
Report to : Resources and Audit Committee

Date of Meeting: 25 September 2014

Subject: External Audit Final report to Members on the 2013/14 Audit

Report by: Depute Chief Executive

1.0 Purpose

- 1.1. This report presents to Committee the report by our external auditors, Deloitte, on the Council's 2013/14 audit. This report represents the completion of the third year of Deloitte's audit appointment. The report is included as Appendix 1, titled '*Final Report to the Resources and Audit Committee and the Controller of audit on the 2013/14 Audit*'. This report includes the audit opinion on the 2013/14 Financial Statements.
- 1.2. Following the conclusion of the audit, the final amended Financial Statements for the year ended 31st March 2014 have been circulated in advance of this meeting to facilitate approval.

2.0 Recommendations

It is recommended that the Committee:

- 2.1. Notes the content of the External Audit report.
- 2.2. Agrees the final amended Financial Statements for the year ended 31 March 2014.
- 2.3. Commends the final amended Accounts for 2013/14 to Council for approval.

3.0 Considerations

- 3.1. A draft set of unaudited accounts was presented to Council at its meeting on 26th June 2014.
- 3.2. Our external auditors, Deloitte, have now completed the audit of these draft statements, and their report on the accounts is included within their Final report to Members at Appendix 1.
- 3.3. The report also covers the wider Code of Audit Practice areas reviewed by our External Auditors. These include best value, use of resources and performance and also risk management and internal control.

- 3.4. Members will note that the introductory 'Big Picture' indicates an unmodified or 'clean' audit opinion on the financial statements. It will also be noted that the audit did not identify any material or uncorrected misstatements.
- 3.5. Following the completion of the audit, the Financial Statements have been revised to include any adjustments referred to within the auditors report. These finalised statements have been circulated to all elected members in advance of this meeting to facilitate approval..
- 3.6. It is the intention of Deloitte to attend this Committee meeting to present their Final Report and provide a further opportunity for elected members to ask questions.

4.0 Sustainability Implications

- 4.1. N/A

5.0 Resource Implications

5.1. Financial Details

- 5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes ☒

- 5.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes ☒

5.4. Staffing - none

6.0 Exempt Reports

- 6.1. Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☒

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

- (1) **Our Priorities** (Please double click on the check box ☒)

- | | |
|--------------------------------------------------------------------------|--------------------------|
| The area has a positive image and attracts people and businesses | <input type="checkbox"/> |
| Our communities are more cohesive and inclusive | <input type="checkbox"/> |
| People are better skilled, trained and ready for learning and employment | <input type="checkbox"/> |
| Our communities are safer | <input type="checkbox"/> |
| Vulnerable people and families are supported | <input type="checkbox"/> |
| Substance misuse and its effects are reduced | <input type="checkbox"/> |
| Health is improving and health inequalities are reducing | <input type="checkbox"/> |
| The environment is protected and enhanced for all | <input type="checkbox"/> |

The Council is effective, efficient and recognised for excellence



(2) Council Policies (Please detail)

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes ☐

No ☒

9.0 Legality

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☒

10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix 1: Deloitte Final report to Members 2013/14

Appendix 2: final draft Financial Statements 2013/14

11.0 Background Papers

11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ☒ (please list the documents below) No ☐

Draft Financial Statements 2012/13 presented to Council 28th June 2013

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Liz Shaw	Chief Accountant	2072

Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Depute Chief Executive	Signed: N Bridle
Elaine McPherson	Chief Executive	Signed: E McPherson

Final Report to the Resources and Audit Committee and the Controller of Audit on the 2013/14 Audit

25 September 2014



the
Distinctive
audit

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FK10 1EB

Controller of Audit
Audit Scotland
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17 September 2014

Dear Councillors


We have pleasure in setting out in this document our final report to the Resources and Audit Committee of Clackmannanshire Council for the year ended 31 March 2014, for discussion at the meeting scheduled for 25 September 2014. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2014.

In summary:

- The major areas of audit focus, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- There have been no uncorrected misstatements noted from our procedures to date.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Yours faithfully



Jim Boyle
Senior Statutory Auditor

Contents

1. The big picture

2. Introduction

3. Making Clackmannanshire Better

4. Significant audit risks and other matters

5. Your financial statements – our review and insights

6. Best value, use of resources and performance

7. Insights - risk management and internal control

8. Responsibility statement

Appendix 1: Audit adjustments and disclosure misstatements

Appendix 2: Independence and fees

Appendix 3: Fraud considerations

Appendix 4: Action plan

Appendix 5: Future developments

A reminder of our audit plan:

- Audit materiality: £1.64 million (2012/13: £1.65 million).
- Threshold for reporting misstatements: £32,860 (2012/13: £33,000).
- Significant risks over transfer of information to the new fixed asset system, bad debt provisions, valuation of pension scheme, revenue recognition and management override of controls.
- We have not placed any reliance on internal controls and our audit work was fully substantive for the year 2013/14. Work is in hand considering how we can work more closely with Internal Audit moving forward.



1. The big picture

We anticipate issuing an unmodified audit opinion

- We have identified **no material issues** and have **no material audit adjustments**.
- Our **final materiality was £1.64m** (2013: £1.65m).
- Our work has highlighted **no disclosure deficiencies** to date.
- We **have no material control matters** to draw to your attention based on our testing carried out. Our controls observations have been included within Section 7 of this report.
- There have been no changes to the audit plan set out in the planning audit committee document.
- We did not identify any instances of fraud. See Appendix 3 for details of fraud considerations.
- We were informed by the work of the internal auditors in relation to key financial controls to shape our audit procedures and approach.
- We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised. (See Appendix 2 for further detail).

Our work is substantially complete and we remain on timetable to issue an unmodified audit opinion.

We have the following principal matters to complete:

- Review of final accounts
- Completion of our final quality review procedures
- Our review of events since 31 March 2014
- Receipt of signed management representation letter

1. The big picture (continued)

Compliance with wider code

- High level benefits realisation planning has begun as part of the work taken forward since February 2014 to align *Making Clackmannanshire Better* with the refreshed budget challenge process. Officers accept that it is important that benefits realisation planning is now progressed quickly to a comprehensive level to allow a detailed understanding of the changes required within the Council to deliver the anticipated benefits from the MCB programme.
- The 2012 Welfare Reform Act brought fundamental changes to the UK Benefits System. With a phased introduction from 1st April 2013, the changes outlined within the Act, impact the majority of existing types of benefit resulting in a significant impact on a large percentage of people in receipt of benefits. We are satisfied that the Council has developed a clear understanding of the organisational impacts associated with welfare reform and has implemented appropriate mitigations. We will continue to monitor the impact of the reform during the period of our appointment.
- In June 2014, the Council agreed to implement a Body Corporate Governance model as part of its Health and Social Care integration arrangements. Across Forth Valley, the three Councils and NHS Forth Valley have been working together to implement the requirements of H&SCI. To facilitate this, six workstreams have been established under the management of two dedicated programme managers. Recent activity has focused on the development of a draft integration scheme in order to meet the challenging timescales for consultation and submission to Scottish Ministers for approval. Clackmannanshire Council has prioritised this work and is currently on target to submit its draft integration Scheme to Council in October 2014. We are encouraged, however, by the clear commitment, from the Council's leadership to the integration agenda, and will continue to monitor progress against meeting the challenges identified above as integration planning and delivery progresses.

2. Introduction

Scope, nature and extent of audit

Our overall responsibility as external auditor of the Council is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland largely comprises:

- providing the **Independent Auditor's Report** on the financial statements (including any assurance statement on whole of government accounts returns) and relevant registered charities;
- providing the **annual report** on the audit to the Council and the Controller of Audit;
- providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in NFI);
- submit **fraud returns**, including nil returns, to Audit Scotland;
- certify all **grant claims**, submitted by the Council that have been approved for certification by Audit Scotland;
- discharge the auditor's responsibilities in connection with bodies publication of **Statutory Performance Indicators**;
- Provide evidence and intelligence for, and participate in, the **Shared Risk Assessment process** leading to the production of the Annual Improvement Plan and national scrutiny plan; and
- Report on the results of follow-up on councils progress in implementing existing **Best Value improvement plans**.

This report incorporates both our findings on the financial statements audit and the work from our wider role under the Code of Audit Practice covering best value, use of resources and performance.

In addition to this annual report, we have completed and reported the following matters to those charged with governance (the Resources and Audit Committee) of the Council:

- **Planning Report**
- **Targeted follow-up report: *Arm's length organisations: Are you getting it right?***

The key issues from these outputs are summarised in this report.

