Best value, use of resources and performance (continued)

4. Financial performance and outlook (continued)

Outlook

The Council approved the 2012/13 budget on 9 February 2012 for net expenditure of £120.573m and identified a funding gap of £2.754m (before political priorities) for the year. As part of the budget setting process, the Council were also presented with indicative budgets for 2013/14 and 2014/15. The Council approved that the shortfall in 2012/13 would be met through the use of reserves. In August 2012 the Council revised the level of its additional funding gap to address through to 2014/15 from £13.277m to £12.511m.

The Council have established budget challenge sessions which were originally approved within the 2010 Budget Strategy and aim to identify the pressures to the Council and means by which expenditure can be reduced. Monthly outturns are robustly challenged by service accountants with budget holders, which is part of an ongoing drive to ensure good financial management by ensuring budgetary and managerial responsibilities are aligned and that there is alignment between budgets and service activity. Separately there are individual service budget challenge events led by the Directors Group (Chief Executive and two Directors) which have a specific budgetary focus (savings, managing demand pressures etc.) These involve Heads of Service and service managers and respective service accountants.

The Council has undertaken a significant review of resources and in the past year undertaken a redesign of services to allow it to realise recurring savings to address the funding gap. The Council continues to monitor its funding gap and has implemented additional budget monitoring arrangements across each of its service Committees, with the Resources and Audit Committee to receive budget monitoring reports for the Council as a whole.

The latest budget update to Council on 16 August 2012 reported that the Council had achieved £0.620m of its anticipated £0.824m savings for 2012/13. Individual Service reports in August and September 2012 reported a number of underspends on revenue budgets, these included the Community and Regulatory Service (£0.127m), Facilities Management (£1.415m), Social Services (£0.639m), Education (£.302m) and Housing (£0.681m)

Best value, use of resources and performance (continued)

5. Other issues

The results of our work on the other issues are set out below:

Delivery of services with reduced funding	Status ● (green)
Issue identified	Clackmannanshire Council needs to be able to demonstrate that it is delivering an effective service for the public and achieving value for money. Given the increasing cost pressures on the Council, in line with all public sector entities, there is an increasing risk that the Council will be unable to continue to deliver services at the current level. In addition, it is projected that the Council will have a funding gap over the next 3 years, 2012/13 to 2014/15, in the region of £13.6m. Working in partnership with other public sector organisations and the third sector will help the Council meet its strategic objectives and to address these needs.
Deloitte response	We have reviewed the adequacy of arrangements in place for financial sustainability and are content that adequate planning is in place. Savings plans include demand management initiatives in Social Services which will be a key enabler in achieving the required savings targets. During the course of our five year appointment we will monitor delivery of the savings plans. We note that the Council are well aware of the increasing cost pressures and savings are regularly monitored through service committees and Council. Our observations on the CPP are noted below.

Achievement of local and national outcomes from Single Outcome Agreement (SOA)	Status ● (green)
Issue identified	Clackmannanshire Council, as a public body, is open to scrutiny in regards to its stated targets and quality ambitions which are common to all public bodies across Scotland. It is important that Clackmannanshire Council, with these ambitions and targets, is able to show how these have been achieved. In addition, the Council needs to be able to demonstrate a robust process for linking spend and activities to outcomes achieved for its citizens.
Deloitte response	A review of the SOA is currently underway and several Community Planning Partnership (CPP) workshops have been completed to identify key priority outcomes going forward. These are likely to be in the four key areas comprising community engagement, early years, employment and training and job creation. The updated SOA will go out to formal consultation in the near future. The CPP accepts that it has some way to go achieve a fully integrated planning and budgeting framework which links spend to outcomes across the partnership. We will monitor progress towards achieving this objective during the period of our appointment.

