

Final Report to the Resources  
and Audit Committee and the  
Controller of audit on the  
2012/13 Audit



26 September 2013

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18 September 2013

Dear Sirs

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 2013, for discussion at the meeting scheduled for 26 September 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

In summary:

- There are no material or uncorrected misstatements.
- We have highlighted our assessment of risk management and internal controls and note a significant improvement from the prior year.

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

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*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 and commend the finance staff on the progress made in the last year.*



# The big picture



# The big picture

## Our audit is approaching completion and no significant issues have arisen

- Our work is **approaching completion** and we remain on timetable to issue an unmodified opinion on 26 September 2013.
  - We have made one change to our audit plan submitted to the Resources and Audit Committee in February 2013. Accounting for Landfill Sites has been added as a significant risk as a result of the area being highlighted for attention across all councils by the Local Authority Code Board.
  - We believe the front half of your annual report is **consistent** with the financial statements and is **in line with the requirements of the Code**.
  - We have identified **no material issues** and have **no material adjustments**.
  - Our work has highlighted **no disclosure deficiencies**.
  - The financial reporting control environment remains robust and we **have no material control matters** to draw to your attention. Our controls findings have been included within Section 5 of this report.
- Significant progress has been made in relation to shared services.
  - There have been further improvements with regards to governance including the Annual Governance Statement preparation and operation of the Council's decision making and governance arrangements through Council and service committees.
  - There has been continuing strong and improved performance in respect of Statutory Performance Indicators (Council performance ranked 2nd out of 32 councils).
  - There has been good progress in implementing priority national policy initiatives such as Welfare Reform and Health and Social Care integration.
  - 66% of NFI data matches reviewed in comparison with an average of 45% across all councils.

## The big picture (continued)

- The 'Making Clackmannanshire Better' programme is progressing well.
- We placed reliance on the work of the internal auditors in relation to procedures performed on the transfer of information to the Integrated Payroll and Human Resources system.
- Grants work is progressing well with 2 claims completed and 2 claims on track for completion.
- We did not identify any instances of fraud that have not been reported to you. See Appendix 3 for details of fraud investigations.
- A copy of the representation letter to be signed on behalf of the Council has been included at Appendix 4 of this report.
- 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).

### Outstanding Items

- Group accounts
- Completion of final procedures on updated accounts
- Internal quality control procedure finalisation

# Status of procedures around identified significant risk areas

No significant issues noted around our key areas of audit risk to date

Significant audit risk	Status
Assets held for sale / surplus asset valuation	
Accounting for landfill sites	
Bad debt provisions	
Pension scheme	
Equal pay provision	
Management override of controls	
Completeness of accruals	
Revenue recognition – completeness of income	
Transfer of information to new integrated payroll system	

Key
No issues arising
Minor misstatement or recommendation identified
Material misstatement or recommendation identified



# Significant audit risks



# Summary of significant audit risks

## 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														
Assets held for sale and surplus asset valuation	Less prudent							✓							More prudent	In line with existing guidance
Accounting for landfill sites								✓								In line with existing guidance
Bad debt provisions											✓					100% provision for all Council tax debts over 10 years is on the prudent side of the reasonable range
Pension scheme											✓					Inflation rate and increase in pay assumptions towards the prudent end of the reasonable range
Equal pay provision									✓							In line with existing guidance
Completeness of accruals									✓							No issues noted
Revenue recognition – completeness of income								✓						No issues noted		

*All judgements made are within the acceptable range*

# Significant audit risks

## Assets held for sale and surplus asset valuation

**Assets held for sale  
£0.3m**

### Background

- IFRS requires assessment with significant regularity to ensure no significant divergence between carrying value and fair value of assets.
- Reclassification of £3.5m of assets held for sale to surplus
- Risk that these assets have been incorrectly treated therefore we extended our significant risk to cover the valuation of surplus assets.
- Surplus assets are largely land holdings with the majority split between Alloa Road, Tillicoultry (£2.2m), Alva Academy Land (£0.9m) and Tillicoultry Community Centre Land (£0.3m).

**Surplus assets  
£3.5m**

### Deloitte response

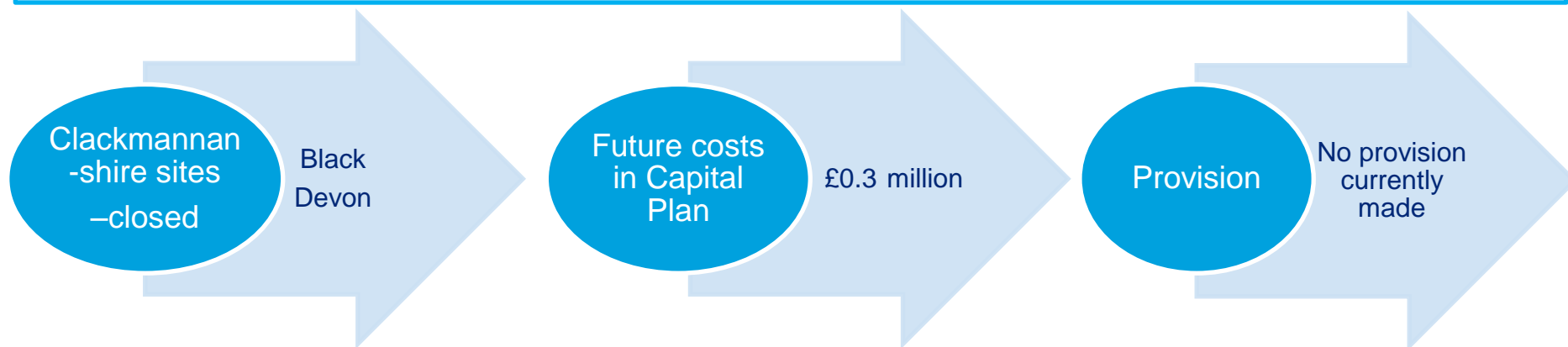
- The process of defining asset classifications was discussed with both the finance team and the internal valuer. We noted that a line by line review of the fixed asset register is conducted by the valuer who uses his experience to advise the finance team of any impairments, or changes in asset classification.
- We challenged a sample of assets held for sale under IFRS5 and found the assets in the category to be correctly classified. In addition, we selected a sample of disposed assets to ensure these were correctly accounted for.
- Four assets were moved to the 'Surplus Assets' category in the year to better reflect their categorisation. We challenged the transfer of these assets and deemed them to be appropriately accounted.

# Significant audit risks (continued)

## Accounting for landfill sites

### Background

- Authorities have an obligation to undertake restoration and aftercare work at the point where it commences depositing refuse in the site.
- SEPA are currently happy with the site and there are no significant recurring costs in relation to it.
- IAS 16, *Property, Plant and Equipment*, includes in the cost of an asset the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the body incurs when the item is acquired or as a consequence of having used the item. IAS 16 therefore requires the costs of restoration and aftercare to be capitalised.



### Deloitte response

Based on the above, the Council is unlikely to have a material present obligation as a result of a past event, and it is not probable that an outflow of resources will be required. The Council has taken the view that there is unlikely to be any material exposure.

We note that this topic is being considered by LASAAC to ensure that a consistent approach is adopted across all Councils, therefore we recommend that the Council follow up on any guidance issued by LASAAC with regard to this.

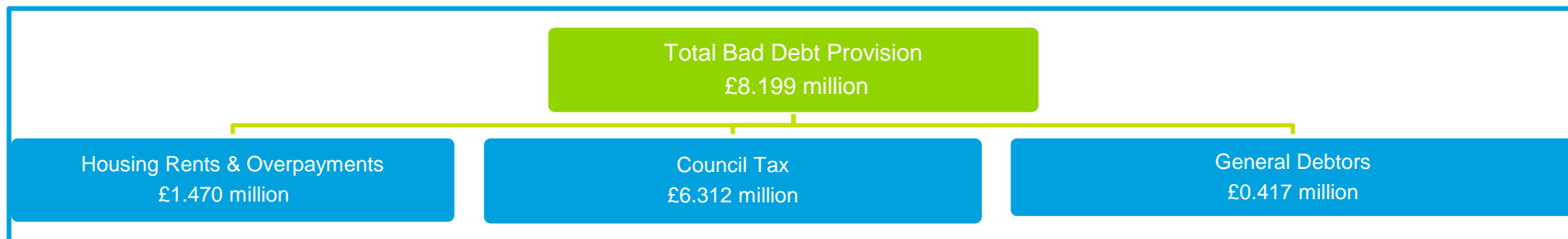
Based on management's conclusion that the risk of there being a material exposure is remote, no contingent liability disclosure will be included in the financial statements. We will be seeking a specific representation to this effect.