3. Making Clackmannanshire Better (MCB)

MCB is central to allowing the Council to maintain financial sustainability

The objectives of MCB are to reshape service delivery with the Council and partner organisations. The programme represents a comprehensive review of activities, to make sure that Clackmannanshire is providing the right services, to the people most in need of them, in the best ways possible. A pilot in Tullibody kicked off in February 2013 and forms an integral part of the programme

The objectives of MCB are “to reduce costs, better meet our customers’ changing needs, and operate in a more integrated way with our public service partners, so that we can collectively achieve better outcomes for our communities”. From June 2014, MCB was fully integrated with the revised Council budget challenge process and is now regarded as the main driver for improving outcomes, cost reduction and achieving the financial sustainability challenges over the next three years

As part of our best value work, we have assessed the overall arrangements in place to deliver the Council’s stated objectives above for the programme. As part of this work we have considered the results from the pilot at Tullibody reported to the Council in April 2014, progress reports to the Council during the year and the supporting people and communication strategies.

The Tullibody pilot has developed 3 of 6 new Target Operating Models (TOM) identified as part of MCB, which once fully tested will be replicated across the Council as a whole. These are as follows:

- Integrated Universal Transactional Services for low complexity/low frequency transactions;
- Integrated Universal Family and Community-based Services (via improved and joined-up local provision) to incorporate medium to high complexity/intensity support;and
- Integrated Preventative and Early Intervention Services for Vulnerable People and Families involving very high complexity/intensity support.

These high level proposals offer the potential to deliver MCB objectives over the next 3 years including delivering significant cost reduction and better outcomes for the communities of Clackmannanshire.

We are also satisfied that appropriate supporting strategies are in place for people, which includes a funded leadership and development programme and communications. These will be key enablers to delivering the anticipated benefits from the MCB programme.

3. Making Clackmannanshire Better (continued)

Detailed benefits realisation planning could be enhanced and improved

High level benefits realisation planning has begun as part of the work taken forward since February 2014 to align MCB with the refreshed budget challenge process. Officers accept that it is important that benefits realisation planning is now progressed quickly to a comprehensive level to allow a detailed understanding of the changes required within the Council to deliver the anticipated benefits from the MCB programme. A potential approach deployed by other Councils is depicted in the slide below. A number of the necessary benefits realisation steps outlined below are already in place within the Council and the work currently in hand seeks to further integrate these. This framework has recently been shared with elected members via the MCB Steering Group. The Council has acknowledged the importance of completing this work promptly to further improve the visibility and transparency over the benefits to be delivered by MCB. This in turn will facilitate more robust monitoring and scrutiny of planned improvements for both officers and elected members. Given the importance of MCB to the Council, we will monitor progress over the next few months.

Once completed, the integrated benefits realisation planning process should also be communicated to all key programme stakeholders to ensure there is visibility, engagement and understanding of the approach being applied.

In our view, implementation of the above actions will provide the Council with significantly increased assurance over MCB delivery

Issue –

Detailed benefit realisation planning is at an early stage and is high level.

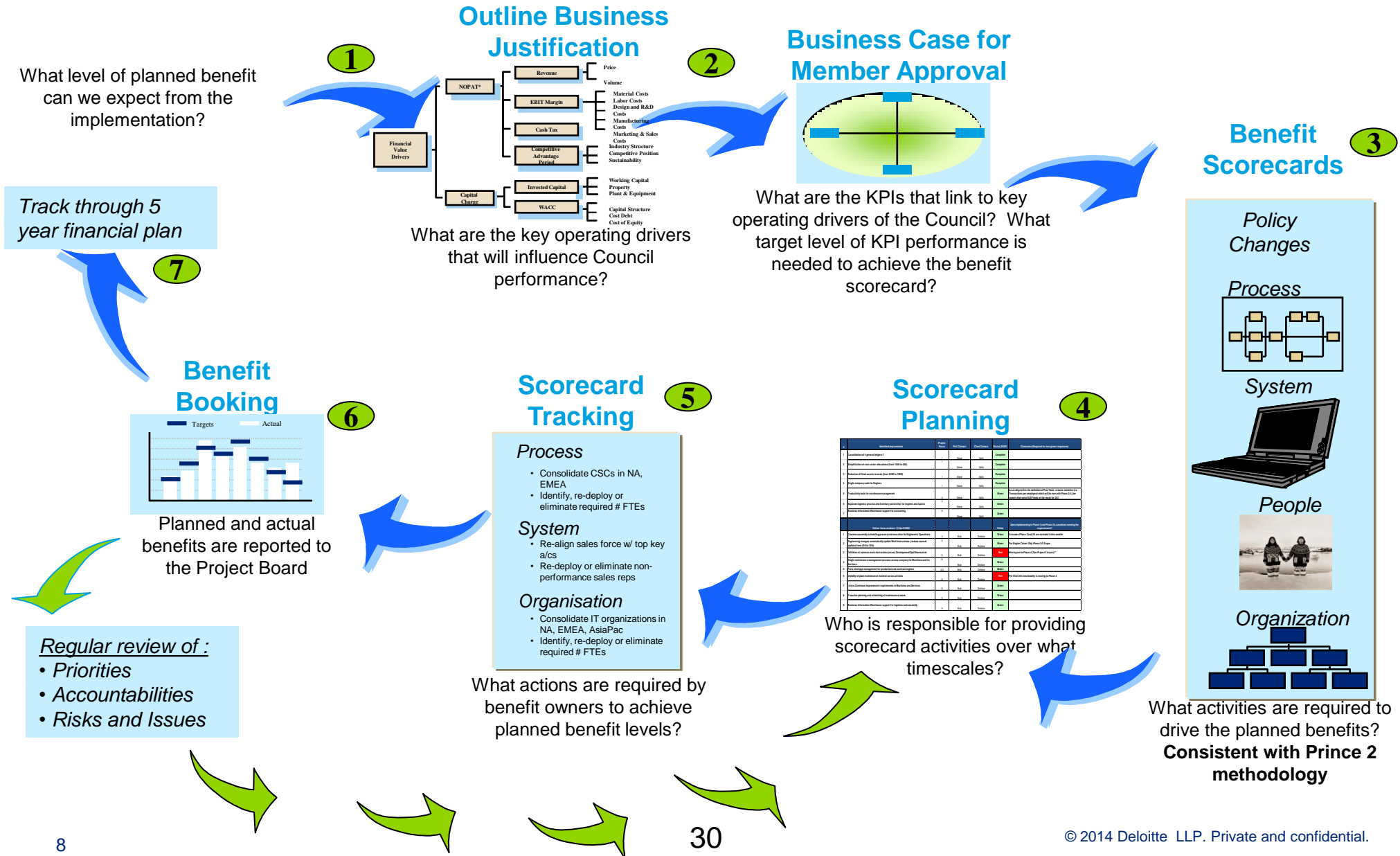
Recommendation –

Management needs to complete its detailed benefits realisation planning process for delivering the financial and non financial benefits from the MCB programme. This process needs to fully integrate the various benefits realisations steps, some of which individually are already in place within the Council. Once completed, the integrated benefits realisation planning process should also be communicated to all key programme stakeholders to ensure there is visibility, engagement and understanding of the approach being applied.

[Refer to Action Plan]

3. Making Clackmannanshire Better (continued)

Benefits realisation planning methodology



4. Significant audit risks and other matters

Understanding the subjective judgements and estimates

The risk table below illustrates the key audit risks focused upon where Deloitte identified areas which involved the highest level of judgement and impact on the financial statements.

		Acceptable range													
Transfer of information to new fixed asset system	Less prudent							✓						More prudent	No issues noted.
Bad debt provisions									✓						100% provision for all Council tax debts over 10 years is on the prudent side of the reasonable range. No material impact of this policy.
Valuation of pension scheme											✓				Inflation rate and increase in pay assumptions towards the prudent end of the reasonable range. Equally acceptable but less prudent assumptions would reduce the pension liability by circa £25 million.
Revenue recognition – completeness of income								✓							No issues noted.
Management override of controls								✓							No issues noted. Key judgements around areas such as kitchen contract provision deemed to be reasonable. No indicators of management bias noted from review of significant estimates and judgements.

4. Significant audit risks and other matters (continued)

Significant audit risk – transfer of information to new fixed asset system

Nature of risk

During FY13/14, the Council moved from recording their fixed asset register on a series of Excel spreadsheets to the RAM Asset 4000 Module, which is an off the shelf computer package.

In order to import the information onto the system, a number of reconciliations were performed by management which identified that there were adjustments required to the opening FY13/14 balance in order to ensure previous revaluations were properly accounted for. As a consequence of the work around the transfer of information, management identified a material prior period adjustment of £3.8m relating to a number of prior periods.

The following audit risks have therefore been identified around the transfer of information:

1) accuracy and completeness of the transfer of information to new system; and

2) completeness of prior period restatement and accounting treatment.

The prior period restatement refers back to 2009/2010, where land & buildings at one site were treated as one asset. The net revaluation, if positive, was applied to the revaluation reserve. Originally, downward and upward revaluations had been netted off together, so an exercise was undertaken to disaggregate and leave upward revaluations only in the Revaluation Reserve.

