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Clackmannanshire Council

Our Final Report to Members on the 2012 Audit

11 October 2012

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Dear Councillors

We have pleasure in setting out in this document our report to the members of Clackmannanshire Council for the year ended 31 March 2012 for discussion at the meeting scheduled for 11 October 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The audit process has been challenging and has required more effort than anticipated, primarily as a result of delays in receiving requested information.
- The major issues, which are summarised in the Executive Summary, have now been addressed and our conclusions are set out in our report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- Management is continuing to finalise the financial statements of the Council and some aspects of underlying audit work is still underway. The key area where our work is ongoing is in relation to audit procedures associated with the tie through of updated accounts following our audit adjustments. We will be in attendance at the full Council meeting on 11 October 2012 and will provide a verbal update at that time.
- We are working with management to meet the agreed audit and financial reporting timetable, but ultimately this is down to the receipt of the required supporting documentation.
- In terms of our wider remit under the Code we noted no issues against the 7 areas we reviewed, with the Council continuing to make progress in strengthening its corporate strategies and processes, especially making significant improvements to its corporate governance model over the last 18 months.

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.

Senior Statutory Auditor

Contents

Executive summary

Status	Description	Detail
Completion of the audit		
Our audit is substantially complete, although it has taken us longer than planned due to information not being provided in accordance with the timetable Plans are in place to address this going forward	Our audit is substantially complete, although it has taken us longer than planned due to delays in delivering the information requested and unavailability of staff. The following are the principal remaining areas we require to complete in order to finalise the audit: • Our review of events since 31 March 2012; and • Receipt of signed management representation letter. We understand that a number of the finance team transitioned into new roles over the period of preparation of the annual accounts and that this has had an impact on the current year's audit process. We have also agreed to a full debrief session to ensure the process is smoother going forward.	N/A
Overall view		
Anticipated unmodified audit opinion	On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements. The matters that we have taken into account in forming our overall view are described in the following sections.	N/A

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Executive summary (continued)

Status	Description		Detail
Significant audit risks		**Status**	
We are satisfied that the financial statements are not materially misstated in relation to these risk areas Key adjustments are in relation to an overprovision of £1.6 million in respect of equal pay and under provisions totalling £1.4 million in respect of council tax and rent receivables	We discuss within **Section 1** the results of our work in relation to the key audit risk which have been identified as being significant for the current year accounts. These include: 1. Accounting for Public Private Partnership (PPP); 2. Completeness of accruals; 3. Valuation of defined benefit pension scheme liability; 4. Revenue recognition (Council Tax and Housing Rent Income); 5. Property, plant and equipment (PPE) valuation; 6. Human resources and payroll systems replacement; 7. Management override of controls; and 8. Equal pay provision.	(Green) (Green) (Green) (Amber) (Amber) n/a (Amber) (Amber)	Section 1

Risk appropriately addressed. (Green)

Risk satisfactorily addressed but with adjusted or unadjusted errors identified. (Amber)

Material unresolved matter. (Red)

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Executive summary (continued)

Status	Description	Detail
Our observations on your financial statements		
Disclosures agreed as in line with the Code of practice on local authority accounting in the United Kingdom 2011/12	We have performed a review of the financial statements against the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We have made comments in this report on the following: • Prior year adjustment; • Disclosure of critical accounting judgements and key sources of estimation uncertainty; • Related party disclosures; • Disclosure on the Defined Benefit Pension Schemes; • Annual Governance Statement; and • Remuneration Report, incorporating new disclosure on Exit Packages.	Section 3
Financial performance and outlook		
The net operating expenditure for the year was £90.988 million resulting in a surplus against budget of £7.615 million	The net operating expenditure for the year was £90.988 million resulting in a surplus against budget of £7.615 million. Significant surpluses have been noted within the Housing Revenue Account (HRA) of £2.5 million, Facilities Management of £1.6 million and Social Policy of £1.1 million. The HRA surplus is due to the budget included amounts for period 13 allocations from Support Services and capital financing charges, whilst the Facilities Management and Social Policy surpluses are primarily due to cash savings made as a consequence of the ongoing restructuring activity. There was also an increase of £5.6 million within income offset against a deficit of £4.9 million in Community and Regulatory that are linked to amounts paid in Housing Benefit and subsequently received from the DWP through annual subsidy claim. Budgeted net expenditure for 2012/13 of £102.8 million was approved by the Council on 9 February 2012. As a means to reduce expenditure and identify the pressures to the Council budget challenge sessions have established led by the Directors Group, along with challenge of monthly outturns to ensure good financial management.	Section 4