# Significant audit risks (continued)

## Bad debt provisions

### Background

- Our 2011/12 testing identified that the council tax provisions for bad debts were based on a percentage of amount expected to be collectable rather than actual historic collection rates achieved by the Council.
- We also noted that there was no provision against the housing benefit overpayments component of housing receivables.
- Our work this year has focussed on these aspects, in particular, and we have challenged the figures and assumptions produced by management



### Deloitte response

- Council Tax bad debt provision is based on 100% provision for all debts over 10 years old, with remainder of provision based on projected collection rates for each year.
- Average actual collection rate over period is 95%, which is consistent with prior year and net debtor exposure is currently 33%, compared to 39% 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 74% of debtor amounts, compared to 76% in prior year. Although there is a decline in recoverability, a higher percentage of debtor amounts are in lower arrears banding which are considered more recoverable.
- General provision has been based on ageing and other known issues. 100% provision has been made for debtors aged over 3 years.
- We noted 2 audit adjustments which were separately identified by the finance team and amended accordingly. See Appendix 1.
- We have recalculated and agreed the provisions raised, and agreed the methodology as appropriate.

# Significant audit risks (continued)

## Valuation of defined benefit pension scheme

### Background

- 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.
- Risk that the actuarial assumptions are not appropriate and therefore the valuation of the scheme is inaccurate.
- The scheme has total assets of £5.0m and benefit obligations of £4.6m leaving a net £0.4m funded surplus at year end (2012 surplus was £0.7m).

	2013 £m	2012 £m
Funded liabilities	(256,128)	(226,398)
Unfunded liabilities	(18,223)	(17,909)
Assets	195,464	168,050
<b>Surplus / (Deficit)</b>	<b>(78,887)</b>	<b>(76,257)</b>

### Deloitte response

- We have obtained third party confirmation of the underlying asset values and have reviewed the actuarial valuation as at 31 March 2013.
- After liaising with our in-house actuary, we can confirm that the pension accounting and assumptions are reasonable but at the prudent end of the reasonable range, and that the disclosures are in accordance with IAS 19. See overleaf for the impact of changes in the key assumptions
- We assessed assumptions by benchmarking these against the assumptions adopted by other organisations as at 31 March 2013. See overleaf for our comments on the key assumptions.

The Council also recognise a portion of the Pension liability of Central Scotland Police and Fire Boards within the Group Accounts included within the financial statements. From 1 April 2013, the regional bodies were merged and there will be no liability recorded moving forward.

## Significant audit risks (continued)

### Valuation of defined benefit pension scheme (continued)

Assumption	2012/13	2011/12	Comments
Discount rate	4.5%	4.8%	Optimistic within reasonable range
RPI Inflation rate	3.6%	3.3%	Prudent within reasonable range
CPI Inflation rate and rate of increase of pensions	2.8%	2.5%	Prudent within reasonable range
Rate of increase in pay	5.1%	4.8%	Prudent within reasonable range
Current mortality rates	S1NXA		Reasonable
Mortality – future improvements	Medium cohort with a 1% p.a. underpin		Reasonable
Cash commutation	50% (75%) of maximum option for pre (post) April 2009 service		Reasonable
Expected return	4.5%	5.7%	Optimistic within reasonable range
<b>Overall</b>			<b>Prudent within reasonable range</b>

# Significant audit risks (continued)

## Equal pay provision

### Background

- There is significant complexity and judgement around these calculations.
- The majority of first tier claims have been settled and the provision largely relates to tier 2 and tier 3 claims.
- There is a risk around the calculation and the provision being incomplete.

### Equal Pay Tier Claims



	2012/13 £000	2011/12 £000
Balance at 1 April	422	2,778
Additional provisions	432	-
Released unutilised	-	(1,604)
Amounts utilised in year	(634)	(752)
<b>Balance at 31 March</b>	<b>220</b>	<b>422</b>

### Deloitte response

We obtained independent confirmation from the Council's HR team of outstanding equal pay claims and ensured that the finance team calculations were reasonable and, in line, with information provided by HR

We tested a sample of individuals to supporting evidence and challenged management assumptions included within the calculations. We concluded that the provision was reasonable.

# Significant audit risks (continued)

We have no significant findings in respect of the below risks

## 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.

## Completeness of accruals

- Current year accruals of £7.4m (2012 £4.9m).
- Significant increase primarily driven by £1.5m amount due to British Gas as a result of an insulation project.
- We tested a sample of post year end payments and invoices to ensure that the transactions were recorded in the correct period. No issues were noted with this testing.
- In addition, we tested other accruals to supporting documentation with no issues noted.

## Revenue recognition - completeness of income

- We tested the council tax and housing rents reconciliation performed by the Council at 31 March 2013 to confirm all income has been correctly recorded in ledger.
- We compared 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.

## Transfer of information to new integrated payroll system

- The Council moved to an integrated HR and payroll system during the year.
- There was an identified risk that the transfer of information was incorrect or incomplete.
- We obtained and reviewed the Internal Audit report on the transfer of information to the new system with no issues noted.

# Comments on *your* Annual Report



# Comments on the front half of your Annual Report

## 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:

### Observations on the accounts

We reported in our planning report a high level overview of how Clackmannanshire’s 2011/12 accounts compared with other Scottish local authorities. This noted the following:

Clackmannanshire Council’s accounts were ranked the 22<sup>nd</sup> longest in Scotland

In the last 6 years the length of Clackmannanshire’s accounts has doubled,

A report that is too long runs the risk of obscuring the information that users truly value.

While the 2012/13 accounts are marginally shorter than 2011/12, and the disclosures made are in line with the Code, the Council should continue to review its disclosures to identify the underlying reasons for the length of the accounts.

Areas where the length could potentially be reduced include:

- Excessive disclosure notes for immaterial balances;
- Excessive accounting policy disclosures for immaterial balances or items that are not relevant to the Council; and
- Joining up the separate parts of front and back end to avoid repetition.

We note that the explanatory foreword provides a balanced overview of the contents of the financial statements. We recommend that the quality of the foreword is further improved by including reference to Key Performance Indicators.

# Comments on the front half of your Annual Report (continued)

## *Statement of Assurance on the Systems of Internal Financial Control*

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 have chosen to incorporate this to strengthen and embed governance.

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.

The format and content of the Statement is consistent with requirements of Code and notes that each Head of Service has given representation to Leader and Chief Executive that, in their opinion, based on their evaluation of control environment, reasonable assurance can be placed on adequacy and effectiveness of control system within their Service in year to 31 March 2013.

The Code also requires “An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan”. The Statement refers to the Governance Improvement Plan which is in place to address identified weaknesses at both a Service and Corporate level and seven key areas for improvement have been discussed.

These are then subject to robust challenge through Governance Panels. The Statement notes that there is now a fully resourced Internal Audit Team and that they provide reasonable assurance as regards the effectiveness of Clackmannanshire Councils framework of governance, risk management and control in the year to 31 March 2013.

The Statement does acknowledge that there have been issues identified in the year and notes that steps have been taken to address these.

As part of our work this year, we considered the effectiveness of the service committees and resources and audit committee structure in terms of delivering effective levels of scrutiny and governance. We have concluded that arrangements are operating effectively. In line with our responsibilities as external auditors we will continue to keep this area under review.

# Comments on the front half of your Annual Report (Continued)

## *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 Councilors 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.

# Significant observations on your Financial Statements

## *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.

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 that require to be disclosed.

### Note 3: Critical accounting judgements

#### Future Funding Levels

The Council has disclosed that there is a high degree of uncertainty about future levels of funding. The Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of the need to close facilities or reduce levels of service provision. We concur that this assumption is appropriate in light of current circumstances. We have confirmed that a budget has been agreed for 2013/14 and 2014/15 and that there are indicative budgets in place for future periods.