The key judgement areas, impact on the financial statements and our audit challenge

- At the planning stage, we held discussions with the Service Line Accountant, to understand the procedures followed in order to transfer the information.
- We have performed a walk through of the controls around the transfer of information to the system and have verified the reconciliations performed.
- We have also performed a walk through of system in order to understand how transactions are now accounted for in new system.
- At year end, we have agreed the opening balance for FY13/14 to the prior year audit file (after prior period adjustment is processed) and ensured subsequent transactions during FY13/14 have been correctly accounted for.
- We tested a sample of assets to ensure that the transfer of information is accurate and complete, with no issues noted.
- We have reviewed the disclosures in the accounts within the financial statements and agreed that they are appropriate.

Deloitte view

We are satisfied that the fixed asset database transferred to the RAM system is accurate and complete.

We conclude that the prior period restatement is complete and the correct valuation bases have been followed.

From our audit procedures, we can further conclude that the NBV is not materially misstated.

4. Significant audit risks and other matters (continued)

Significant audit risk - bad debt provisions

Nature of risk

There is significant judgement and complexity around debtor provision calculations. There is a risk that the valuation of provisions is not appropriate and assumptions underpinning calculations are not appropriate and supportable. Particularly given the current economic climate, assumptions on recoverability of amounts may not be reasonable. The risk has been pinpointed to the Council Tax and General Debtors provisions given their level of materiality.

The key judgement areas, potential impact on the financial statements and our audit challenge

We have performed the following:

- Verified the gross debtor on which the provision is based to the Council Tax system and the general debtors system;
- Reviewed and challenged the methodology applied by the Council for the bad debt provision calculation;
- Reviewed and challenged management's judgements and assumptions included within the calculations; and
- Compared the provisions made with historical data on cash collection.

	Council tax	Housing	General	Other	Total
Balance (£000s)	9,576	2,124	2,381	10,197	24,278
Provision (£000s)	(6,477)	(1,700)	(468)	0	(8,645)
Percentage	68%	80%	20%	0%	36%
2012/13 Percentage	67%	80%	22%	0%	43%

* Other receivables include government grants (£3.4m), prepayments and accrued income (£3.8m) and VAT recoverable (£2.3m)

Deloitte view

- Council Tax bad debt provision is based on 100% provision for all debts over 10 years old, with the remainder of provision based on projected collection rates for each year. The average actual collection rate over the period is 95%, which is consistent with prior year and net debtor exposure is currently 35%, compared to 33% in prior year. In addition, given all amounts aged over 10 years have been provided for, Deloitte have considered provision level to be more prudent in current year given improvements in recovery noted.
- Housing Benefit bad debt provision is based on provision % provided by Revenue department, which is up to 90% for arrear bandings >100 days and >200 days. Total provision covers 76% of debtor amounts, compared to 74% in prior year.
- General provision has been based on ageing and other known issues. 100% provision has been made for debtors aged over 3 years. We have recalculated and agreed the provisions raised, and agreed the methodology as appropriate.
- Overall we view the level of bad debt provisions as reasonable.

4. Significant audit risks and other matters (continued)

Significant audit risk – valuation of pension scheme

Nature of risk

There is significant judgement and complexity around this calculation. This scheme is administered by the Falkirk Council pension scheme, therefore actuarial assumptions are not made by Clackmannanshire Council. There is a risk that the actuarial assumptions are not appropriate and therefore the valuation of the scheme is inaccurate. For the purposes of Clackmannanshire Financial Statements it is important to ensure that the assumptions applied are fully understood and challenged.

Net pension liabilities:
£89.839m (2013: £78.887m)

Actuarial gain/loss:
-£6.36m (2013: £0.706m)

The actuarial loss of the current year £6.36m (2013: £0.706m gain) included £10.7m of loss due to change in financial assumptions (2013: £18.5m loss). The valuation of the scheme is very sensitive to movements in the CPI assumption.

The key judgement areas, potential impact on the financial statements and our audit challenge

We have performed the following:

- obtained a copy of the actuarial report produced by Hymans Robertson LLP, the scheme actuary, and agreed in the disclosures to notes 43 and 44 within the accounts.
- confirmed the total assets of the scheme with the Pension Fund financial statement.
- reviewed the disclosures within the accounts against the Code,
- assessed the independence and expertise of the actuary supporting the basis of reliance upon their work
- liaised with our in-house actuary, see page 13 for our comments on the key assumptions.

See overleaf for key findings noted by our in-house actuary.

4. Significant audit risks and other matters (continued)

Significant audit risk – valuation of pension scheme (continued)

Deloitte view

- Hymans Robertson has a standard assumption setting approach for clients participating in the LGPS, with the Council having the ability to challenge key actuarial assumptions. Although the financial assumptions to some extent reflect the duration (mean term) of the Section's liabilities, some of the other assumptions may not be sufficiently tailored to Clackmannanshire Council's expectations, e.g. of future retirements.
- The CPI inflation assumption is very prudent due to no inflation risk premium being applied and a low deduction being applied to the RPI inflation assumption from which it is derived. With a more typical CPI inflation assumption, the IAS 19 liability value for the Section could have been £25m lower.*
- The Council's allowance for future improvements in longevity is that used in the 2011 funding valuation. We note that it is outdated and mortality projections have been available for some time which blend more recent population data and long-term projected trends. A new longevity report prepared by Hymans Robertson on the Falkirk Pension Scheme is now available - it is anticipated that this will be reflected in the formal valuation later in the year.
- On the whole, experience, such as the impact of actual compared to assumed pension increases, is allowed for only every three years. The next three yearly experience is due to be allowed for in FY15.
- We have reviewed the assumptions and on the whole, the set of assumptions is slightly towards the prudent end of the reasonable range at 31 March 2014 (see overleaf for assumptions adopted). The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

Issue –

We note that the Council were unable to provide Falkirk Pension Scheme with the required Data Return on time due to system issues.

Recommendation –

That management pursue this issue with the software supplier to ensure that the Council can supply the required information to Falkirk Pension Scheme in line with agreed timetables.

[Refer to Action Plan]

* This only relates to the balance sheet treatment under accounting standards and would not have any impact on the Council's funding obligations or medium-term payments.

4. Significant audit risks and other matters (continued)

Significant audit risk – valuation of pension scheme (continued)

Assumption	2013/14	Deloitte benchmark	Comments
Discount rate	4.3%	4.3%	Reasonable
RPI Inflation rate	3.6%	3.3%	Prudent within reasonable range
CPI Inflation rate / rate of increase of pensions	2.8%	2.3%	Very prudent within reasonable range
Rate of increase in pay	5.1%	Entity specific	Prudent within reasonable range
Current mortality rates	S1NXA	Entity specific	Based on 2011 data, still held to be reasonable approximation.
Mortality – future improvements	Medium cohort with a 1% p.a. underpin	CMI 2013 with a 1.25% p.a. long-term rate	Based on 2011 data, still held to be reasonable approximation.
Overall			Prudent within reasonable range

4. Significant audit risks and other matters (continued)

We have no significant findings in respect of the below significant audit risks

Revenue recognition - Completeness of income

- Risk pinpointed to completeness of council tax and housing rents income given the significant to the organisation.
- We tested the council tax and housing rents reconciliation performed by the Council at 31 March 2014 to confirm all income has been correctly recorded in the ledger.
- We have compared the income recorded with expectations, based on Council Tax and rent levels agreed as part of budget process and number of properties.
- We agreed income from government grants and business rates to Scottish Government Finance Circular, with no issues noted.

Management override of controls

- No issues noted around journal entries and other adjustments made in the preparation of the financial statements.
- Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.
- Retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

4. Significant audit risks and other matters (continued)

Other matters – Fixed asset revaluation required in 2014/15

We highlight that the Council requires a fixed asset revaluation to be performed as at 1 April 2014, and that this represents a significant piece of work. We have been proactive in engaging in this process, and our internal property specialists are liaising with the internal valuer. We will continue to monitor arrangements for this revaluation. The current timeline is set out below.

Stage	Proposed timetable
Scoping of the work	August > Mid September
Prepare tender documentation	Late September
Issue tenders	Early October
Deadline for submission	End of October
Examination and shortlisting of tenders	Early November
Final award of contract	14 th November
Work commences	End of November
Completion of work	February 2015

We will closely liaise throughout the process, including reviewing the scope of the work being tendered.

4. Significant audit risks and other matters (continued)

Other matters - Charitable Trusts

From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each Charity, and a separate audit of each. Clackmannanshire Council administers 5 registered charities for which the Council is sole trustee. The Charities Accounts (Scotland) Regulation 2006 permits connected charities to prepare a single set of accounts. Clackmannanshire Council has taken the view that those registered charities with common trustees are connected, which has reduced the number of separate sets of accounts to 1.

International Standards on Auditing require us to identify and assess the risk of material misstatement and to identify areas of risk that will require focussed consideration. The following are identified significant risks for the charitable trusts

Presumed risk over revenue recognition, specifically focused on allocation between restricted and unrestricted funds

Presumed risk of management override of controls

Issue –

Basis of preparation for the charity accounts was a combination of the receipts and payments and accruals basis, and required revision. This meant that the draft submitted to Audit Scotland in June 2014 was inconsistent. There was no financial impact of this change.