Executive summary (continued)

Status	Description		Detail
Other issues		**Status**	
All issues and procedures were deemed appropriate in respect of the areas reviewed. The Council continues to make progress in strengthening its corporate strategies and approaches. Significant improvements were made with respect to the Council's corporate governance model over the last 18 months	Other issues which have not been assessed as financial statement risks, but were considered as part of our audit in line with compliance with the Code of Audit Practice and work on Best Practice are:		Section 5
	1. Delivery of services with reduced funding;	(Green)	
	2. Achievement of local and national outcomes from Single Outcome Agreement;	(Green)	
	3. Sustainable workforce;	(Green)	
	4. Instability of key suppliers;	(Green)	
	5. Strategic governance model;	(Green)	
	6. Community engagement; and	(Green)	
	7. Readiness for pending welfare reform.	(Green)	

Issue reviewed & procedures deemed appropriate. (Green) — Issue reviewed and minor recommendations raised. (Amber) — Issue reviewed and significant recommendations raised. (Red)

Grants		
We have completed our audit work in relation to two grant claims, our work is ongoing on the housing and council tax benefit claim	We have completed our work in relation to the education maintenance allowance grant claim (signed off 31 July 2012) and criminal justice social work services grant claim (signed off 31 August 2012). Work is currently ongoing in respect of the housing and council tax benefit subsidy claim, with our initial sample testing complete, and additional testing now in progress. Work on the Non Domestic Rates Income Return is due to commence in October to ensure that the February 2013 deadline is met.	Section 6

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Executive summary (continued)

Status	Description	Detail
Performance Reporting and Statutory Performance Indicators (SPIs)		
We have assessed that the Council is fulfilling its obligations with regard to publishing accurate and complete performance information	We have reviewed the Council's arrangement for collecting and recording information, and for publishing them, as required for performance of its duties. We identified minor amendments to two indicators.	Section 7
Audit Scotland National performance reports		
We have followed up the Council's progress in response to the specific national performance report highlighted by Audit Scotland	In line with our planning paper we have completed our work on the national performance reports. Section 8 includes a summary of our findings. We have reviewed how the Council have responded to the national performance report "Scotland's public finances: addressing the challenges" and performed a focused follow up on *"Maintaining Scotland's roads"*.	Section 8
Risk management and internal control systems		
We have highlighted some areas which we believe require significant improvement to strengthen the Council's financial reporting arrangements.	We have highlighted a number of observations in relation to the financial control environment and in Section 9 we have set out a summary of the more significant observations identified during our audit. We are discussing the planned timetable for the issuance of our management letter with management but would expect to issue this after the audit debrief in October. Our management letter will provide further details of the results of our work on accounting and internal control systems, albeit all significant matters are included within this report.	Section 9

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Executive summary (continued)

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Status	Description	Detail
Independence		
We are independent as stipulated by APB Ethical Standards of Auditors	Our reporting requirements in respect of independence matters, including fees, are covered in Section 11.	Section 11
Identified misstatements and disclosure misstatements		
Key identified misstatements are in respect of the overprovision for equal pay of £1.6 million and underprovision against certain receivables of £1.7 million	Audit materiality was £1.65 million, an increase from £1.3 million included within our plan. Details of all audit adjustments are included in Appendix 1. No material uncorrected misstatements have been identified. The following adjustment has been brought to your attention: • An adjustment of £1.6 million in respect of equal pay provisions. The provision was initially based on known Wave 1 claims along with an element for unknown Wave 2 and 3 claims. Wave 2 and 3 claims cannot be reliably estimated therefore should be recorded as contingent liability. • Adjustments totalling £1.7 million in respect of an underprovision against certain receivables. These include £0.6 million against housing benefit overpayments, £0.8 million against council tax and £0.25 million against sundry debtors.	Appendix 1
Significant representations		
Certain specific representations have been requested from the Council	A copy of the representation letter to be signed on behalf of the Council is included at **Appendix 2**. Non-standard representations have been highlighted in this letter.	Appendix 2

Financial statements and corporate governance

1. Significant audit risks

The results of our audit work on significant audit risks are set out below:

Understanding the subjective judgements and estimates

The table below shows, on a range of acceptable outcomes from less prudent to more prudent, where management's key assumptions and valuations relating to significant estimates lie.