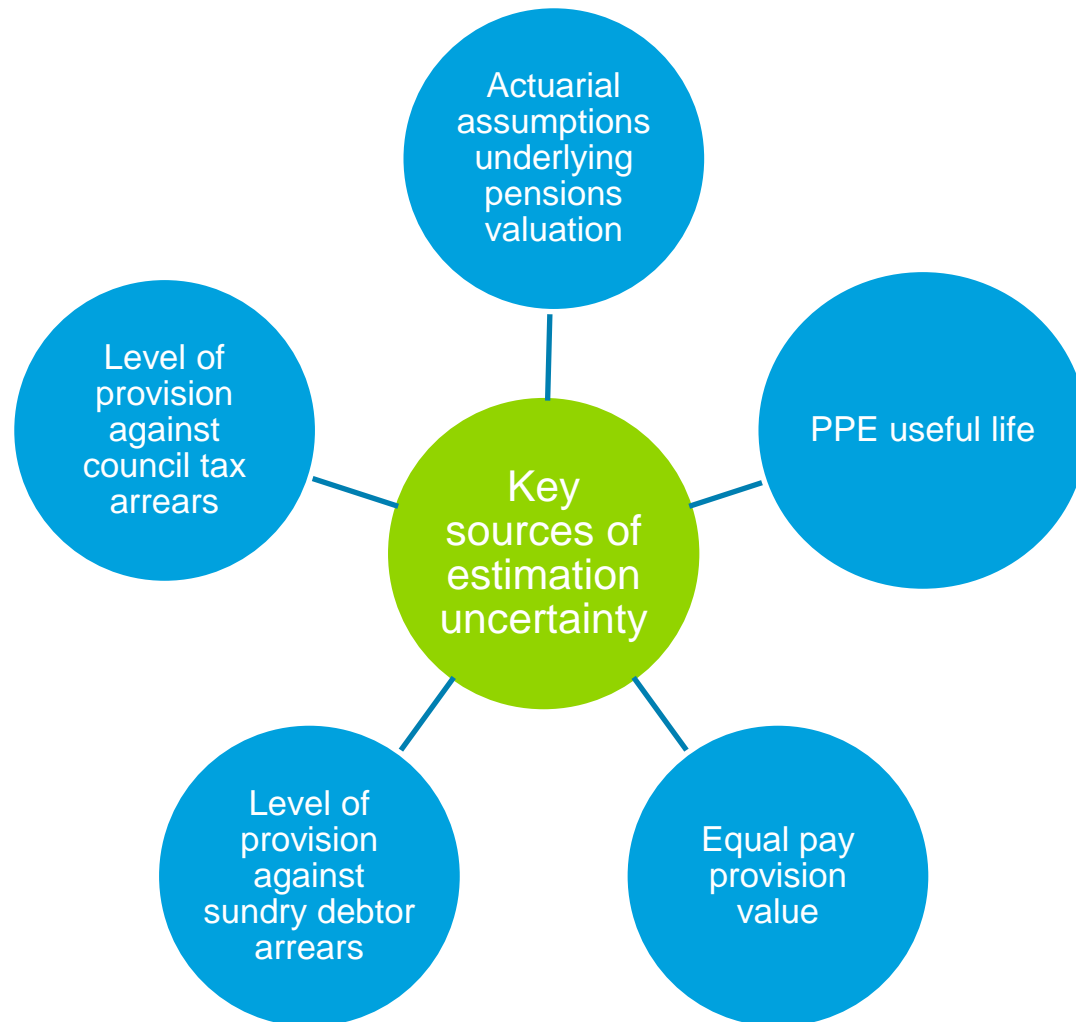
#### Accounting for PFI Assets

The Council has deemed that they control the services provided under the PFI agreement for the provision of Secondary School establishments. As such they have applied the accounting policies for PFI schemes and the assets under the scheme are included within PPE. We concur that this treatment is reasonable and appropriate.

# Significant observations on your Financial Statements (Continued)

## Key sources of estimation uncertainty

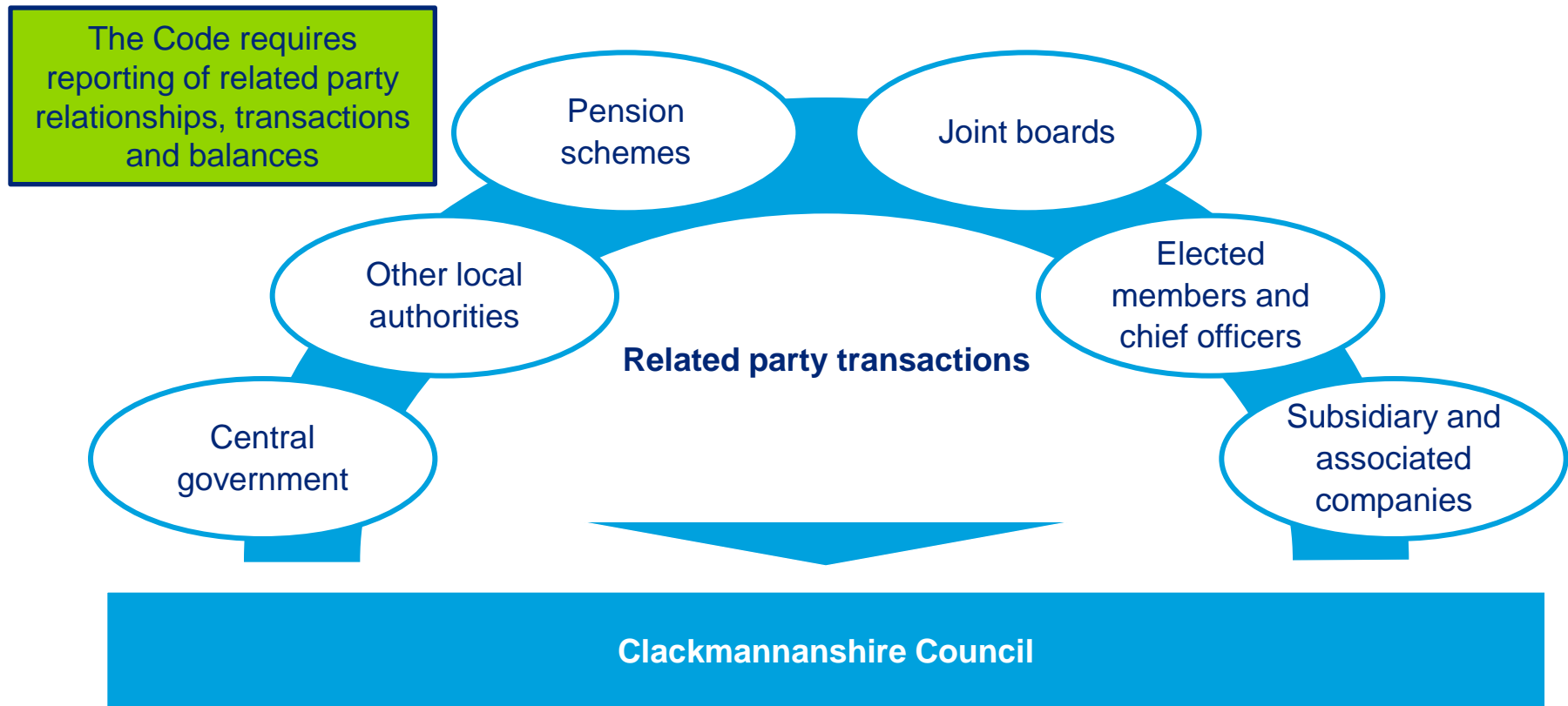
### Note 4: Key sources of estimation uncertainty



*We have not identified any additional areas of estimation uncertainty that require disclosure*

# Significant observations on your Financial Statements (Continued)

## *Related party disclosure*

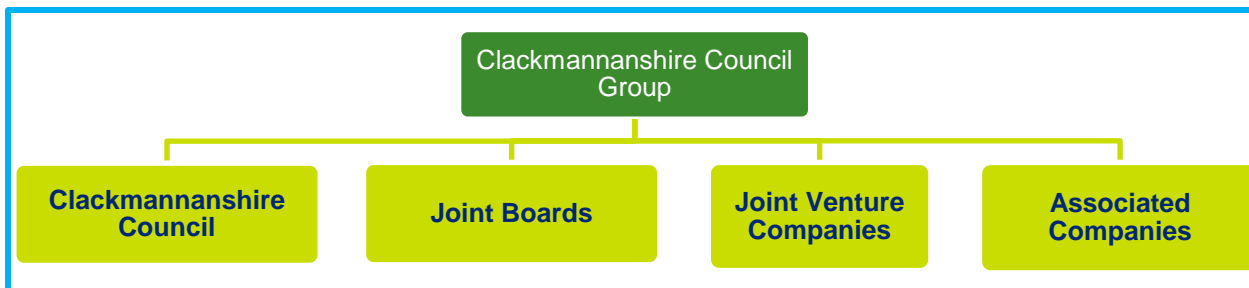


We have not identified any undisclosed related party transactions, and consider this to be a relatively low risk disclosure for the Council.

# Significant observations on your Financial Statements (Continued)

## Group accounts

Councils are required to prepare Group Accounts where they hold investments in subsidiaries, joint ventures or associate organisations.



A number of other bodies in which the Council has an interest have been excluded from the Group Accounts on the basis of materiality. The Council currently consolidates the following operations:

- CSBP Clackmannanshire Investments Limited
- CSBP Clackmannanshire Developments Limited
- Forth Valley GIS Limited
- Central Scotland Joint Police Board
- Central Scotland Joint Fire and Rescue Board
- Central Scotland Valuation Joint Board

Given the changes to the Police and Fire Joint Boards from 1 April 2013, the Council no longer has control over these entities and therefore there will be no requirement for consolidation from 2013/14 onwards. The Council should undertake a review of all entities in which it currently has an interest to re-assess whether there is still a requirement to prepare group accounts going forward.

# Significant observations on your Financial Statements (Continued)

## *Charitable Trusts*

The Council acts as Sole Trustee for 8 Trusts and Endowments and Joint Trustee for a further 53 Trusts and Endowments.

From 2013/14, all Scottish Councils who act as trustees for any registered charities will have to fully comply with the Charities Accounts Regulations. This will require Charities SORP compliant accounts to be prepared for each Charity, and a separate audit of each.

The Council should advance its review of potential amalgamations of its current Charities, closely liaising with OSCR, to ensure that the potential administrative impact of these changes is minimised.