Best value, use of resources and performance (continued)

5. Other issues (continued)

Sustainable workforce	Status ● (green)
Issue identified	Given the financial pressures on Clackmannanshire Council to achieve financial balance there is considerable focus on reducing staff and other costs through service redesign and robust vacancy management arrangements. There is a risk that current plans do not deliver a sustainable workforce for the future. There is also a risk that transformation and change management strategies do not deliver anticipated benefit levels.
Deloitte response	We noted at our interim visit that Workforce strategies are fully integrated into the budgeting process at Clackmannanshire Council, and there is a clear focus on ensuring that the service redesign process incorporates consultation with Trade Unions and staff. There are regular monthly meetings between the Council and Unions to discuss service redesign at length to ensure that efficiency savings can be made without compromising service delivery. As part of the Corporate Service Redesign, the Council are currently scoping a piece of work to analyse progress to date and ensure that the Council has the workers and skills required to remain fully functional. In addition the Council has recently established an Organisational Change Group chaired by the Chief Executive. This group will inform workforce strategy and capacity to manage change going forward linked to the move to one Council location. Initiatives to be considered will include home and flexible working. Technology will be a key enabler for this programme and it is important that the Council has a robust technology enabled business change programme in place if the anticipated business benefits are to be fully delivered. Again we will monitor the effectiveness of these arrangements going forward.

Instability of key suppliers	Status ● (green)
Issue identified	The current economic climate has been increasingly challenging for all industries. Due to this, a risk has been identified in relation to the stability of key suppliers.
Deloitte response	We have reviewed the Council's arrangements to assess supplier financial stability and the delivery risks associated with the Council's main suppliers. The main tools in use include Dunn and Bradstreet reporting and the Spikes Cavell tool and we are satisfied that appropriate arrangements are in place.

Best value, use of resources and performance (continued)

5. Other issues (continued)

Strategic governance model	Status ● (green)
Issue identified	The Council's strategic governance model is under review including the role of the Audit and Scrutiny Committee. It is important that any proposed changes to the Council's Governance Model are considered and evaluated end to end from a Council wide perspective prior to any changes being implemented.
Deloitte response	The election of the new Council administration has resulted in changes to the committee structure and political responsibilities within the Council. We are advised that the rationale for the new committee structure was to allow members more opportunity to focus on the development of key policies and strategies and to enable more effective scrutiny. Three new standing committees were established as follows: • Housing, Health and Care; • Education, Sport and Leisure; and • Enterprise and Environment. Political responsibilities also changed to reflect the revised structure with the convenors of the new committees taking on responsibility for service performance and policy as well as associated strategic themes. Going forward, we will continue to monitor the impact of this change within the Council in terms of service performance and delivery of improved outcomes. The remit of the scrutiny committee was also modified to take account of the new committees. This committee was renamed the Resources and Audit Committee with the following responsibilities: • The audit functions of the current scrutiny committee; • Resource monitoring; • Scrutinising performance against agreed outcomes; and • Scrutiny of decision making. An immediate issue for the new Resources and Audit Committee emerged in terms of the decision to appoint an Independent councillor as chair of the committee rather than a member of the opposition within the Council as has been the practice in the past. Best practice governance principles support the concept of an independent chair and we are satisfied that this appointment is in accordance with this principle. Over the last 18 months the Council has made significant improvements to its corporate governance model with key points being around the creation of a governance team with service manager, development of a governance strategy and local code and processes for the production and implementation of an Annual Governance Statement with supporting improvement plan.

Best value, use of resources and performance (continued)

5. Other issues (continued)

Community engagement	Status ● (green)
Issue identified	In order to provide quality services, it is important that the Council understands the needs and aspirations of Communities and involves Communities in decision making. Planning and monitoring arrangements also need to reflect Community engagement.
Deloitte response	Community engagement is in the process of being strengthened within the Council with the gradual roll out of local plans across the area. This is a welcome initiative given the importance of community and stakeholder engagement and it is important that the local plan roll out is completed as soon as practicable.

Readiness for pending welfare reform	Status ● (green)
Issue identified	With welfare reforms pending in April 2013, it is important that the Council sets in place appropriate processes to prepare for implementation and manage the associated risks.
Deloitte response	The Council has established a welfare reform working group with a remit to identify the impact for the Council of the welfare reforms and prepare an action plan to mitigate the risks identified. The major changes facing the Council from April 2013 include the introduction of a benefit cap and localised council tax support replacing council tax benefit. The Council estimates that when fully implemented the welfare reforms will remove between £8-£10million per year of disposable income from Clackmannanshire residents. The working group has also concluded that there is therefore a potential for loss of rental income and increased collection and recovery costs as a result of the changes. Given these potential risks, we will continue to monitor and assess the Council's planning and readiness for the welfare reforms.