	Less prudent	←						Range						→	More prudent	
Accounting for Public Private Partnership (PPP)								✓								Assets and liabilities recorded in line with the approved PWC model.
Completeness of accruals								✓								Expenditure recognised in accordance with the Code, with correct classification between revenue and capital spend.
Valuation of defined benefit pension scheme liability												✓				Our independent actuary has reviewed the assumptions set by the scheme actuary and considered these to be within the acceptable range albeit towards the prudent end.
Revenue recognition (Council Tax and Housing Rent Income)		✓														Council Tax income based on net Council Tax levied to residents, after deducting discounts, reductions and allowance for bad debt. We have identified adjustments to increasing the provision against council tax debtors of £0.8 million and £0.6 million against housing rent overpayments. These have been agreed and booked.
Property, plant and equipment (PPE) valuation								✓								A full valuation was last performed in 2009 and in line with the Code no additional valuation was performed in the year.
Equal pay provision														✓		The closing provision was based solely upon the opening provision less payments in the year. We understand that information was obtained from the Council's HR team based on the total number of outstanding claims at the average value paid in previous years but this was not reflected within the financial statements. We have identified an adjustment to reduce the provision by £1.6 million for Wave 2 and 3 claims where there is insufficient certainty for these to be recorded. This has been agreed and booked.

Financial statements and corporate governance

1. Significant audit risks (continued)

Accounting for Public Private Partnerships (PPP)	Status (green)
Description of risk	Clackmannanshire Council is engaged in PPPs related to the building of the 3 secondary schools in the area. Given the magnitude of the balance and the high profile nature of the PPP in Local Government, a risk has been identified in relation to the appropriateness of the accounting for the PPP.
Deloitte response	We have obtained the Agreement with the Partnerships for the contract for the 3 schools, and obtained the PWC Models which were prepared when the contracts started, which provide all of the financial data required to disclose within the financial statements. The contract has been in place for 4 years and has been fully audited in the past with no issues noted and as such we have not considered it to be necessary to perform any detailed testing on the data input to the PWC models. We have reviewed the models and confirmed that the finance lease liability reduces each year based on the proportion of the unitary charge identified as relating the finance lease creditor and the total unitary charge increases each year, to reflect increases in inflation. This is in line with our understanding of the contract. In addition, we have tested the repayments made within the year and confirmed that this is in line with the model.

Completeness of accruals	Status (green)
Description of risk	It has been noted through our planning procedures that there is an absence of an integrated purchase ledger function, and that accruals are only calculated and recorded at financial year end. There is a risk that the accruals balance at year end is inaccurate or incomplete. In addition, there is a risk that ongoing monitoring of expenditure commitments is not fully optimal, although officers consider that this is mitigated by the Council's 'budget challenge' monthly process with service departments.
Deloitte response	Post year end invoices and payments were tested to ensure the year end accrual is complete. Supporting documentation was obtained and items were examined to ensure they were recorded in the correct period. For all other accruals, supporting documentation was received and payment of the accrual traced to post year end bank.

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Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Valuation of defined benefit pension scheme liability	Status (green)
Description of risk	Clackmannanshire Council have a defined benefit pension scheme which is accounted for based on a series of actuarial assumptions. There is a risk that the assumptions used are not appropriate and therefore the valuation of the scheme (and the surplus / deficit) is inaccurate.
Deloitte response	We have obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to the comprehensive income and expenditure statement, balance sheets and notes to the financial statements noting no issues. We have also assessed the independence and expertise of the actuary supporting the basis of reliance upon their work. We have taken reliance from work carried out by PwC on behalf of Audit Scotland which assessed the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the scheme as at 31 March 2012. Our pensions specialists have also analysed the assumptions and have noted that the assumptions used are on the prudent side of an acceptable range and in line with those being used by other organisations with a March 2012 year end. Key assumptions that were seen as prudent were around the CPI inflation at 2.5% (our expectation would be a rate of 2.25%) and expected return on assets at 6.2% (our expectation would be a rate of 7.2%). We note that Hymans Robertson have used a standard set of assumptions for all clients participating in the Local Government Pension Scheme and no specific adjustment is made for the Council e.g. mortality assumptions reflecting the Council's membership.

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Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Revenue recognition (council tax and housing rent income) — Status ● (amber)

Description of risk

Under ISA (UK and Ireland) 240 'The auditor's responsibility to consider fraud in an audit of financial statements there is a non-rebuttable presumption that there is a risk of fraud in relation to revenue recognition'.

For Clackmannanshire Council, we have considered this risk to be around the completeness of Council Tax and Housing Rents income.