# Best value, use of resources and performance



# Best value, use of resources and performance

## Financial performance and outlook

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

	2012/13 Budget £'000	2012/13 Actual £'000	Variance £'000
Cost of Services per Management Accounts	105,194	102,771	(2,423)
Amounts Not Reported in Management Accounts	N/A	4,010	N/A
<b>Net Cost of Services per SerCop</b>	<b>N/A</b>	<b>106,781</b>	<b>N/A</b>

# Best value, use of resources and performance (continued)

## Financial performance and outlook (continued)

	2012/13 Budget £'000	2012/13 Actual £	Over/(Under) spend £	Over/(Under) spend %
Support Services	6,050	5,692	(358)	(5.92%)
Strategy and Customer Services	7,173	6,564	(609)	(8.50%)
Facilities Management	23,719	23,120	(599)	(2.52%)
Social Policy	25,515	25,741	226	0.88%
Education	33,988	33,299	(689)	(2.02%)
Community and Regulatory	5,507	5,506	(1)	0.02%
Housing Revenue Accounts	3,242	2,921	(321)	(9.89%)
<b>Total Net Expenditure</b>	<b>105,194</b>	<b>102,843</b>	<b>(2,351)</b>	<b>2.30%</b>
<b>Cost of Services per Management Accounts</b>	<b>105,194</b>	<b>102,843</b>	<b>(2,351)</b>	<b>(2.30%)</b>

See overleaf for analysis of key movements against budget

# Best value, use of resources and performance (continued)

## Financial performance and outlook (continued)

Significant variances from budget included:

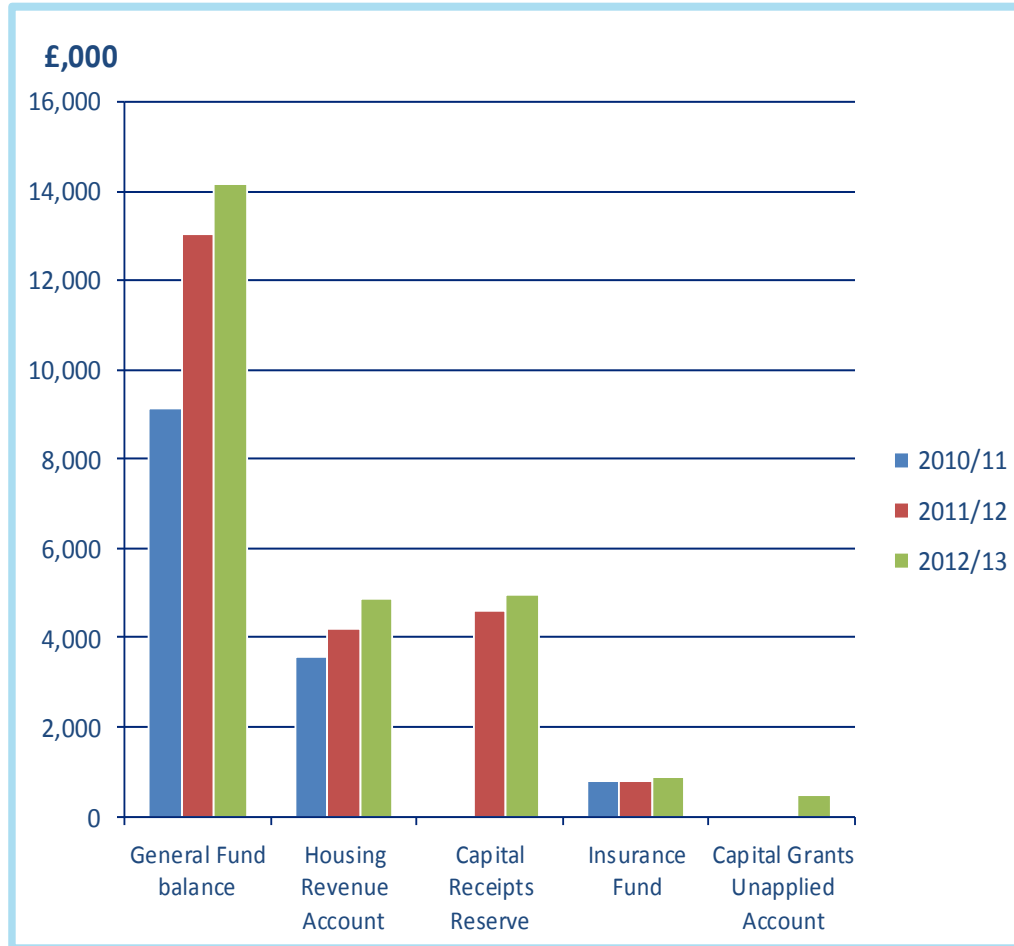
- **Strategy and Customer Services** – This underspend is largely due to £152k savings in corporate training and £245k on vacancy management and savings on advertising.
- **Facilities Management** – £463k savings on waste management due to vacancies being covered by agencies and overestimation of tonnes to be collected. In addition there were one off savings of £147k in insurance.
- **Education** – A higher number of vacancies in nurseries and primary schools than expected has resulted in an underspend to budget. In addition, there has been variances due to lower transport spend
- **Support Services** – The underspend was due to £102k of staff vacancies and underspend on software maintenance. In addition £65k of underspend due to the Job Evaluation project being completed.
- **Housing Revenue Accounts** – A high volume of capital works has led to a reduction in repairs costs (£313k). In addition there were less voids completed in the year (£101k).

We have fully reconciled and agreed the cost of services between management accounts and the SerCop presentation as per the financial statements. The key differences between the two formats are the treatment of holiday pay (£0.4m) and capital grants (£3.1m) which are excluded from the management accounts but included in the SerCop presentation within the financial statements.

# Best value, use of resources and performance

## Financial performance and outlook (continued)

### Usable Reserves



The Council's usable reserves balance has increased by £2.741 million in the year to £25.391 million at 31 March 2013, an increase of £11.896 million over the last two years. This has been achieved mainly as a result of underspends in budget and robust outturn monitoring as the Council strives to meet challenging savings and efficiency targets.

The Council's policy is to hold minimum working balances of £3.2 million (3% of net expenditure) of uncommitted funds for the General Fund. The level of funds at £9.1m (7.3%) at 31 March 2013 is significantly above this level. This is as a result of a conscious Council decision to build reserves for managed use in the change process as the Council strive towards a sustainable cost base.

The General Fund has increased from £13,067k to £14,179k. The uncommitted element of this balance recorded a surplus of £2,683k which is in line with the figure reported to the Resources and Audit Committee in February.

The Housing Revenue Account has seen reduced repair costs, vacancies and reduced capital financing costs which have resulted in an underspend compared to budget.

# Best value, use of resources and performance (continued)

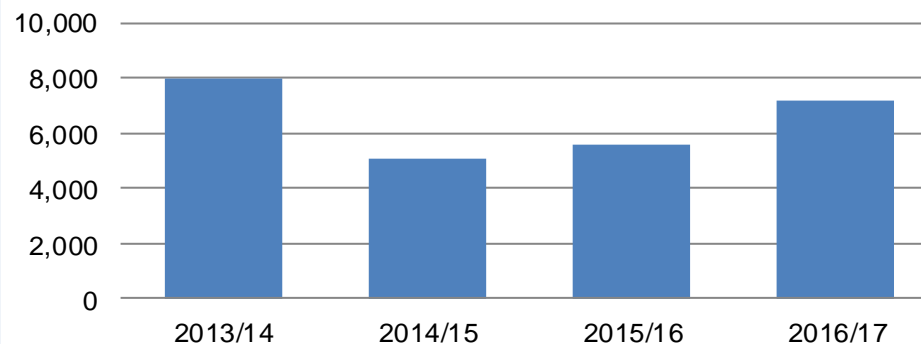
## Financial performance and outlook (continued)

The 2013/14 revenue budget was approved by the Council on 14 February 2013. This budgeted gross expenditure is £119.1 million, with an indicative funding gap of £6.9 million. See overleaf for a breakdown of how this gap will be addressed.

Indicative budgets are in place for the next three years, which note that significant shortfalls are projected in future years as noted below. This is based on expected funding levels and increasing demand pressures in future years. As part of the budget approval process for 2013/14, it was agreed that work would commence using a policy led budget approach to reduce these shortfalls.

We highlight the ongoing importance of member scrutiny in monitoring both monthly outturn and financial plans.

**Budget shortfalls (£'000)**



The Council is currently undertaking the Tullibody pilot exercise. However, further work is required to ensure that robust processes are in place across all transformation projects to ensure that efficiencies are realised to meet these predicted shortfalls.

The 2013/14 capital programme totalled £16.3 million. Key investments include the Speirs Centre (£2.5m), St Johns / Claremont (£3.4m), Road and Footway improvements (£2.0m) and Vehicle Replacement (£1.4m). These are being funded by a combination of borrowing, capital grants, use of capital receipts and finance from revenue.