Recommendation –

Management clearly review basis of preparation moving forward to ensure that it is consistent and correct.

[Refer to Action Plan]

4. Significant audit risks and other matters (continued)

Other matters - Charitable Trusts (continued)

We have audited the financial statements of the following charities:

	Income £000s	Expenditure £000s	Net Assets £000s
Alloa Day Home Trust	2	(4)	353
Clackmannan District Council Charitable Trust	0	(6)	11
Clackmannanshire Educational Trust	0	(1)	30
Tillicoultry Old Age Pensioners Outing Fund	0	(1)	3
Old Folks Welfare Fund	0	(1)	8
TOTAL SUNDRY TRUST FUNDS	2	(13)	405

We recommend that consideration is given to the appointment of an independent trustee to the Board of each charity. This would remove the formal audit requirement under Section 106 of the Local Government (Scotland) Act 1973.

[Refer to Action Plan]

5. Your financial statements – our review and insights

The front half meets current regulatory requirements

We are required to read the non-financial element of your financial statements to consider consistency with the main financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Observations on the accounts

In line with other councils, Clackmannanshire Council's accounts significantly increased in length following the implementation of IFRS. At this time the Council had undertaken a review of all disclosures to evaluate their relevance and materiality by reference to the Code. While the 2013/14 accounts are 5 pages shorter (4%) than in 2012/13, this is predominantly as a result of Group accounts no longer being required. It is important that the Council continues to keep this area under review and there appears to be some scope, for instance with regards heritage assets (currently a two page disclosure). The length and usefulness of financial statements to the reader continues to be a hot topic in financial reporting with an aim of cutting the “clutter” in financial statements. It is positive to note that this is currently on the Council's agenda and we would encourage the plan to review the content of the financial statements ahead of the 2014/15 financial year.

CIPFA has issued ***Financial statements – a good practice guide for local authorities*** which is intended to help local authorities reduce the clutter in their financial statements.

The publication highlights that cutting the clutter is not something that can only be achieved at standard setters level, and local authorities should review their financial statements and remove any unnecessary disclosures that make them difficult to use by:

- considering what information is material to the users of the accounts; and
- improving the presentation of the accounts so that users can more easily identify key information.

The publication comprises two parts:

- **Part 1** – considers general principles, such as identifying the users of the accounts, and how to apply the concept of materiality
- **Part 2** – discusses good practice in the production of each of the primary statements, the notes to the accounts, and the explanatory foreword, and considers how alternative presentation formats may help make information, particularly in the notes, more accessible.

Clackmannanshire Council should consider CIPFA's guidance in undertaking its next scheduled review of the format and content of its financial statements, which is scheduled for next year.

[Refer to Action Plan]

5. Your financial statements – our review and insights (continued)

The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Annual Governance Statement

“Delivering Good Governance in Local Government” published by CIPFA and SOLACE recommends that the review of the effectiveness of the system of internal control be reported in an Annual Governance Statement. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily.

The Council has chosen to publish the wider Annual Governance Statement, within its statement of accounts, in accordance with CIPFA/ SOLACE guidance. The format and content of the statement is consistent with the requirements of the Code and notes that the Chief Internal Auditor has reported that, in his opinion, based on his evaluation of the control environment, reasonable assurance can be placed on the adequacy and effectiveness of the Council's control system in the year to 31 March 2014.

The Statement notes that the Council's financial strategy has been reviewed and revised to better support their transformation agenda “Making Clackmannanshire Better.” In addition, the Governance Strategy itself will be reviewed in the forthcoming year, to ensure it remains fit for purpose and provides adequate and effective controls and assurance. A Governance Improvement plan has been put into place to address identified weaknesses at Service and Corporate level – this will particularly focus on workforce planning and development to ensure that human resources are aligned to strategic objectives of the organisation and effective partnership working internally and with external organisations, such as Police Scotland. On an internal level improvements have been made already, e.g. the Budget Challenge Process now incorporates cross-cutting and corporate themed Round-Table discussions. However, the Statement further acknowledges, that improvement actions in respect of areas of procurement and Shared Service Arrangements require further development, with the Council aiming to address these in 2014/15.

The Council's overall governance arrangements are satisfactory and appropriate:

- The established Committee Framework at the Council remains in place. Each of the Committees met regularly in the year.
- The Council continues to receive regular and detailed performance and financial information to facilitate effective scrutiny and challenge by members.
- A Risk Management Policy is in place, and comprehensive risk registers are largely in place within Service Lines. These are reviewed by the Council and Management team on a regular basis.
- The Internal Audit Annual Report provides reasonable assurance as regards the effectiveness of Clackmannanshire Council's framework of governance, risk management and control in the year to 31 March 2014.

5. Your financial statements – our review and insights (continued)

The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Remuneration Report



Local authorities are required by an amendment to the 1985 Regulations to publish a remuneration report as part of their statement of accounts.

Clackmannanshire Council has published a Remuneration Report as part of its statement of accounts, in accordance with the amendment regulations. The Remuneration Report provides details of the Council's remuneration policy for its senior employees, being the Chief Executive, Directors and Heads of Service. In addition disclosure is made of the remuneration of Senior Councillors in the year.

We have agreed the data within the Remuneration Report to the Council's ledger, and selected a sample of senior councillors and senior employees and vouched to payroll records. We have also selected a sample of employees included within the exit packages note, and vouched to exit agreements and payroll records. No issues were noted.

We are satisfied that the Remuneration Report has been prepared in accordance with the amended regulations and is consistent with the findings of our audit.

We proposed a series of changes to the remuneration report to make the report more user-friendly.

5. Your financial statements – our review and insights (continued)

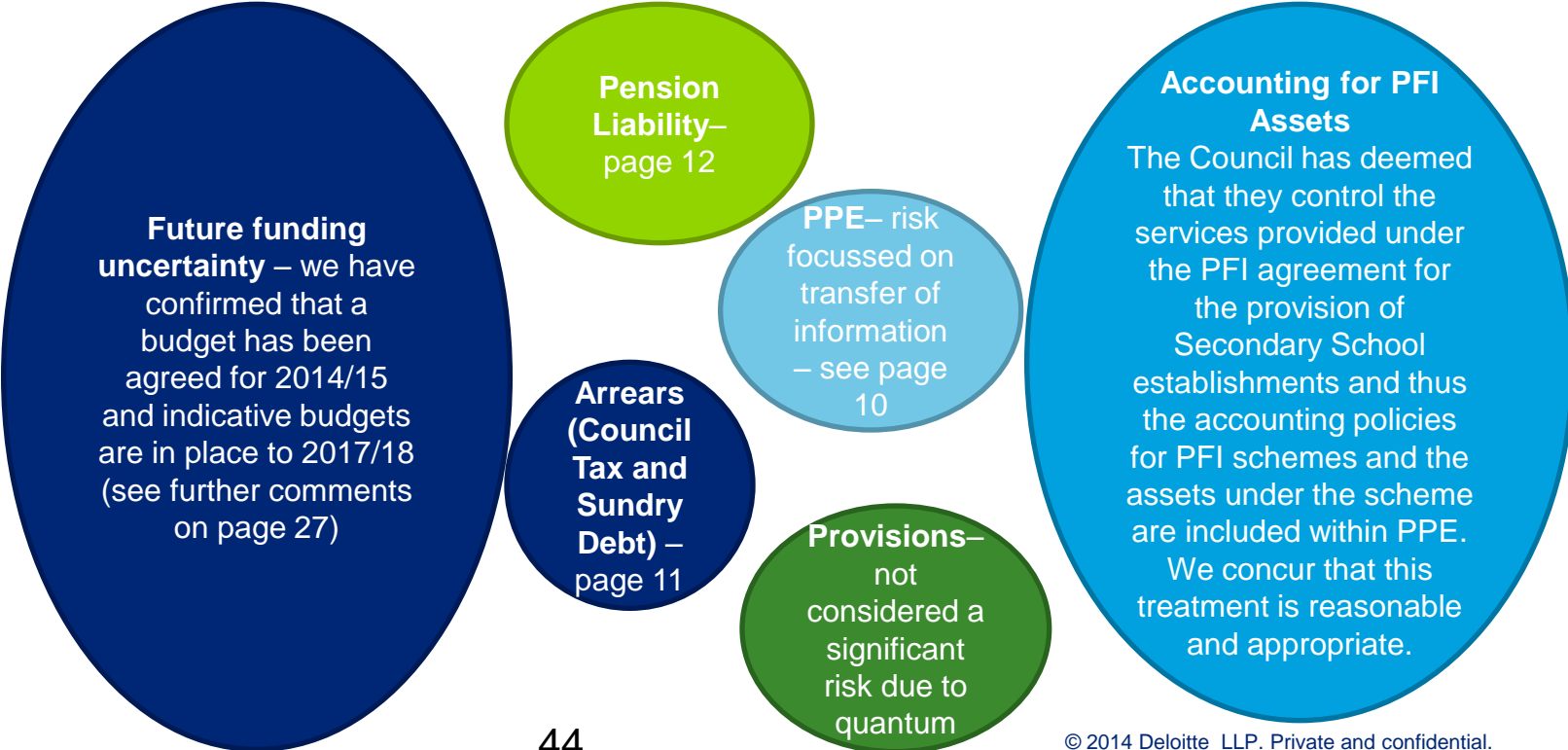
Critical accounting judgements and key sources of estimation uncertainty

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

Critical accounting judgements and key sources of estimation uncertainty identified by management are:

- Future funding uncertainty;
- Property, plant and equipment (PPE);
- Provisions;
- Pension liability;
- Arrears; and
- Accounting for PFI assets.