Deloitte response

Council tax

We have confirmed the net Council Tax income recognised to the amounts recorded within the Council Tax system, and reconciled this to the movement in number of houses in the year, as independently reconciled to the Assessor.

As at the year end the Council has outstanding council tax receivables of £9.6 million of which £5.5 million has been provided against. The ageing profile of the remaining receivable and exposure to the Council is noted below analysed between the initial amount presented and updated based on the clients workings and our additional proposed adjustment.

Ageing of net receivable	Initial	Revised	Proposed	Total Adj
	£m	£m	£m	£m
Current year	0.7	0.7	0.7	0.0
2- 5 years	1.7	1.6	1.6	0.1
5 – 10 years	1.3	1.2	0.9	0.4
> 10 years	0.4	0.2	0.1	0.3
Total	**4.1**	**3.7**	**3.3**	**0.8**

We have challenged management on the approach to providing for aged council tax receivables and as a result they have reassessed the required provision analysing the balance on an aged basis and provided for an additional £0.4 million with all balances in excess of 11 years fully provided for. We have reviewed the revised methodology adopted by management and have noted that the client has assumed an uplift of 0.3% for each of years 1 to 5, 0.2% for years 6 to 10 and 0.1% for years 11 to 20.

We have considered these collection rates against historical data and believe that rates of 0.6% for each of years 1 to 5, 0.1% for years 6 to 10 and 0.05% for years 11 to 20 are more appropriate. This would result in an additional provision of £0.4 million required and is included within our list of misstatements in Appendix 1.

Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Revenue recognition (council tax and housing rent income) (continued)	Status ● (amber)
Deloitte response	**Housing rents** We have confirmed the net Housing Rents income recognised through the Housing Revenue Account to the amounts recorded within the Housing Rents system. We have reconciled this to the movement in the number of houses in year, as independently verified by the Council's valuers, and the average rent increase as approved as part of the budget process for 2011/12. We identified that no provision had been made in respect of housing benefit overpayments and based on evidence of future recoverability a £0.6 million provision has been proposed and booked by management.

Property, plant and equipment (PPE) valuation	Status ● (amber)
Description of risk	We have identified an audit risk in respect of PPE valuation because, with changes in the economic environment and property markets, these assets can be subject to material changes in value and there is a risk that these changes are not appropriately recorded in the financial statements. IFRS requires revaluation to be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Where additions or significant completed projects are recorded at cost during the year, or where the valuation happened earlier than the end of the year, there is a risk that this cost / valuation is materially different to the fair value at the end of the reporting period.
Deloitte response	A full valuation was last performed in 2009 and in line with the Code no additional valuation was performed in the year. We have also liaised with the internal estates team who perform an annual exercise to review assets, including additions, disposals and any material changes that may impact the value of the asset. For material assets we have confirmed with the estates team why it is acceptable to hold the asset at the particular value, agreeing to external data where possible. As part of our review of the valuation of assets held for sale we have identified a £3.4 million adjustment to the Old Alva Academy site which has now been booked by management. This was held at £4.3 million and related to the former school site and swimming pool. As part of our review we identified that the pool had been transferred to a community group and the buildings on the site had been demolished, reducing the value of the site to £0.9 million. No other issues were noted from our procedures.

Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Human resources and payroll systems replacement	Status – n/a
Description of risk	The current Human Resources and Payroll systems are due for renewal in the current year, and as with any major system replacement, there is a risk that controls are compromised and data transferred to the new system is not fully accurate and complete.
Deloitte response	The introduction of an integrated Human Resources and Payroll system is not expected to be implemented until late 2012/13. We shall address the controls in place and the risks around data transfer once the new system is implemented and fully operational.

Management override of controls	Status ● (amber)
Description of risk	Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent Financial Statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities. This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.
Deloitte response	We have obtained an understanding of the design and implementation of the key controls in place in relation to the posting of journal entries. We have performed year end procedures on a sample of journal entries posted in the year and confirmed the appropriateness of the journals posted. We noted from our sample testing that there was no authorisation required and no limits for staff posting journals. This is not considered best practice and increases the risk of fraud and we would recommend that there should be an independent review of all journals posted. In addition, we have also conducted a review of significant accounting estimates in order to assess the reasonableness of managements' judgements in relation to these estimates. We have not noted any transactions that appear to be out with the course of normal business.