# Best value, use of resources and performance (continued)

## Financial performance and outlook (continued)

The 2013/14 funding gap was met as follows:

	2013/14 £000s
Net expenditure	119,083
Net funding	112,177
<b>Cumulative indicative funding gap</b>	<b>6,906</b>
<i>Indicative annual gap</i>	<i>6,906</i>
<i>Met by</i>	
Savings targets	3,970
Unapplied capital receipts	1,562
Contribution from uncommitted reserves	1,482
Contribution from earmarked reserves	59
Additional political priorities	(167)
<b>Total to fill funding gap</b>	<b>6,906</b>

# Best value, use of resources and performance (continued)

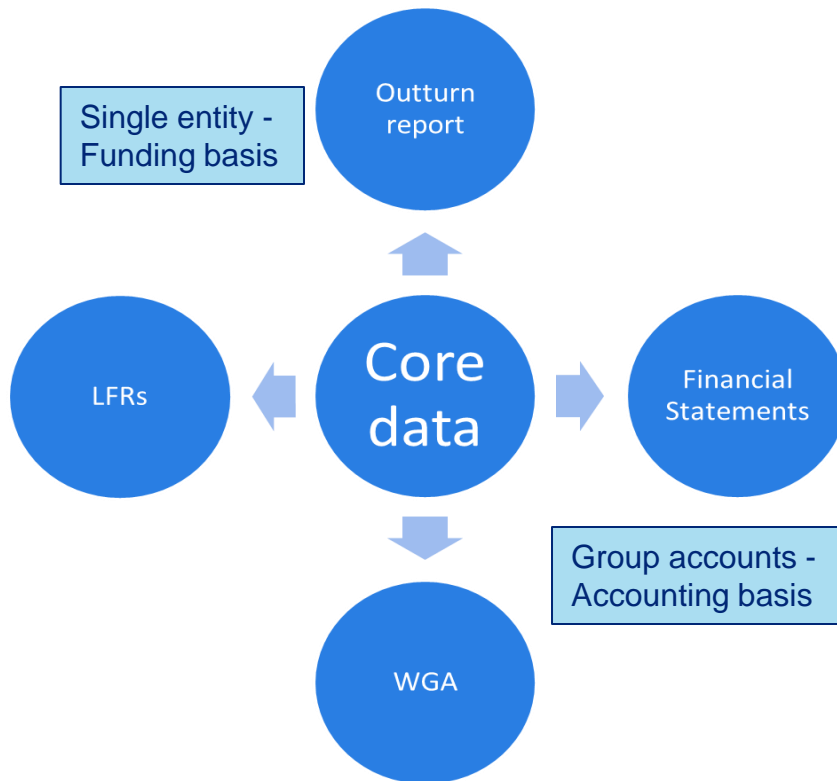
## Whole of Government Accounts

Whole of government accounts (WGA) is the consolidated financial statements for all components of government in the UK.

Local authorities are required to provide information for the preparation of WGA.

The Council falls below the threshold requiring external audit of the submission.

Due to delays by Scottish Government, the audit deadline has been extended to 26 October 2013. We do not envisage any difficulties in meeting this deadline.



### Benefits of WGA (source HM Treasury):

- Transparency – “making public data public” (to parliament and taxpayers)
- Comparability – across different parts of the public sector, and with private sector, as financials produced on a consistent basis
- More complete picture of UK finances – provides overview and puts numbers into context
- Decision making – more information => better decisions
- LG controls around 45% of public sector PPE and accounts for about 30% of public operating expenditure (including approximately 44% of staff costs)

Looking to 2013/14 and 2014/15, it is expected that the Treasury will bring forward the timetable for submissions from local authorities to allow the publication of the WGA earlier.

# Best value, use of resources and performance (continued)

## 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 its 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.
- The Council has improved its performance in respect of Statutory Performance Indicators and was ranked 2nd out of 32 Councils.

Feb 2012

Policy and Resources Committee agreed the prioritisation of statutory and local SPI's in line with strategic objectives

Within the Performance Management System (Covalent), each SPI must have a measure and target

Service performance reports are submitted to each Committee on an exception basis, with full details available to all Members through Covalent

- Service performance reports are submitted to each Committee on a quarterly basis, and are also available publicly through the Council's website. 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.
- 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 no significant issues.

# Best value, use of resources and performance (continued)

## National Fraud Initiative

We are required to monitor the Council's participation in the NFI exercise during 2012/13.

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

Resources have been identified within services to follow-up specific areas, e.g. payroll and creditors, although limited activity was noted pre July 2013

As at 2<sup>nd</sup> September 2013, no material frauds have been identified in either the 2010/11 or 2012/13 exercises

	Total matches	Total recommended for follow-up	Total processed at 22 July 2013
Housing Benefit	575	119	568
Payroll	46	4	46
RTB/ HB	29	13	29
Blue Badges	91	80	91
Res Care	39	17	9
Creditors	864	130	336
<b>Total</b>	<b>1,644</b>	<b>363</b>	<b>1,079</b>

All data was submitted to the NFI in accordance with the deadlines of September 2012. Good progress has been made at the start of the year in reviewing matches, as noted above with 66% of matches being progressed in comparison with an average of only 45% across all Councils.

# Best value, use of resources and performance (continued)

## Other issues – Making Clackmannanshire Better

### Background

As a response to funding and demand pressures, the need to improve outcomes and the need to realise a significant level of savings over the next five years, the Council has recently established the “Making Clackmannanshire Better” Transformation Programme. The key workstreams are shown overleaf.

The ‘Making Our Organisation Stronger’ workstream, which will include a refresh of the People Strategy and will reference the incorporation of revised organisational values, is currently in draft form and will go before the Council shortly.

The outcomes for “Making Clackmannanshire Better” will directly contribute to the Scottish Government’s National Outcome: “Our public services are high quality, continually improving, efficient and responsive to local people’s needs”.

Workstreams & Key Themes			
External focus	1	<b>Making It Happen</b>	
		The Tullibody Pilot	
	2	<b>Focusing on Prevention &amp; Early Intervention (for Better Outcomes)</b>	
	Key Themes	(i)	Supporting Early Years
		(ii)	Supporting Adults
		(iii)	Providing Advice & Information
	3	<b>Developing Integrated &amp; Sustainable Services</b>	
	Key Themes	(i)	Working in Partnership & Developing Our Communities
		(ii)	Providing Accessible & Effective Services
		(iii)	Driving Service Improvements
4	<b>Making Best Use of Assets &amp; Resources</b>		
Key Themes	(i)	Making Better Use of Public Buildings & Facilities	
	(ii)	Reviewing Community / Subsidised Transport	
	(iii)	Optimising Fees, Charges & Funding	
Internal focus	5	<b>Making Our Organisation Stronger</b>	
	Key Themes	(i)	Developing Our Organisation
		(ii)	Developing Our People

# Best value, use of resources and performance (continued)

## Other issues – Business transformation/Refresh of People Strategy

### Deloitte Response

The transformation programme is at an early stage, and we will monitor the effectiveness as it proceeds, but the Council is to be commended for the ambitious goals of the programme. The Council has also recognised the need for resource capacity to enable the Programme to succeed by designating a Programme Manager and three project managers. This resource has largely been secured by reprioritising within existing resources and augmented by the appointment of one additional external specialist. This allows for a clear differentiation between strategy and delivery governance which is essential for a transformation programme to achieve its objectives.

Based on our experience of similar local government transformation programmes, it is important that the Council ensures that there is:

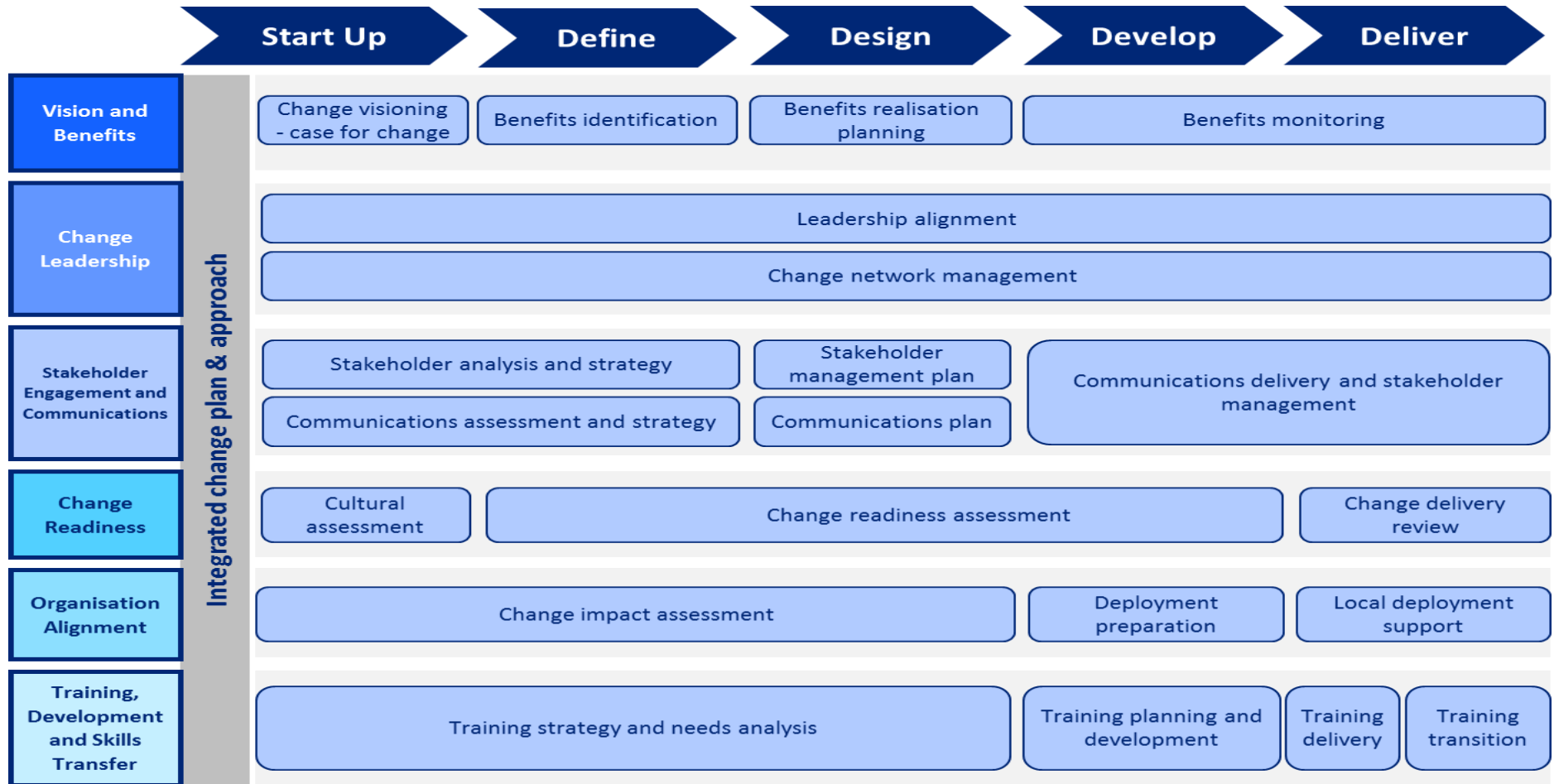
- sufficient resource capacity and that the appropriate capability to manage organisational change successfully is in place to support the programme.
- comprehensive change management capability including change leadership, change readiness organisational alignment, communications and stakeholder engagement skills. The full range of the required change management skills is depicted in the diagram which follows for the five phases of a typical transformation programme.
- Other Councils have also benefitted from implementing a change management toolkit which includes the supporting documentation, tools, templates and hint and tips for covering the six change management workstreams in the diagram overleaf.