Best value, use of resources and performance (continued)

6. Grants

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

- Education maintenance allowance – signed off 31 July 2012
- 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. As noted in our planning paper, HBCOUNT continues to be in place for 2011/12 (and beyond) for auditing benefit subsidy claims despite the uncertainty regarding the future of the Audit Commission. We do not anticipate any difficulties in meeting the deadline of 30 November 2012.

Work on the Non Domestic Rates Income Return is due to commence in October to ensure that the February 2013 deadline is met.

Best value, use of resources and performance (continued)

7. Performance Reporting and Statutory Performance Indicators (SPIs)

The Council has a statutory duty to make arrangements for reporting to the public on the outcome of the performance of their functions as set out in the Local Government in Scotland Act 2003. Statutory guidance on Best Value requires local authorities to manage performance effectively with a view to continuous improvement. This should reflect the local context in which they operate and their own particular priorities.

Following reorganisation, service performance reports are now submitted to each Committee on a quarterly basis, and are also available publicly through the Council's website. The first quarterly report went to the Housing, Health and Care Services Committee from August 2012 with the remaining services following in September 2012. Each report includes the identified indicators for each of the corporate priority outcomes which are assessed against the agreed target as well as the previous year for trend analysis. A note is prepared for each outcome to provide narrative on performance.

The Council has submitted the specified statutory performance indicators (SPIs) to Audit Scotland by the deadline of 31 August 2012. The Council publish a quarterly newsletter on performance, the 'Clackmannanshire View' which is available on the Council's website. We have also been advised that the annual Public Performance Report will be published prior to the deadline of 30 September and will be approved by the Resource and Audit Committee in October. The Council will also prepare a more user friendly version of the report which it is hoped will be made available from 30 September. The Public Performance Report will be made available to the public through the Council's website.

Deloitte has considered the Council's arrangement for collecting, recording and publishing accurate and complete information. As part of this work whilst reviewing the Council's SPI submission, we have reviewed a sample for completeness and accuracy. We identified minor amendments to two indicators.

Best value, use of resources and performance (continued)

8. Audit Scotland national performance reports

As part of our audit we have completed our review of how Clackmannanshire Council have responded to the national performance reports *"Modernising the Planning System"*; *"Scotland's Public Finances 2 – Addressing the Challenges"*; *"Transport for Health and Social Care"*; and *"A review of Community Health Partnerships"*. For each of these we have assessed:

- The level of discussion of the report at Council or other Level;
- If the audited body completed a self-assessment against the relevant findings; and
- Details of any action plan flowing from this self-assessment.

In addition we have performed a focused follow up on *"Maintaining Scotland's roads"*. This work has been completed and our detailed findings from this review are included in a separate report to the Audit Committee with a summary of these detailed below:

- Plans are in place to drive road maintenance activities. The Council has developed a Road Asset Management Plan (RAMP) in accordance with the SCOTS road asset management project, which was formally approved by the full Council in November 2010. Improvement actions were identified from the original RAMP, along with target dates and performance against these is monitored by the Roads and Transportation Manager.
- The Council populates the SCOTS template comprising core, secondary and statistical indicators and submits this to SCOTS on an annual basis. It has adopted the majority of the indicators developed by SCOTS, with the indicators relating to the Structures Asset Group being the only ones not reported due to lack of data. The Council has signed an agreement with Falkirk Council whereby they will inspect and manage the bridge stock and ensure that data is available, in order that Clackmannanshire can report on these performance indicators going forward.
- Clackmannanshire has routinely performed well within its response to customer enquiries / requests and ensuring that these are appropriately dealt with. Another area of focus is around the response to Category 1 defects and as noted above areas to improve are around obtaining information on the key indicators within the structures group.
- The Council has undertaken a number of initiatives to improve value for money in its road maintenance service. These have included: comparison of costs with the private sector; service reconfiguration; partnership working with other Councils and Transport Scotland; pooling and flexible use of resources; and innovative practice.