We have assessed the disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. We have performed work as follows against each of these areas:



6. Best value, use of resources and performance

Financial performance

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Account is that specified by the Service Reporting Code of Practice ("SERCOP"). However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across service portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. The following analysis summarises the Council's management reporting position as reported to committees and Council through the 2013/14 financial year.

	2013/14 Budget £'000	2013/14 Actual £'000	2013/14 Variance £'000
Cost of Service per Management Accounts	103,256	96,186	(7,070)
Not Reported in Service Management Accounts	N/A	7,568	7,568
Net Cost of Services	103,256	103,754	498

6. Best value, use of resources and performance (continued)

Financial performance (continued)

The analysis below is based on the Council's principal services recorded in the budget reports for the year reconciled back to those reported in the financial statements through an adjustment line

	2013/14 Budget £'000	2013/14 Actual (Before Accounting Adjustments) £'000	Over/ (Under) spend £'000	Percentage Variance (%)	2013/14 Actual per Financial Statements £'000
Education Services	34,200	33,892	(308)	-0.9	33,892
Facilities Management	24,482	23,950	(532)	-2.2	23,784
Housing	3,368	2,580	(788)	-23.4	2,580
Strategy and Customer Services	6,884	6,488	(396)	-5.8	6,013
Support Services	6,334	6,224	(110)	-1.7	5,470
Social Services	26,219	27,027	808	3.1	27,027
HRA	(4,207)	(3,961)	246	5.8	(8,159)
Community and Regulatory Services	5,976	5,579	(397)	-6.6	5,579
Total Net Expenditure (services)	103,256	101,779	(1,477)	-1.4	96,186

See overleaf for analysis of key movements against budget

6. Best value, use of resources and performance (continued)

Financial performance (continued)

Significant variances from budget included:

- **Education** – Underspend primarily relates to £0.1m of staffing savings due to difficulty in recruiting supply teachers, an additional £0.1m driven by the change in SQA billing process resulted in a cash saving in the year, and additional support needs underspend of £0.1m.
- **Facilities Management** – Underspend primarily driven by £0.5m reduction in waste management costs, driven by staffing vacancies and a reduction in the volume of waste going to landfill.
- **Housing & Community Safety** – Underspend primarily relates to £300k additional unbudgeted housing benefit funding obtained late in the year, £0.2m of private sector funding grants available which were not accessed by homeowners, and £0.2m of unallocated budget.
- **Strategy and Customer Services** – The underspend in Strategy and Customer Service was mainly due to £0.3m of savings from staffing vacancies due to turnover of staff and recruitment timing.
- **Social Services** – Overspend primarily driven by requirement to use agency staff, the increasing demographic is adult care and delays in the commissioning review (£1.2m) offset by a £0.2m no recharge of staffing from Health related to 11-12, and £0.1m of additional funding for the Alcohol and Drug Partnership being received in the year.
- **Housing Revenue Account** – the overspend was driven by a £0.5m overspend on maintenance due to activity levels, offset by £0.2m of vacancy management savings.
- **Community & Regulatory** – Underspend relates to £0.2m costs savings in relation to roads maintenance due to the mild winter and £0.2m driven by staffing vacancies.

6. Best value, use of resources and performance (continued)

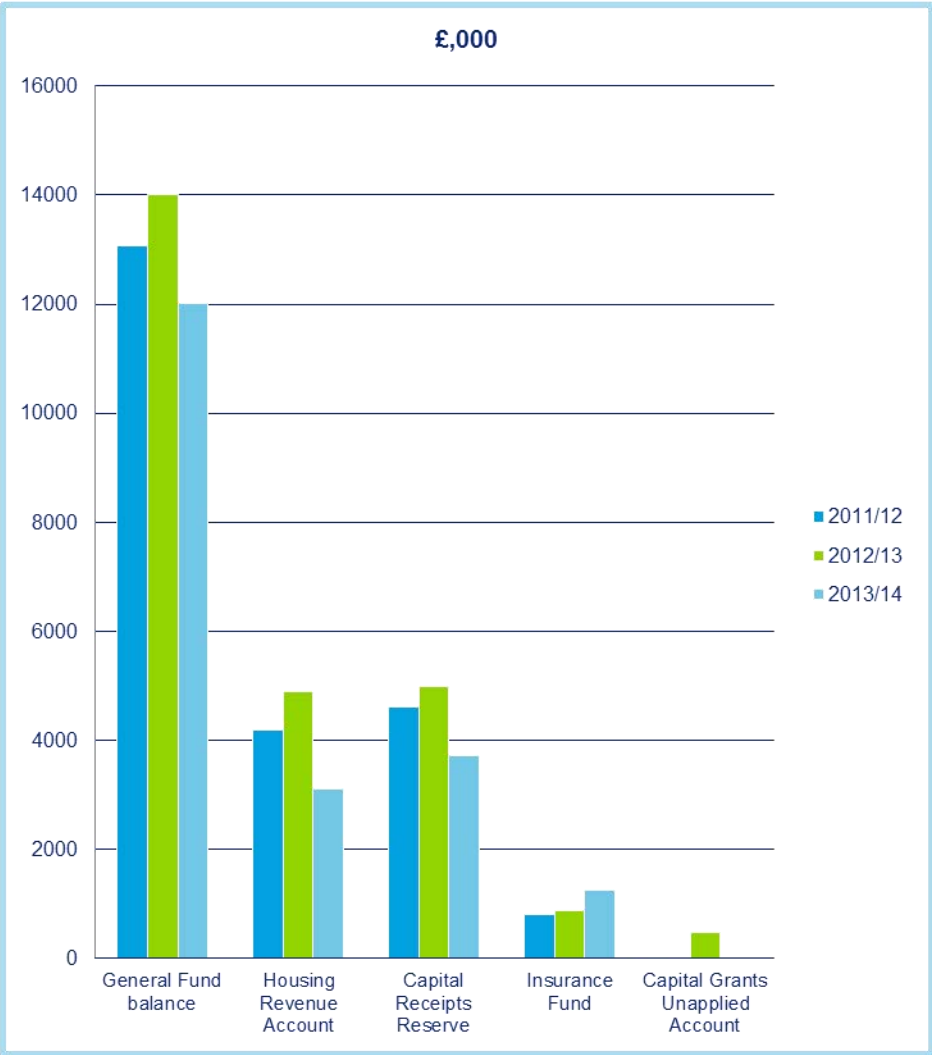
Financial performance (continued)

The Council's usable reserves balance has decreased by £5.166 million in the year to £20.050 million at 31 March 2014.

The Council's policy is to hold minimum working balances of £3.1 million (3% of net expenditure) of uncommitted funds for the General Fund. The level of funds at £6.1m (5.9%) at 31 March 2014 is significantly above this level. This is as a result of a conscious Council decision to maintain reserves for managed use in the change process as the Council strive towards a sustainable cost base.

The General Fund has decreased from £14,004k to £12,017k. The uncommitted element of this balance recorded a surplus of £254k which is a reduction of £904k on the figure reported to the Resources and Audit Committee in May.