Council management acknowledges the importance of these resource issues and is actively developing proportionate approaches for addressing these within the emerging MCB approach.

A robust benefits realisation identification, planning and monitoring methodology should be established which will be key to delivering the financial and other benefits envisaged from the programme. The Council is still to agree a financial savings target for the programme but this is due to be set shortly. This is important given the transformation programme is seen by the Council as key enabler in achieving the required savings over the next five years.

# Best value, use of resources and performance (continued)

## Other issues – Business transformation/Refresh of People Strategy



# Best value, use of resources and performance (continued)

## Other issues – Shared Services

### Background

In December 2010, Clackmannanshire and Stirling Councils approved recommendations to jointly service manage Education and Social Services. The Council is the lead authority for the management of Social Services with Stirling Council being the lead for Education.

The two councils confirmed in December 2012 that integration below the level of service management should be pursued to maximise efficient service delivery and to better meet the needs of both Councils' populations.

Governance of the Programme is provided by The Steering Group which comprises the Leaders and Depute Leaders, Main Opposition Leaders and Depute Leaders of each council and the two chief executives. There is also a Programme Board which comprises the two chief executives, Heads of Education and Social Services, Other senior management support, Trade Union representatives and a Communications Manager.

### Deloitte Response

Each year in the Autumn, progress in implementing the Shared Service arrangements is evaluated in a Taking Stock exercise. This exercise seeks feedback from a wide range of elected member, management, staff and trade union representatives. As a consequence of the most recent review each Council:

- reaffirmed its commitment to Shared Service arrangements
- agreed to establish a Strategic Partnership Agreement (SPA)
- commissioned a review of managerial, partnership and political governance arrangements
- established the principle that business cases for further and deeper integration across the operation of Shared Services should be prepared.
- committed both Education and Social Services to the preparation of Service Delivery Strategies.

Work has been undertaken in all areas including the adoption of a Shared SPA and the approval of a Social Services Service Delivery Strategy.

The scope of the next 'Taking Stock' review is currently being developed and will take place in Autumn 2013.

# Best value, use of resources and performance (continued)

## Other issues – Welfare Reform

### Background

- Welfare Reform Act received Royal Assent on 8 March 2012.
- Universal Credit arrangements will replace the devolved administration of housing benefit.
- Council tax benefit has been replaced by a Scottish council tax reduction scheme from April 2013.

Clackmannanshire Council has undertaken a number of strands of work in preparation for the changes taking place

Welfare Reform working group set up with representation for services affected, local Housing Associations and local partner organisations.

Sub groups set up to consider the provision of financial advice, IT access and training in IT skills

Communications Strategy implemented

Representation on national working groups

Staff information events and training

Partner and staff information event

Communicated with potentially affected Council tenants (personal correspondence, follow-up calls and visits to 400 residents.

Almost 40% of tenants contacted did not engage

Work is ongoing throughout the Council to develop strategies linking to the Welfare Reform, including:

- Review Housing Services Business Plan
- Review Allocation Policy
- Introduced Housing options advice service

The Council has noted that rent arrears have increased post 1 April 2013. There were 470 new cases of arrears following the introduction of the under-occupancy charge.

# Best value, use of resources and performance (continued)

## Other issues – Health and social care integration

### Background

- Adult Health and Social Care Bill due to be introduced during 2013, with implementation from 1 April 2015.
- Aim is to create a system of health and social care in which resources are best used regardless of whether they are 'health' or 'social care' resources.
- Move to an emphasis on outcomes.



Older adults and individuals with a learning disability are considered priorities; whilst ensuring developments are sympathetic to all adults with complex needs. This will be achieved through the establishment of:

- An evidence based outcome focussed adult care pathway
- A multi-agency prevention focussed pathway of care

The Council has in place a strong platform of existing integration through pooled budgets and joint commissioning. The Council also proposes to build upon the existing shared services partnership platform with Stirling Council which will also be helpful in achieving successful integration. The Council is currently taking a view of the preferred integration model. We will continue to monitor arrangements moving forward.

### What can be learnt from successful integration elsewhere?

#### Leeds Community Healthcare NHS Trust

Part of a citywide agreement between health and social care partners to work together to improve the quality of health care and increase innovation and productivity.

The key drivers to the success were:

- Improving the patient experience being central to any activity;
- A focus on relationships, not structures;
- Intensive leadership development from the outset; and
- A strong vision / direction to go beyond the 'minimum'.

#### Kaiser Permanente

The largest not for profit health plan in the United States, renowned for its integration of primary, secondary and hospital care.

Kaiser Permanente have identified the key enablers to its success as being:

- **Working as a team**, including the optimisation of handoffs between providers
- Using an **end to end approach**
- A **Strong IT system** to gather and share information, track outcomes and systematically identify innovations.
- **Strong relationships with patients**

# Best value, use of resources and performance (continued)

## Other issues – Integrated HR / Payroll System

### Background

- The previous payroll and Human Resources systems were dated and were not able to interact with each other.
- The systems were not capable of producing basic reports or providing a sound audit trail.
- A new system was required to be in place for April 2013 capable of providing HMRC with electronic payroll data.

### Council actions

- Project manager appointed.
- Detailed analysis of data gaps and desired structures.
- Build process completed in partnership with Midland.
- Project build delivered in line with deadlines.
- Extension agreed with HMRC to June 2013 due to third party provider delay.

### Deloitte response

- Met with project manager to discuss the process.
- Obtained and reviewed internal audit report on data migration with no issues noted.
- We are satisfied that there were robust governance arrangements in place for the project.
- We commend the project team for the delivery of such a significant project in such a short timescale.

**January 2012**

Draft business case approved



**May 2012**

Documentation approved and contract signed with Midland



**August 2012**

Project manager appointed and detailed build process begins



**December 2012 – January 2013**

Payroll extracts used to model system



**February – March 2013**

Parallel payroll runs



**April 2013**

First live unsupported run



**June 2013**

Delivery of electronic information to HMRC begins

# Best value, use of resources and performance (continued)

## Local Area Network / Assurance and Improvement Plan (AIP)

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



The LAN met in November 2012 to update the shared risk assessment, and met with the Chief Executive and the Council's Management Team in January 2013.

The AIP Update 2013-2016 was published by Audit Scotland in April 2013. This reported that "the shared risk assessment completed in November 2012 has revealed and confirmed continued progress and improvement at both the corporate level and across services".

A further update is due to be performed later in 2013.