Best value, use of resources and performance (continued)

9. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you on 1 December 2012. Following the completion of our audit we will provide a separate management letter but raise matters of significance to your attention within this report.

Key controls over significant risks

In Section 1 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.

Risk 1 – Accounting for Public Private Partnerships		Deloitte observations	2012
The Council relies on the PPP model produced by PWC at the inception of the contract	Finance process journals at the year end based on the information sourced from the PWC model.	We have obtained the PWC model and agreed the journals into the model.	(green)

Risk 2 – Completeness of accruals		Deloitte observations	2012
Accruals are calculated and recorded at the year end	There is not an integrated purchase ledger function and as such accruals are only processed at the year end. The accountancy manager reviews accruals to ensure completeness.	Accruals are subject to internal review at the year end to ensure reasonableness in comparison to prior year and any material movements will be identified through this process. To ensure more accurate monitoring of monthly performance accruals should be recorded and booked each month.	(amber)

Risk 3 – Valuation of defined benefit pension scheme liability		Deloitte observations	2012
Actuarial report obtained detailing key assumptions and disclosures	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 obtained the March 2012 actuarial report and agreed the actuarial assumptions and disclosures to the annual accounts.	(green)

Best value, use of resources and performance (continued)

9. Risk management and internal control systems (continued)

Risk 4 – Revenue recognition (council tax and housing rent income)		Deloitte observations	2012
Council Tax system is reconciled to the Assessor records on a regular basis. Housing Rents system is uploaded with approved rent levels on an annual basis, and adjusted for any houses sold in the year	The Council Tax system is regularly reconciled to the Assessor records. The Housing Rent system is reconciled to the number of houses owned by the Council, held on the Fixed asset Register. Provisions for bad debts are calculated by the finance team at the year-end.	We have reviewed the reconciliations during 2011/12 confirming that they are reviewed on a regular basis. The provisions for bad debts are based on a historical percentage rather than actual collection rates. We have therefore recommended that this methodology be reviewed.	● (red)

Risk 5 – Property, plant and equipment (PPE) valuation		Deloitte observations	2012
The Council undertakes a full valuation of all PPE every 5 years	The estates team undertake an annual review of Council Assets at year end which may give rise to impairment to determine any changes, errors or omissions that may have occurred in the previous twelve months. Following the review, estates notify finance of any changes required.	We have confirmed that a full external valuation was performed in 2009 by the district valuers. We observed that there appears to have been a recent breakdown in the communication between finance, legal and estates which has resulted in a difference in the records held by each service.	● (amber)

Risk 6 – Human resources and payroll systems replacement		Deloitte observations	2012
An integrated Human Resources and payroll system was planned for introduction	The system has not yet been introduced.	The system has not yet been introduced. Deloitte will assess arrangements once it is operational.	n/a

Best value, use of resources and performance (continued)

9. Risk management and internal control systems (continued)

Risk 7 – Management override of controls		Deloitte observations	2012
Journal entries are approved and a detailed reviewed performed of monthly accounts	Controls are in place over financial reporting and closing procedures, recording and processing of journals, segregation of duties and related party transactions prevent the management override of controls. In addition a detailed review is performed each month on the results through the financial monitoring report.	We have tested a sample of journal entries posted in the year and confirmed the appropriateness of the journals posted. We noted that there are no monetary limits in relation to the posting of journal entries and no formal authorisation processes in place. We have also reviewed the September 2011 financial monitoring report confirming that this is monitored and reviewed on a regular basis.	● (red)

Risk 8 - Equal pay provision		Deloitte observations	2012
Provisions are based on information and assumptions provided by HR and other Council departments	The closing provision was based solely upon the opening provision less payments in the year.	We noted that the provision had not been updated to reflect the technical adjustments required by IAS 37 resulting in a £1.6 million adjustment.	● (red)

● No issues noted (green) ● Satisfactory – minor observations only (yellow) ● Requires improvement (amber) ● Significant improvement required (red)

Best value, use of resources and performance (continued)

9. Risk management and internal control systems (continued)

Internal control observations

In addition to the recommendations provided in relation to significant audit risks, we also identified a number of risk management and control observations, the most significant of which are detailed below.