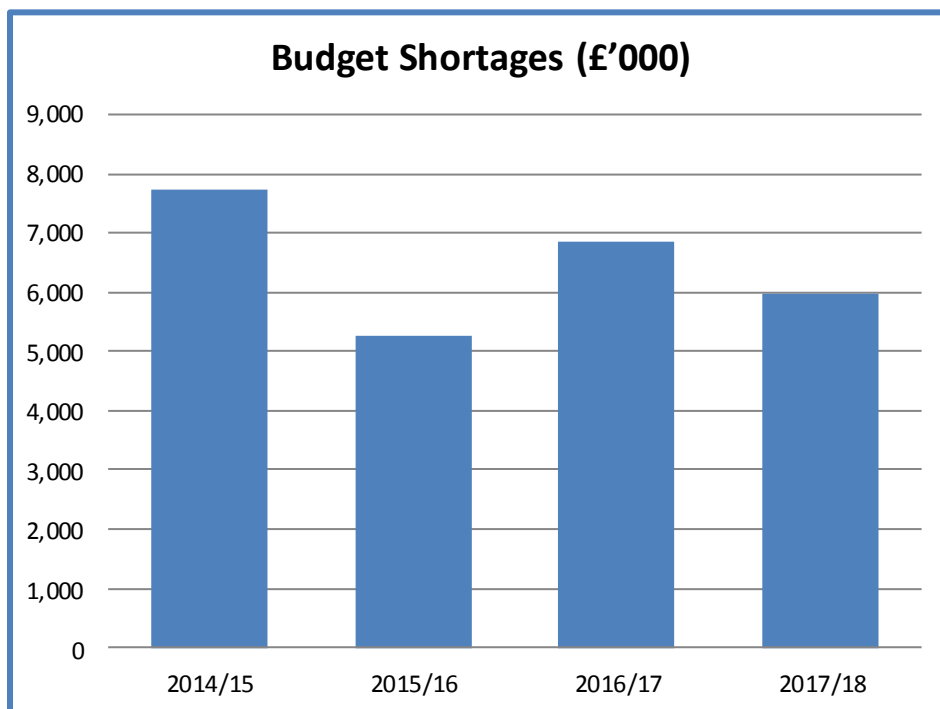
Note that the net reduction £5.1m in reserves is primarily driven by planned use of reserves. Over a number of years, the Council pursued a deliberate policy of building reserves to allow for the opportunity to invest in long-term projects such as MCB which have short-term costs but are expected to provide significant long-term benefits.



6. Best value, use of resources and performance (continued)

Financial outlook

The **2014/15 revenue budget** was approved by the Council on 21 February 2014. The budgeted service expenditure is £120.1m with an indicative funding gap of £7.7m. See overleaf for a breakdown of how this will be addressed.



Indicative budgets are in place for the next three years, which note that significant shortfalls are projected in future years. This is based on expected funding levels and increasing demand pressures in future years.

The 2014/15 capital programme totalled £14.6 million. Key investments include the Speirs Centre (£0.8m), St Johns / Claremont (£2.2m), Road and Footway improvements (£3.3m) and Vehicle Replacement (£0.9m). These are being funded by a combination of borrowing, capital grants, use of capital receipts and finance from revenue.

The Council continues to face a tough economic climate and restrictions on funding. Significant budget shortages exist across the next four years and this will continue to be a key area of focus for the Council.

6. Best value, use of resources and performance (continued)

Financial performance and outlook (continued)

The 2014/15 funding gap was balanced / addressed as follows:

	2014/15 £000s
Net expenditure	120,096
Net funding	112,351
Cumulative indicative funding gap	7,745
<i>Indicative annual gap</i>	
<i>Met by</i>	
Savings targets	4,222
Unapplied capital receipts	1,714
Contribution from uncommitted reserves	1,809
Total to fill funding gap	7,745

6. Best value, use of resources and performance (continued)

Other Issues identified at planning- Welfare Reform

Welfare Reform

The 2012 Welfare Reform Act brought fundamental changes to the UK Benefits System. With a phased introduction from 1st April 2013, the changes outlined within the Act, impact the majority of existing types of benefit resulting in a significant impact on a large percentage of people in receipt of benefits.

As part of the audit, we have continued to monitor the Council's approach to managing the changes and risks associated with Welfare Reform and the associated impact on financial sustainability and Council service delivery.

The Council consider the welfare reform changes to be a considerable risk in relation to funding levels, increasing bad debt levels and increasing demand at a time of reducing resources.

We have discussed associated risks with Council management and reviewed the internal audit report on welfare reform impact completed as part of the 2013/14 Internal Audit plan. We have also considered the Welfare Reform update reports submitted to the Council by the Revenues and Payments Manager during the course of the year.

On this basis of these investigations, we are satisfied that the Council has developed a clear understanding of the organisational impacts associated with welfare reform and has implemented appropriate mitigations. We will continue to monitor the impact of the reform during the period of our appointment.

We have also considered the implementation of the new Council Tax Reduction scheme from April 2013 and have concluded that this been implemented in line with the agreed policy.

We are satisfied that the Council has developed a clear understanding of the organisational impacts associated with welfare reform and has implemented appropriate mitigations.

6. Best value, use of resources and performance (continued)

Other Issues identified at planning- Health and Social Care Integration

Background

As part of the external audit work, we are required to assess use of resources within the Council and delivery of best value. Health and Social Care Integration, from 1 April 2015, represents a significant opportunity to deliver improved best value and outcomes for the citizens of Clackmannanshire but also represents a significant transformation risk which needs to be managed effectively if the benefits envisaged from the integration are to be fully delivered on the ground. Based on our experience of successful health and social integration in England and Northern Ireland, we have assessed the Council's planning arrangements for integration in eight key areas as depicted below.

How **committed** are senior management, and political leaders to integration?

How effective are the **governance arrangement** for integration— specifically **scrutiny** and **accountability** arrangements?

How effective is the Council working with partners in the **involvement of communities** in the integration process?

Has the Council agreed a set of **measures** and **targets** to track progress and demonstrate the impact of integration?

How well are the Council's integration **outcomes** and **actions** evidence-based and how well do they reflect the needs of the area/ communities/ service users?

Has the Council along with its partners set and **agreed priorities**? How committed are they to delivering them?

How well does the Council understand the **resources** needed to deliver integration priorities and how well has it worked with partners to align its funding, assets and staffing in a sustainable framework?

How effective has Council planning been with its partners to **deliver real outcomes and impact** for people and communities?

In June 2014, the Council agreed to implement a Body Corporate Governance model as part of its Health and Social Care integration arrangements. Across Forth Valley, the three Councils and NHS Forth Valley have been working together to implement the requirements of H&SCI. To facilitate this, six workstreams have been established under the management of two dedicated programme managers. Recent activity has focused on the development of a draft integration scheme in order to meet the challenging timescales for consultation and submission to Scottish Ministers for approval. Clackmannanshire Council has prioritised this work and is currently on target to submit its draft integration Scheme to Council in October 2014. We are encouraged by the clear commitment, from the Council's leadership to the integration agenda, and will continue to monitor progress against meeting the challenges identified above as integration planning and delivery progresses.

6. Best value, use of resources and performance (continued)

Grant claim work

As part of our audit procedures, we have completed our review of the following grant claims / returns by the audit deadlines set by Audit Scotland:

Grant	Deadline	Status
Education maintenance allowance	31 July 2014	Completed
Criminal justice social work services grant claim	31 August 2014	Complete
Housing and Council tax benefit subsidy	30 November 2014	On Target
Non-domestic rates income return	Mid-February 2015	On Target

We are on target to complete all grant claim work in line with Audit Scotland deadlines.

