in 2020/21. There was still scope to review and improve the presentation and timeliness of performance information on the Council's website, but work was in progress to move to a more interactive online reporting tool which will deliver the facility to review data on the website and interrogate it rather than just read separate reports on each service.

The Council also agreed to strengthen the alignment to the P4F in the revised guidance to services.

Partially Complete

New reporting arrangements have been established for the start of the new Scrutiny Committee cycle and 2021/22 reports are currently progressing through these committees. These will be added to the Community Portal once agreed amendments have been finalised.

Service Manager (Change and Improvement)

31 March 2023

Appendix 2. Summary of uncorrected misstatements

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

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

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1. Employee Expenditure	600			
Short Term Creditors				(600)
2. Service Expenditure	1,300			
Property, Plant and Equipment				(1,300)
3. Usable Reserves			600	
Unusable Reserves				(600)
4. Cash and Cash Equivalents			450	
Short Term Debtors				(450)
5. Short Term Debtors			1,900	
Cash and Cash Equivalents				(1,900)
6. Cash and Cash Equivalents			1,300	

Account areas	Comprehensive income and expenditure statement		Balance sheet	
Short Term Debtors				(1,300)
	Dr £000	Cr £000	Dr £000	Cr £000
7. Cash and Cash Equivalents			250	
Short Term Debtors				(250)
8. Short Term Debtors			1,440	
Taxation and Non-Specific Grant Income		(1,440)		
9. Short Term Debtors			2,500	
Service Income		(2,500)		
Net Impact		(2,040)	2,040	

Notes:

1. Understatement of teachers pay award accrual.
2. Net understatement on COMIS recharges for HRA component replacements.
3. Understatement on loans fund repayments.
4. Unreconciled differences on payroll bank accounts.
5. Adjustments for housing rent receipt mispostings not corrected until after the year end.
6. Bank receipts not posted to the ledger in the current year.
7. Impact of HRA rent arrears being calculated from Genero reports run on 2/4/22 instead of 31/3/22.
8. Affordable Housing Programme – 2021/22 grant receipt not accrued.
9. Increase in claim estimated by Loss Adjuster for fire at Woodmill High School.

Appendix 3. National performance reports and briefings

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Fife Council

2021/22 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

www.audit-scotland.gov.uk