Resources & Audit Committee after sign off date	Priority – (red)
Description	The Resources & Audit Committee meeting at which the financial statements are presented is 11th October which is after the deadline for the signing of the financial statements of 30th September.
Recommendation	Governance best practice would be that the final audited financial statements should be presented to Resources & Audit Committee along with the external auditor's report to members prior to the signing of the financial statements. In addition, we would suggest that the unaudited accounts are also presented to the Resources & Audit Committee prior to 30th June.

Lack of supporting file	Priority – (red)
Description	As part of the completion of the annual financial statements we would expect the preparation of various schedules to support the balances. Despite the preparation of a request list and agreement with the Finance team on both its content and timetable minimal supporting documents were available on commencement of the audit which was after the unaudited accounts were published.
Recommendation	Detailed work papers should be prepared supporting all balances within the financial statements as part of the year end process for completing the financial statements. Plans are in place to address this going forward.

Best value, use of resources and performance (continued)

9. Risk management and internal control systems (continued)

Internal control observations (continued)

Council tax receivable provisions	Priority – (red)
Description	Council tax debtor provisions were found to have been calculated based on a historic percentage of amounts collectable, and made no allowance for the actual collection rates achieved by the Council.
Recommendation	The methodology adopted for calculating all bad debt provisions should be reviewed to ensure that they are based on robust and up to date information. The bad debt provision should be assessed against each year in light of actual collection rates and adjusted accordingly.

Other receivable provisions	Priority – (red)
Description	As part of our review of the receivables ledger we identified a number of aged balances remain within receivables on the balance sheet. The Council had applied the approach of providing for any receivables older than 3 years but there did not appear to be a full assessment of the recoverability of other older balances. Likewise as part of our audit work we identified a total of £0.8 million relating to housing overpayments where no assessment of recoverability had been performed.
Recommendation	The Council should focus on regular review of receivables ledgers to identify any balances that are not deemed recoverable and provide for these.

Payroll and HR System	Priority – (red)
Description	The payroll system does not have the tools to produce some basic reports that we would expect it would be able to such as Starter/Leaver reports and changes reports. These would allow significantly strengthened processes and facilitate a more formal audit trail.
Recommendation	We understand that a new integrated system is planned for payroll / human resources and due to be implemented in late 2012/13.

Best value, use of resources and performance (continued)

9. Risk management and internal control systems (continued)

Internal control observations (continued)

Internal Audit	Priority – (red)
Description	As noted within Section 2 of this report, the Internal Audit function has not been functioning effectively as a result of staffing shortages.
Recommendation	A formal internal audit plan should be finalised and staffing strategy set in place. We note that the Plan is due to be presented to the Resources and Audit Committee on the 4 October 2012 and recent appointments have now filled staff vacancies.

Journal entries	Priority – (red)
Description	There are no monetary limits in relation to the posting of journal entries. In addition there are no formal authorisation processes in place.
Recommendation	The Council should set up tiered monetary and access limits for individuals and teams based on their role and seniority. In addition, formal authorisation processes should be put in place to ensure that all journal entries are authorised by an appropriate individual.

Fixed assets processes with Estates	Priority – (amber)
Description	There is an annual review and process for communicating changes between Estates and the Finance team in terms of additions, disposals etc. However, the asset register Estates use is different to the register that finance use and these did not reconcile.
Recommendation	The Council should set in place more systematic arrangements to ensure that the asset register is maintained up to date, reflecting all asset acquisitions and disposals. We understand that a new asset register has been purchased.

Best value, use of resources and performance (continued)

9. Risk management and internal control systems (continued)

Internal control observations (continued)

Equal Pay Provision	Priority – ● (amber)
Description	As part of our audit an adjustment of £1.6m was raised as the provision did not meet the requirements of IAS 37.
Recommendation	Management should ensure that the provision is based on the latest available information and that this is recorded in line with the Code.