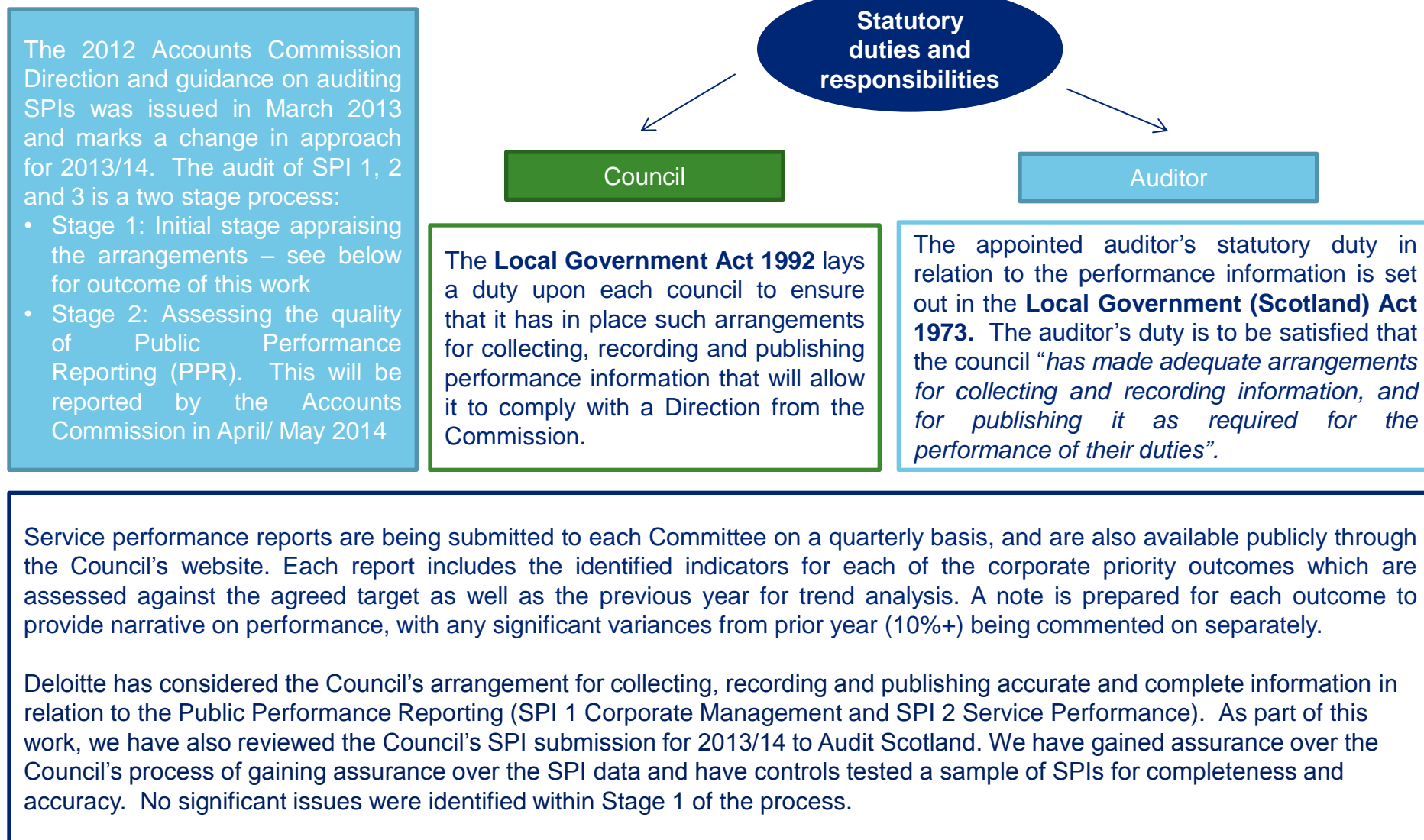
Education Maintenance Allowance

We were unable to performed detailed testing on the first four months of the year as a result of the relevant files being misplaced during the move to Kilncraigs. We recommend that the Council review its archiving procedures to prevent this issue recurring in the future. Note that there was no financial loss as a result of this issue.

[Refer to Action Plan]

6. Best value, use of resources and performance (continued)

Statutory Performance Indicators (SPIs)



6. Best value, use of resources and performance (continued)

National Fraud Initiative

We are required to monitor Councils' participation in the NFI exercise during 2012/13 and into 2013/14. Audit Scotland's national report is to be published in late June 2014 in relation to the 2012/13 exercise. From our audit work we have noted the following:

The Internal Audit and Fraud Team leader has overall responsibility for the NFI exercise

Recording and reporting:

- The payroll data was continually updated.
- Due to the volume of data in the Creditors matches, this was reviewed outwith system. However, all results have now been recorded in the system.

Planning:

- All data was submitted on time via NSS in accordance with the deadlines.

As at 31 May 2014, no internal frauds have been identified in either the 2010/11 or 2012/13 exercises

6. Best value, use of resources and performance (continued)

Local Area Network / Assurance and Improvement Plan (AIP)



The LAN met in November 2013 to update the shared risk assessment.

The AIP Update 2014-2017 was published by Audit Scotland in May 2014. This update focused on identifying the council's current position in implementing the Scottish Government's reform agenda.

Deloitte continue to actively participate in the Local Area Network (LAN) and make positive contributions to the Assurance and Improvement Plan (AIP).

6. Best value, use of resources and performance (continued)

National Performance Reports

In accordance with Audit Scotland guidance, the impact of national performance reports are followed up in a number of ways, including local impact returns and targeted follow-up work.

Local impact returns for '*Health inequalities in Scotland*' (published in December 2012) submitted to Audit Scotland on 31 March 2014

Targeted follow-up of "*Arms Length External Organisations: Are you getting it right?*" (published in June 2011) report submitted to Audit Scotland in June 2014 and presented to the Resources and Audit Committee alongside this report on 25 September 2014.

Local impact returns for '*Major Capital Investment in Councils*' (published 14 March 2013) submitted to Audit Scotland on 27 August 2014.

The following national reports have been published by Audit Scotland during 2013/14 to date. The Council has demonstrated that it considers in detail those reports most relevant to priorities. The Council should ensure that each of these have been considered and action taken where relevant. Details on specific follow-ups will be provided in our planning paper for the 2014/15 audit:

- Maintaining Scotland's roads (May 2013)
- Managing early departures from the Scottish public sector (May 2013)
- Housing in Scotland (July 2013)
- How councils work: an improvement series for councillors and officers – Charging for services: are you getting it right? (October 2013)
- Reshaping care for older people (February 2014)
- How councils work: an improvement series for councillors and officers – Option appraisal: are you getting it right? (March 2014)

The management team raise National Performance Reports to the Resources and Audit Committee as applicable.

As noted within our ALEO's report separately presented, we note that there is no disclosure of the individual voluntary organisations that the Council funds. Consideration should be given to an additional voluntary disclosure is included in the accounts providing details of each individual voluntary organisation including the Council role, the Council contribution and the type of services delivered. **[Refer to Action Plan]**

7. Insights - risk management and internal control

Key controls over significant risks

In Section 3 we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below:

Significant Risk	Control	
Transfer of information to new fixed asset system	In order to import the existing fixed asset information correctly onto the new system, a number of reconciliations were performed. Adjustments required to the opening FY13/14 balance were identified in this exercise which have been posted to the general ledger in order to ensure previous revaluations were properly accounted for. Management have reviewed these reconciliations and the adjustments posted.	★
Bad debt provision	Provisions for bad debt are calculated by the finance team at year end. Information is corroborated with the Council Tax System which is held independent of the finance team. Management review the calculation and the monthly reconciliation to the Council Tax System.	★
Valuation of pension scheme	An actuarial report is received by the Council and the corresponding figures and actuarial assumptions are included within the disclosures of the annual accounts. The accounts are reviewed by senior management ensuring these reflect the actuarial report. We have inspected the review of working papers by management.	★
★	★	★
No issues noted	Satisfactory – minor observations noted	Requires improvement
		Significant improvement required

7. Insights - risk management and internal control (continued)

Key controls over significant risks

Significant Risk		Control	
Revenue Recognition	→	<p>The resource limit as determined by the Scottish Government is reviewed by the Chief Accountant to ensure funding is correctly recorded.</p> <p>We have confirmed that the year end 2014 allocation letter has been reflected in the annual accounts.</p>	★
Management Override	→	<p>Controls are in place over financial reporting and closing procedures, recording and processing of journals and segregation of duties which prevent the management override of controls. In addition a detailed review is performed each month on the results through the financial monitoring report.</p> <p>We have tested all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted including approval</p>	★

7. Insights - risk management and internal control (continued)

Internal Control observations

We have identified a number of risk management and control observations, the most significant of which are detailed below. Our management letter will provide further details of the results of our work on accounting and internal control systems,

Description	Deloitte recommendation	Management response
Some key reports (for example creditors ledger) not available to the audit team at year end date due to a server transfer	We recommend that these reports are made available at the year end date to avoid a time-consuming reconciliation process.	Reports had been produced at the year end to support preparation of the draft statements. However, these were not available to the auditors during the audit process as a consequence of IT changes following the move to Kilncraigs. Checks will be implemented to ensure key reports are retained and available for audit inspection.
Difficulties obtaining information in relation to the reconciled Council Tax ledger	We recommend that the Council ensures that a complete reconciliation is available to the audit team for the 2015 audit.	In checking the detailed supporting information for the audit process, weaknesses in the system reporting functions of the Council tax system have been identified. Work is now being taken forward with Northgate (software supplier) to remedy this for the future. To ensure that any changes are effective, full monthly reconciliations of the Council tax system will be undertaken throughout the year and not just at year end.

7. Insights - risk management and internal control (continued)

Internal Control observations (continued)

Description	Deloitte recommendation	Management response
Criminal Justice Social Work Services – no signed service level agreement	For a sample of expenditure amounts relating to independent sector providers, the Council was unable to locate a signed service level agreement between the independent provider and the local authority, which could be used to confirm expenditure related to specified service. We recommend that the Council ensures that an SLA is put in place for this instance and that the annual review process remains a priority to ensure that SLAs are in place across the council's external/ independent providers.	Following Internal Audit work carried out over the last 2-3 years, much has already been done to ensure that Service Level Agreements are fit for purpose and in place. Whilst there has been a general improvement corporately, further work is required to ensure that all services are aware of the operating framework and implement it consistently. The specific example will be followed up and annual checks will continue to ensure corporate compliance.

7. Insights - risk management and internal control (continued)

Prior year observations

We performed follow-up work on our prior years risk management and internal control observations. The key results of this work are outlined below:

Recommendation in 2012/13	Results of 2013/14 follow up	Status
Bank accounts excluded from trial balance		
<p>We noted that a number of bank accounts were excluded from the Trial Balance total (7 accounts with total balance of £1,442.)</p> <p>We recommended that all bank accounts should have a trial balance code.</p>	All bank accounts held have now been allocated a unique trial balance / general ledger code.	Issue fully addressed and resolved
Petty cash reconciliations not routinely completed		
<p>We noted that petty cash reconciliations were not routinely completed.</p> <p>We recommended that petty cash reconciliations were completed on a monthly basis moving forward.</p>	We have reviewed all bank reconciliations performed in the year and noted that petty cash reconciliations have now been conducted on a regular, monthly basis.	Issue fully addressed and resolved

7. Insights - risk management and internal control (continued)

Our reliance on the work of internal was in line with plan

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the work of internal audit and adjusted our audit approach as deemed appropriate. The results of this were:

For those areas where a significant risk was identified we performed all work ourselves

No issues were identified with the work performed by internal audit

We were informed by the work of the internal auditors in relation to key financial controls to shape our audit procedures and approach

Work is in hand considering how we can work more closely with Internal Audit moving forward.