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Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Equal pay provision	Status ● (amber)
Description of risk	There is a significant equal pay provision held in respect of the Equal Pay Act 1970. The Council implemented its new pay and grading model in March 2009, and under the legislation, employees are entitled to make a claim for Equal Pay settlements for a period of up to 6 years. There is a risk that the provision carried by the Council is not complete.
Deloitte response	The Council have created a provision based on the prior year provision made, less any payments made in the year. The provision initially was based on an estimate of the number of claims multiplied by the average offer that had been paid out in previous years. Deloitte have reviewed evidence from Human Resources at August 2012 of claims that offers have been made for and have sample tested this noting no issues. The remainder of the provision relates to wave 2 and 3 claims, which at this time cannot be reliably estimated and therefore does not meet the condition of IAS 37 and should therefore be noted as a contingent liability. We have proposed an adjustment to reverse out the £1.6 million relating to possible future claims which has been agreed and booked by management.

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Financial statements and corporate governance (continued)

2. Liaison with internal audit

A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the work of internal audit). We carried out an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function provided by Clackmannanshire Council and concluded that we could not place reliance on its work (as set out in our planning paper dated 23 February 2012). As a result, we had to perform additional procedures to gain the required assurance. The Council have recently appointed an Audit and Fraud Team Leader and filled the vacant auditor position. The internal audit plan is set to go to the Resources and Audit Committee on 4 October 2012 and we have met with Internal Audit to provide our insight into the key areas that we feel internal audit should focus on.

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Financial statements and corporate governance (continued)

3. Our observations on your financial statements

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, understand ability 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.

Prior Year Adjustment	
Description	IAS 8 and the 2011/12 Code requires that where a prior period error is corrected, an authority shall disclose the following: • the nature of the prior period error; • the amount of the correction for each financial statement line item affected; and • the amount of the correction at the beginning of the earliest prior period presented.
Deloitte response	We have assessed the above disclosures based on our review of the financial statements. A restated opening balance sheet has been disclosed to reflect a change in accounting policy for heritage assets, as required by the Code. A note explaining the adjustment required has been incorporated into Note 50 of the financial statements and clearly explains the impact that this has on the financial statements. We have requested that management include the restatement above in the 31 March 2010 and 31 March 2011 Balance Sheet and cross reference this to note 50 of the financial statements to make this clearer for the readers of the accounts. Likewise this is required for the Statement of Reserves and any associated notes that have been impacted by the restatement. We have also requested management to update Note 50 so that this ties through to the Balance Sheet.

Financial statements and corporate governance (continued)

3. Our observations on your financial statements (continued)

Disclosure of critical accounting judgements and key sources of estimation uncertainty	
Description	IAS 1 requires disclosure of: • the critical judgements made in the process of applying accounting policies, which have the most significant effects on the amounts recognised in the financial statements; and • major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Critical accounting judgements and key sources of estimation uncertainty identified by management are: • there is a high degree of uncertainty about future levels of funding for local government; • equal pay provision in relation to back pay claims; • actuarial assumptions relating to the defined benefit pension scheme's; and • estimates relating to the useful lives of Property, Plant and Equipment balances.
Deloitte response	We have assessed the above disclosures based upon our review of the financial statements and understanding of the organisation and the specific risks we identified as part of our planning process. We have considered property, plant and equipment valuation, actuarial assumptions and provisions in Section 1 under significant audit risks. We identified that note 4 does not include details around the judgemental nature of the provisions against receivables, most notably for council tax and housing and have requested management to include this within the note. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that are required to be disclosed.

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Financial statements and corporate governance (continued)

3. Our observations on your financial statements (continued)

Disclosure on the Defined Benefit Pension Schemes	
Description	The Council participates in two defined benefits schemes: • The Local Government Pension Scheme administered by Falkirk Council. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities and investment assets. • Arrangements for the award of discretionary post-retirement benefits upon early retirement. This is an unfunded arrangement under which liabilities are recognised when awards are made. There are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.
Deloitte response	**Scottish Teachers' Pension Scheme** We have reviewed the disclosure within the accounts against the Code and noted that it highlights the Teachers' Pension Scheme as meeting the criteria to be accounted for as a Defined Contribution Scheme, as disclosed in note 43 of the financial statements. **Local Government Pension Scheme** We have obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to note 44 within the accounts noting no issues. We have also assessed the independence and expertise of the actuary supporting the basis of reliance upon their work. As at 31 March 2012, the Council has reported the present value of the liabilities exceed the value of the pension assets, giving a deficit of £76.257 million. See Section 1 for our audit work on the actuarial assumptions underpinning the liabilities.