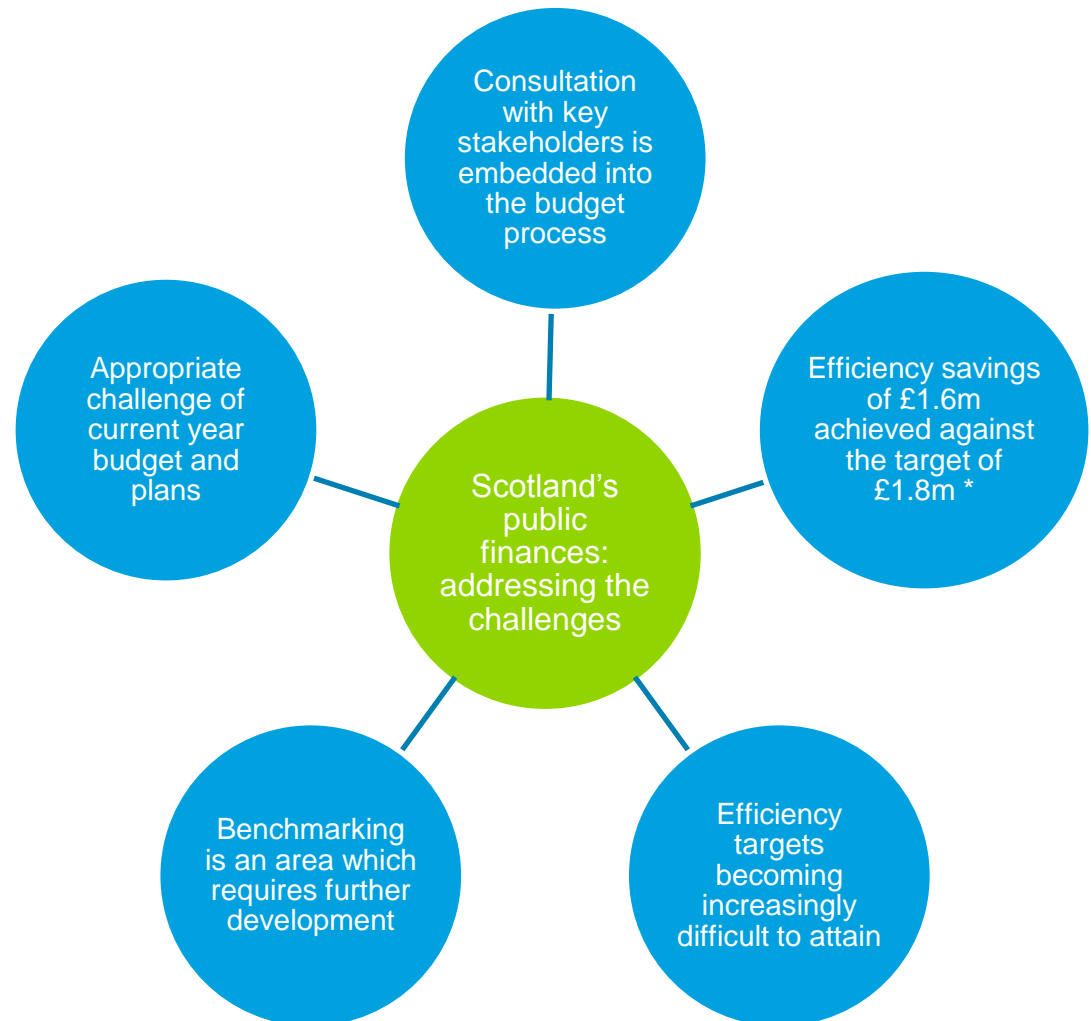
# Best value, use of resources and performance (continued)

## National Performance Reports

We have performed a focused follow up on 'Scotland's public finances: addressing the challenges'.

This work has been completed and our detailed findings from this review were included in a separate report to the Resources and Audit Committee with a summary of these detailed herein.

*The Council is responding positively to the challenges of public sector budget constraints and a significant amount of work has been undertaken in order to achieve financial sustainability. Some areas have been highlighted for management consideration in order to enhance the current process.*



\* Note that a further £2.3m underspend on services was delivered to significantly exceed the target.

# Best value, use of resources and performance (continued)

## Grant Claims

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 2013	Completed
Criminal justice social work services grant claim	31 August 2013	Complete
Housing and Council tax benefit subsidy	30 November 2013	On Target
Non-domestic rates income return	Mid-February 2014	On Target

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



# Risk management and internal control



# Risk management and internal control observations




## 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:

Significant Risk	Control	★
Assets held for sale / surplus asset valuation	A rolling programme of external valuations has been performed by the District Valuer. Journals are processed by finance staff based on information received, which is then reviewed as part of the final accounts process.	★
Accounting for landfill sites	Accounting for landfill is discussed at a high level by senior management. Upon our discussions with management, it was clear that these issues had been discussed in detail and conclusions documented.	★
Bad debt provisions	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.	★

# Risk management and internal control observations (continued)

## Key controls over significant risks

Significant Risk	Control	
Pension scheme	<p>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.</p> <p>We have inspected the review of working papers by management.</p>	
Equal pay provisions	<p>Equal pay records are kept by HR and communicated to Finance. These are cross checked to ensure the finance calculations are based on accurate information. In addition to this, the provision calculation is reviewed by management.</p> <p>We have reviewed supporting documentation from HR and confirmed the calculations are reasonable and based on the appropriate information.</p>	
Management override of controls	<p>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.</p>	

# Risk management and internal control observations (continued)

## Key controls over significant risks

Significant Risk	Control	★
Completeness of accruals	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. These reviews highlight any material movements. We have noted no issues with these controls during our work on the completeness of accruals.	★
Revenue recognition – completeness of income	The resource limit as determined by the Scottish Government is reviewed by the Chief Accountant to ensure funding is correctly recorded. We have confirmed that the year end 2013 allocation letter has been reflected in the annual accounts.	★
Transfer of information to new integrated payroll system	There is regular communication between the HR and Payroll teams with appropriate control procedures being performed to ensure information has correctly transferred. Internal audit are involved in the process and produce reports to assist management with the review of the process.	★



No issues noted



Satisfactory – minor observations noted



Requires improvement



Significant improvement required

# Risk management and internal control observations (continued)

## Internal control observations

We identified a number of current year risk management and control observations, which are detailed below:

Description	Deloitte Recommendation	Management response
<p><b>Bank accounts excluded from Trial Balance total (7 accounts with total balance of £1,442)</b></p>	<p>We recommend that all bank accounts have a trial balance code</p>	<p>Agreed – this will be implemented</p>
<p><b>Petty cash reconciliations are not routinely completed</b></p>	<p>We recommend that petty cash reconciliations are completed on a monthly basis</p>	<p>Agreed – this will be implemented</p>

# Risk management and internal control observations (continued)

## Follow-up on prior year observations

We performed follow-up work on our prior year risk management and internal control observations. A summary is enclosed below and detailed responses included within Appendix 4:

Area	Status
Resources and Audit Committee after date of sign off	
Lack of supporting file	
Council tax receivable provision	
Other receivable provision	
Payroll system	
Internal Audit function not effective	
No monetary limits or formal authorisation processes for Journal Entries	
Estates and finance using different fixed asset registers	
Equal pay provision calculation	
Income tax reconciliation	

Key
Issue fully addressed and resolved
Issue addressed with some further improvements required
Issue not appropriately addressed



# Responsibility statement



# 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 14 February 2013 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 board 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.

*Deloitte LLP*

**Deloitte LLP**  
Chartered Accountants  
Edinburgh

18 September 2013



# Appendix 1: Audit adjustments and disclosure misstatements



# Audit adjustments and disclosure misstatements

## Uncorrected misstatements

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

## Corrected misstatements

The finance team identified five adjustments after their accounts close deadline and have posted these as late adjustments to the accounts.

Adjustment	Increase/ (decrease) in net assets £'000	(Increase)/ decrease in net liabilities £'000	Increase/ (decrease) in reserves £'000	Credit/ (charge) to current year CIES £'000	Audit adjustment / client adjustment
1) Dr Short Term Creditors Cr Short Term Debtors	(227,400)	227,400	-	-	Audit / Client
2) Dr Grant Income Cr Short Term Debtors	(73,000)	-	-	73,000	Audit / Client
3) Dr Cost of Service (Education) Cr Equal Pay Provision	-	(175,000)	-	175,000	Client
4) Dr Short Term Creditors Cr Bank	(172,000)	172,000	-	-	Client
5) Dr PPE Cr Cost of Service (Housing)	(1,426,000)	-	-	1,426,000	Client
<b>Total</b>	<b>(1,898,400)</b>	<b>224,400</b>	<b>-</b>	<b>1,674,000</b>	

# Audit adjustments and disclosure misstatements (continued)

## Corrected misstatements

The adjustments are as follows:

- 1) Being the amounts to be reclaimed appeals relating to NDR amounts in 2009/2010
- 2) Being the reversal of a 2011/2012 audit adjustment in relation to ring-fenced funding which had been double counted
- 3) Being the additional provision for incorporation of tax on equal pay
- 4) Being the reversal of Trust account amounts held in cash which do not belong to the Council and should be removed
- 5) Being an increase in the value of assets due to an asset no longer being demolished.

## Disclosure deficiencies

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

# Appendix 2: Independence and fees



# 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:

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**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 £202,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland.

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**Non-audit services** 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 to Deloitte LLP in the period from 1 April 2012 to 31 March 2013.

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**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.

We are not aware of any relationships which are required to be disclosed.