8. Responsibility Statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Resource & Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report
- Our internal control observations
- Other insights we have identified from our audit and in following our audit plan, Audit Quality Promise and Insight Plan

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary “Briefing on audit matters” circulated to you previously.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants

Edinburgh

17 September 2014

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

8. Responsibility Statement (continued)

Management and auditor responsibilities

Management responsibility

It is the responsibility of the Council and the Depute Chief Executive, as Responsible Officer, to prepare the financial statements in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Council and its expenditure and income for the period ended 31 March 2014; and
- preparing an Explanatory Foreword, an Annual Governance Statement and a Remuneration Report.

Auditor's responsibilities

We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view in accordance with applicable law and the 2013/14 Code or the state of the affairs of the body as at 31 March 2014 and of the income and expenditure of the body for the year then ended;
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Appendices

Appendix 1: Audit adjustments and disclosure misstatements

Uncorrected misstatements

There were no uncorrected misstatements noted during the process of our audit work.

Corrected misstatements

There were two corrected misstatements noted during the process of our audit work as per below.

Adjustment	Credit/ (charge) to current year CIES £'000	(Increase)/ decrease in net assets £'000	(Increase)/ decrease in reserves £'000
Dr Revenue Cr Operational expenses Being elimination of internal charges	- -	- -	354 (354)
Dr Accrued investment income Cr Cash Being accrued investment income incorrectly recorded as a reconciling item in the bank reconciliation	- -	62 (62)	- -
Total	-	-	-

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. There were no disclosure misstatements noted in the course of our work.

Appendix 2: Independence and fees

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
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Fees	The audit fee for the year has been agreed at £206,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. Note that this includes £6,000 of fees recharged in relation to the charity audit work. This amount is expected to be non-recurring in nature.
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Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or of any apparent breach of that policy.
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There were no non audit services fees charged in relation to Deloitte in the period from 1 April 2013 to 31 March 2014.

Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.
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We are not aware of any relationships which are required to be disclosed.

Appendix 3: Fraud considerations

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- We are aware that management has the following processes in place in relation to the prevention and detection of fraud:
- The Financial Regulations include a section on the Prevention and Detection of Fraud.
 - All members and employees are expected to comply with the Council's Disclosure of Information (Whistleblowing) and Anti-fraud and Corruption Policies.
 - There is a fraud policy in place which gives advice to staff on their role in the prevention of fraud and establishes the Council's procedures for prevention, detection and investigation of fraud. This is fully communicated to all staff and regular training is provided.
 - An annual return is submitted to the Scottish Government of all suspected and actual frauds reported and all frauds are agreed with Counter Fraud Service on a quarterly basis. The 2013/14 return included no suspected frauds in excess of £5,000 which were reported to Audit Scotland.

Responsibilities

Your responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities

As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

As set out in Section 4 above we have identified the presumed risk of fraud in revenue recognition and management override of controls within the key audit risks identified for your organisation.

Appropriate arrangements are in place for maintaining standards of conduct and the prevention and detection of corruption.

Appendix 4: Action Plan

Our recommendations for improvement



High risk requiring urgent attention



Potential to become high risk if not addressed promptly



Other risk factor noted

Area	Recommendation	Management response	Assessment
Making Clackmannanshire Better – detailed benefits realisation planning	Management needs to complete its detailed benefits realisation planning process for delivering the financial and non financial benefits from the MCB programme. This process needs to fully integrate the various benefits realisations steps, some of which individually are already in place within the Council. Once completed, the integrated benefits realisation planning process should also be communicated to all key programme stakeholders to ensure there is visibility, engagement and understanding of the approach being applied.	Work is progressing well to complete this exercise. The draft approach was presented to the MCB Steering Group on the 25 August 2014. Appropriate communication will take place once the work is completed.	AMBER
Falkirk Pension Scheme – late delivery of data return	We recommend that this issue is pursued with the software supplier to ensure that the Council can supply the required information to Falkirk Pension Scheme in line with agreed timetables.	The establishment of the annual pensions return reports within the iTrent system has proved problematic and required manual intervention to complete the process. Work is in hand with Midland (iTrent software supplier) to resolve this matter for the future.	GREEN

We followed up on our prior year recommendations which have all been appropriately addressed by Clackmannanshire Council

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Area	Recommendation	Management response	Assessment
Clackmannanshire Council Sundry Trust Funds – appointment of independent trustee	We recommend that consideration is given to the appointment of an independent trustee to the Board of each charity. This would remove the formal audit requirement under Section 106 of the Local Government (Scotland) Act 1973.	Management commitment to this principle was in place prior to the start of the audit process. However, timescales did not permit that this could be implemented in respect of the 2013/14 statements.	AMBER
Clackmannanshire Council Sundry Trust Funds – basis of preparation	Management clearly review basis of preparation moving forward to ensure that it is consistent and correct.	Presentational changes have been made to the 2013/14 financial statements. This did not have any financial impact on the position previously presented to elected members. The change will be applied to future years as appropriate.	GREEN
Criminal Justice Social Work Services – service level agreements	For a sample of expenditure amounts relating to independent sector providers, the Council was unable to locate a signed service level agreement between the independent provider and the local authority, which could be used to confirm expenditure related to specified service. We recommend that the Council ensures that an SLA is put in place for this instance and that the annual review process remains a priority to ensure that SLAs are in place across the council's external/independent providers.	Following Internal Audit work carried out over the last 2-3 years, much has already been done to ensure that Service Level Agreements are fit for purpose and in place. Whilst there has been a general improvement corporately, further work is required to ensure that all services are aware of the operating framework and implement it consistently. The specific example will be followed up and annual checks will continue to ensure corporate compliance.	GREEN

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Area	Recommendation	Management response	Assessment
Some key reports not available to audit at year end date	We recommend that these reports are available at the year end date to avoid a time-consuming reconciliation process.	Reports had been produced at the year end to support preparation of the draft statements. However, these were not available to the auditors during the audit process as a consequence of IT changes following the move to Kilncraigs. Checks will be implemented to ensure key reports are retained and available for audit inspection.	GREEN
Difficulties obtaining information in relation to the reconciled Council Tax ledger	We recommend that the Council ensures that a complete reconciliation is available to the audit team for the 2015 audit.	In checking the detailed supporting information for the audit process, weaknesses in the system reporting functions of the Council tax system have been identified. Work is now being taken forward with Northgate (software supplier) to remedy this for the future. To ensure that any changes are effective, full monthly reconciliations of the Council tax system will be undertaken throughout the year and not just at year end.	AMBER
Education Maintenance Allowance – archiving procedures	We were unable to performed detailed testing on the first four months of the year as a result of the relevant files being misplaced during the move to Kilncraigs. We recommend that the Council review its archiving procedures to prevent this issue recurring in the future.	This appears to be a one off incident. However, arrangements will be reviewed to prevent reoccurrences in the future.	GREEN

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Area	Recommendation	Management response	Assessment
Format and contents of financial statements	Clackmannanshire Council should consider CIPFA's guidance in undertaking its next scheduled review of the format and content of its financial statements, which is scheduled for next year.	A significant review of disclosures was undertaken as part of the preparation of the 2011/12 financial statements with a review by exception in the last two years. A further full review of the format and presentation of the financial statements is scheduled prior to the preparation of the 2014/15 statements. The review will be undertaken with reference to the most up to date best practice guidance.	GREEN
ALEOs – disclosure within financial statements.	We note that there is no disclosure of the individual voluntary organisations that the Council funds. We recommend that disclosure is included in the accounts providing details of each individual voluntary organisation including the Council role, the Council contribution and the type of services delivered.	The principle of ensuring transparency over the Council's arrangements is agreed. However, the recommendation suggests an additional voluntary disclosure which would add to the length of the Council's financial statements. On this basis, and to be consistent with previous management of this issue, it is proposed that the requirement will be addressed as part of the annual budget setting process.	GREEN

Appendix 5: Future developments

Additional information on current and future technical developments

Stay tuned online: Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

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The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board, International Financial Reporting Standards, and international accounting and auditing in general. It includes:

- Summaries of all IASB standards and interpretations;
- Background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings;
- Comparisons of IFRSs and various local GAAPs;
- Updates on national accounting standards development in around 80 countries and regions throughout the world; and
- Free e-learning modules for each IAS and IFRS – made available at no charge in the public interest.

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