Income tax reconciliations	Priority – ● (amber)
Description	Income tax reconciliations between the income tax system and the ledger are not being performed on a monthly basis. As a result, any differences between the ledger and the systems arising during the year are not being investigated on a timely basis and are only addressed at the end of the year, as part of the year end procedures.
Recommendation	The Council should put in place the resources to get reconciliations up to date. Staffing is currently being reviewed in order to ensure sufficient resources are in place to complete these reconciliations.

Best value, use of resources and performance (continued)

10.National fraud initiative (NFI)

NFI brings together data from all bodies across the public sector to help identify and prevent frauds against the public sector including housing benefit and payroll frauds.

Internal Audit have assumed responsibility for the NFI exercise, with responsibility for investigating the matches and resolving potential issues.

Management chose to investigate all matches rather than focussing on recommended matches or a particular type of match. At 31 August 2012 all matches have been reviewed and investigated. The majority of the matches received related to Housing Benefit claimants and duplicate Creditors records.

We have also confirmed that the questionnaire submitted to Audit Scotland in 2011 remains valid.

As at 31 August 2012, ten frauds have been identified through the bi-annual 2010/11 NFI exercise.

Other

11. Independence

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.

Confirmation	
We are independent	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.

Non-audit services	
No non audit services provided in the year	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or of any apparent breach of that policy. There were no non audit services fees charged in relation thereto by Deloitte in the period from 1 April 2011 to 31 March 2012.

Fees	
Audit fee agreed within indicative range	The audit fee for the year has been agreed at £218,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. This fee incorporates the contribution to Audit Scotland covering your organisation's allocation of the costs of, among other things: • the programme of national performance audits in the NHS as set out in the recently published forward programme; • functions that support the local audit process (e.g. technical support and co-ordination of the National Fraud Initiative); • Audit Scotland's other support costs; and • auditors' travel and subsistence expenses.

Relationships	
There are no business or personal relationships to report	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its Council and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its Council 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. We are not aware of any relationships which are required to be disclosed.

Other (continued)

12. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of audit practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you within our audit plan dated 1 December 2012 and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the council and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

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.

48 Deloitte LLP

Deloitte LLP

Chartered Accountants
Glasgow

11 October 2012

Appendices

1 - Audit adjustments

Uncorrected misstatements

We report all individual identified unrecorded audit adjustments in excess of £33,000 in the table below.

			Credit/ (charge) to current year CIES £'000	Increase/ (decrease) in taxpayers' equity £'000	Increase/ (decrease) in prior year taxpayers' equity £'000
Reverse old accruals	Factual	[1]	126	126	Nil
Reverse old receivables	Factual	[2]	(232)	(232)	Nil
Government Grant Debtor	Factual	[3]	208	208	Nil
Total			102	102	Nil

[1] This £126,000 adjustment was recognised in relation to aged accruals which should have been reversed out at the beginning of the year but were incorrectly included.

[2] This £232,000 adjustment was recognised in relation to aged receivables which should have been reversed at the beginning of the year but were incorrectly included.

[3] This £208,000 adjustment is to derecognise an unsupported provision.

Appendices (continued)

1 – Audit adjustments (continued)

Corrected misstatements

We report all individual identified recorded audit adjustments in excess of £33,000 adjusted by management in the table below.

			Credit/ (charge) to current year CIES £'000	Increase/ (decrease) in taxpayers' equity £'000	Increase/ (decrease) in prior year taxpayers' equity £'000
Equal pay provision	Factual	[4]	1,604	1,604	Nil
Investment impairment	Judgemental	[5]	(85)	(85)	Nil
Housing benefit overpayment provision	Judgemental	[6]	(601)	(601)	Nil
Sundry debt provision	Judgemental	[7]	(248)	(248)	Nil
Government Grant Debtor	Factual	[8]	Nil	Nil	Nil
Council Tax provision	Factual	[9]	(403)	(403)	Nil
Council Tax provision	Judgemental	[10]	(411)	(411)	Nil
Double cash posting	Factual	[11]	Nil	Nil	Nil
Bank account	Factual	[12]	Nil	Nil	Nil
Capital Grant	Factual	[13]	73	73	Nil
Interest Receivable	Factual	[14]	Nil	Nil	Nil
Design Service Income	Factual	[15]	Nil	Nil	Nil
Impairment of asset held for sale	Factual	[16]	(3,413)	(3,413)	Nil
Total			(3,484)	(3,484)	Nil