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Financial statements and corporate governance (continued)

3. Our observations on your financial statements (continued)

Related party disclosures	
Description	The 2011/12 Code requires reporting of related party relationships, transactions and balances. The disclosure required in respect of central government departments, government agencies, NHS bodies and other local authorities are less detailed than in the 2010/11 Code. The Council have processes and controls in place to ensure transactions with these individuals are identified and appropriately approved and disclosed.
Deloitte response	We have not identified any undisclosed related party transactions, and consider this to be a relatively low risk disclosure for the Council.

Financial statements and corporate governance (continued)

3. Our observations on your financial statements (continued)

Annual Governance Statement	
Regulations require English, Welsh and Northern Irish authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. "Delivering Good Governance in Local Government" published by CIPFA and SOLACE recommends that the review be reported in an Annual Governance Statement. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts.	The Council has chosen to publish the wider Annual Governance Statement, entitled the "Annual Governance Statement" within its statement of accounts, in accordance with CIPFA/ SOLACE guidance, although this is not actually required in Scotland. The format and content of the statement is consistent with the requirements of the Code and notes that each Head of Service has given representation to the Leader and Chief Executive that, in their opinion, based on their evaluation of the control environment, reasonable assurance can be placed on the adequacy and effectiveness of the control system within their Service in the year to 31 March 2012. These are then subject to robust challenge through Governance Panels. The Statement notes that no specific assurance has been provided by Internal Audit for the year due to capacity restraints, however work completed during the year has been considered when evaluating the control systems across services. Review of the Statement identified that the Council does not currently provide a brief description on the role of Internal Audit and the reporting arrangements in place for the Internal Audit function.

Financial statements and corporate governance (continued)

3. Our observations on your financial statements (continued)

Remuneration Report, incorporating new disclosures on Exit Packages	
Local authorities are required by an amendment to the 1985 Regulations to publish a remuneration report as part of their statement of accounts. Guidance was issued by the Scottish Government with finance circular 8/2011 which is intended to assist authorities in implementing this requirement, and provides a number of sample disclosures.	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 councilors in the year. 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.

Best value, use of resources and performance

4. Financial performance and outlook

Current 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 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.

	2011/12			2012/13
	Budget £	Actual £	Variance £	Budget £
Gross Expenditure on Service Delivery	150,587,254	**148,573,233**	(2,014,022)	130,957,369
Income from Service Delivery	(51,984,255)	(57,585,120)	(5,600,865)	(28,152,746)
Cost of Services per management accounts	**98,602,999**	**90,988,113**	**(7,614,887)**	**102,804,623**
Amounts Non Reported in Service Management Accounts	N/A	11,982,000	N/A	
Net Cost of Services	**N/A**	**102,970,113**	**N/A**	

The Council's Comprehensive Income and Expenditure Statement reported a surplus on the provision of services of £5.479 million for the year to 31 March 2012. After adjusting for the difference between accounting basis and funding basis under regulation, the Council reported an increase in the General Fund balance of £3.473 million.

Best value, use of resources and performance (continued)

4. Financial performance and outlook (continued)

The underspend variance of £7.614m on the cost of services can be split across the services as follows:

	2011/12			
Service	Final Budget £	Actual £	Over/ (Under) spend £	Over/ (Under) spend %
Support Services	6,752,880	6,198,100	(554,780)	-8.22%
Strategy and Customer Services	6,996,530	6,370,487	(626,043)	-8.95%
Facilities Management	27,408,560	25,847,046	(1,561,514)	-5.70%
Social Policy	35,234,140	34,011,494	(1,222,646)	-3.47%
Education	35,632,145	35,210,452	(421,693)	-1.18%
Community and Regulatory	28,593,149	33,480,574	4,887,425	17.09%
Housing Revenue Accounts	9,969,850	7,455,079	(2,514,771)	-25.22%
Total Expenditure	**150,587,254**	**148,573,233**	**(2,014,022)**	**-1.34%**
Income	(51,984,255)	(57,585,120)	(5,600,865)	**-10.77%**
Cost of Services per management accounts	**98,602,999**	**90,988,113**	**(7,614,887)**	**-7.72%**

Significant variations from budget included:

- **Support Services** reported an underspend of £0.555m. This underspend is primarily due to ongoing restructuring activity across the Service which contributed to £0.539m of the total underspend within the Service.
- **Strategy and Customer Services** reported an underspend of £0.626m which similar to Support Services was primarily due to continuing restructuring (£0.470m) and also attributable to a £0.140m underspend of Fairer Scotland funds and the non-renewal of a building lease during the year.

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