Appendices (continued)

1 – Audit adjustments (continued)

Corrected misstatements (continued)

[4] An adjustment of £1,604,000 was required to reduce the Equal Pay liability to that which is currently quantifiable. There remains a significant liability in relation to second and third tier claims which will be required to be disclosed as a contingent liability within note 45.

[5] An adjustment of £85,000 was required to further write down the value of the investment in Clackmannanshire Developments Ltd (CSBP) to reflect the Council's 50% share of the anticipated shortfall in funds within the company based on the estimated sale of remaining properties at current values.

[6] An adjustment of £601,000 to ensure that there is suitable provision against housing benefit overpayments.

[7] This £248,000 adjustment was recognised to include a provision against sundry debt balances aged between 12 and 36 months.

[8] This adjustment is a £1,351,000 reclassification of credit balances sitting within debtors relating to government grants.

[9] This £403,000 adjustment is proposed from the Council to increase the provision for bad or doubtful debts in relation to outstanding Council Tax income.

[10] This additional £411,000 adjustment is proposed by Deloitte to further increase the bad debt provision, to limit the Council's bad debt exposure to £3.3million.

[11] This adjustment is a reclassification (£92,000) of amounts which were incorrectly posted to the creditors suspense account.

[12] This adjustment of £172,000 relates to cash balances held by the Council on behalf of others. There is no net effect to the Council as both the asset and liability have been recognised.

[13] An adjustment of £73,000 to account for capital grant funding due from the Scottish Government for work performed in the year.

[14] This adjustment of £517,000 is to reclassify interest receivable incorrectly net off against interest payable.

[15] This adjustment is required to ensure the consistent reporting of income (£798,000) and expenditure (£912,000) in relation to the Design Service in the prior year in line with the Service Reporting Code of Practice.

[16] Adjustment to carrying value of Old Alva Academy totalling £3,413,000.

Disclosure misstatements

We have not identified any unadjusted disclosure misstatements from our work performed.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures"*

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.

7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Council or cease operating as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

8. We have considered the valuation of the Council's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values requiring a revaluation in the current year

9. With respect to the revaluation of properties in accordance with the Code:

   a) the measurement processes used are appropriate and have been applied consistently, including related assumptions and models;

   b) the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;

   c) the disclosures are complete and appropriate.

   d) there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements.

10. We confirm that we consider that depreciated historic cost is an appropriate proxy for the fair value of non-property assets, and are not aware of any circumstances that would indicate that these assets require revaluation.

11. We confirm that the provisions included within the financial statements in respect of equal pay are our best estimate of the liability due by the Council.

12. We confirm that the liability in respect of the PFI contracts are based on the financial models for each of these schemes, and we have taken reliance on the model developed by PWC/ CIPFA to determine the accounting entries required.

Information provided

13. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

14. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

15. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

16. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

17. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects Clackmannanshire Council and involves:
(i). management;
(ii). employees who have significant roles in internal control; or
(iii). others where the fraud could have a material effect on the financial statements.

18. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

19. We are not aware of any actual or possible instances of non-compliance with laws and regulations.

20. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

21. No claims in connection with litigation have been or are expected to be received.

22. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

23. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

24. I confirm that I have appropriately discharged my responsibility for the regularity of transactions.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed as Responsible Financial Officer, and on behalf of the Council

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Appendices (continued)

3 – Additional resources available to you

Additional information on current and future technical developments	
IASPlus	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. The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to http://www.iasplus.com/subscribe.htm.
Our range of publications	Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area. Our range also includes quarterly iGAAP newsletters providing a roundup of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.
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. Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via www.deloitte.co.uk/audit.
Audit podcasts	Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, www.deloitte.co.uk/audit. Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

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