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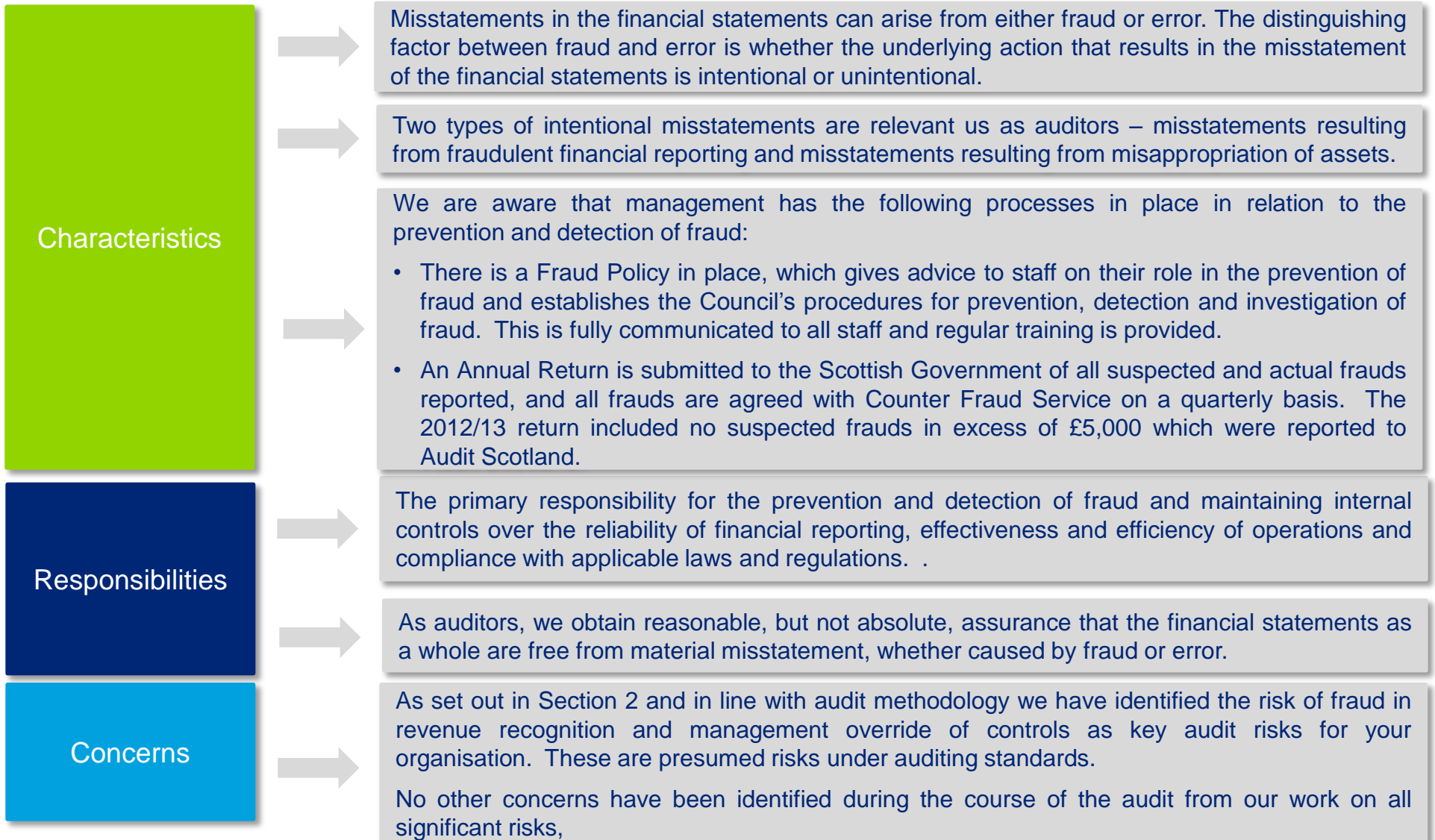


# Appendix 3: Fraud considerations



# Fraud considerations

The following represents a reminder of the fraud enquiries made at the planning stage of the audit:





# Appendix 4: Follow-up on prior year issues



# Risk management and internal control observations (continued)

## Follow-up on prior year observations

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

Key
Issue fully addressed and resolved
Issue addressed with some further improvements required
Issue not appropriately addressed

Area	Issue raised in 11/12	Results of 12/13 follow up	Status
<b>Resources and Audit Committee after date of sign off</b>	The Resources and Audit Committee meeting at which the financial statements were presented was held in October 2012 which was after the deadline for the signing of the financial statements in September 2012/	The 2013 meeting has been scheduled before the signing deadline.	
<b>Lack of supporting file</b>	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.	In the current year, the supporting file was significantly improved.	



# Risk management and internal control observations (continued)

## Follow-up on prior year observations (continued)

Area	Issue raised in 11/12	Results of 12/13 follow up	Status
<p><b>Council tax receivable provisions</b></p>	<p>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.</p>	<p>The provision in the current year has now been suitably revised.</p>	
<p><b>Other receivable provisions</b></p>	<p>As part of our review of the receivables ledger we identified a number of aged balances which 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.</p> <p>Likewise as part of our audit work we identified a total balance of £0.8 million relating to housing overpayments where no assessment of recoverability had been performed.</p>	<p>Our review of the receivables ledger confirmed that, as in line with policy, all receivables older than 3 years have been provided for</p> <p>We noted no issues in the current year with regards to the assessment of recoverability of housing overpayments</p>	
<p><b>Payroll system</b></p>	<p>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.</p>	<p>The new HR and Payroll system implemented in early 2013 should allow the strengthening of information and improve our audit evidence.</p>	

# Risk management and internal control observations (continued)

## Follow-up on prior year observations (continued)

Area	Issue raised in 11/12	Results of 12/13 follow up	Status
<p><b>Internal Audit function not effective</b></p>	<p>The Internal Audit function was not functioning effectively as a result of staffing shortages.</p>	<p>A significant exercise was undertaken to ensure this team was appropriately staffed. As a result, Internal Audit has played a more significant role than in the prior year including a review replied upon by the audit team on the transfer of information to the new HR/Payroll system.</p> <p>Internal audit is currently building profile within the Resources and Audit Committee and contributing to the Annual Governance Statement process.</p> <p>There is a defined internal audit plan and this was completed in line with agreed timescales.</p> <p>We will continue to monitor the development of this team.</p>	
<p><b>Journal entries</b></p>	<p>There are no monetary limits in relation to the posting of journal entries. In addition there are no formal authorisation processes in place.</p>	<p>From February 2013, all journal entries are prepared by a Junior member of staff and are authorised by an Accountant or Team leader/Manager.</p> <p>We noted one item in which the same individual prepared and authorised a journal.</p>	

# Risk management and internal control observations (continued)

## Follow-up on prior year observations (continued)

Area	Issue raised in 11/12	Results of 12/13 follow up	Status
<p><b>Fixed asset processes with estates</b></p>	<p>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.</p>	<p>In the current year, meetings were held between Estates and Finance using one fixed asset register. This resulted in a consistent approach to the finalising of fixed asset balances</p>	
<p><b>Equal Pay Provision</b></p>	<p>As part of our 2012 audit an adjustment of £1.6m was raised as the provision did not meet the requirements of IAS 37.</p>	<p>No adjustments were noted in our review of the Equal Pay Provision and the calculation was compliant with IAS 37.</p>	
<p><b>Council tax reconciliations</b></p>	<p>Council tax reconciliations between the council 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.</p>	<p>Council tax reconciliations are performed on a monthly basis as resource has been allocated to specifically perform this task. At year end the annual council tax system report is agreed to the ledger</p>	

# Appendix 5: Representation letter



# Representation letter

Deloitte LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2DB  
United Kingdom

Our Ref: JAB/LNR/2013

Date: at time of signing

Dear Sirs

This representation letter is provided in connection with your audit of the annual financial statements (“the financial statements”) of Clackmannanshire Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Clackmannanshire Council as of 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the directions given by the Auditor General for Scotland (‘the Auditor General’) in accordance with Section 21 of the Public Finance and Accountability (Scotland) Act 2000. We are aware that it is an offence to mislead a Council auditor.

As Responsible Officer and on behalf of the Council, I confirm to the best of my knowledge and belief, the following representations.

## Financial statements

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.

## Representation letter (continued)

3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
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 Board’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 confirm that:
  - All retirement benefits and schemes, including UK, foreign, funded and unfunded, approved or unapproved, contractual or implicit have been identified and correctly accounted for;
  - All settlements and curtailments have been identified and correctly accounted for;
  - All events which relate to the determination of pension liabilities have been brought to the actuary’s attention;
  - The actuarial assumptions underlying the valuation of the scheme liabilities (including discount rate) accord with the directors’ best estimates of the future events that will affect the costs of retirement benefits and are consistent with our knowledge of the business;
  - The actuary’s calculations have been based on complete and up-to-date member data as far as appropriate regarding the adopted methodology; and
  - The amounts included in the financial statements derived from the work of the actuary are appropriate

## Representation letter (continued)

9. 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. We have also considered the valuation of surplus assets and have noted no circumstances that would be likely to trigger an impairment.
10. With respect to the revaluation of properties in accordance with the Code of Practice:
  - 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.
11. 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.
12. 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.
13. 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.
14. We confirm that we have considered the accounting for the closed landfill site at Black Devon. In our judgement, the risk of there being a material exposure is remote, no contingent liability disclosure will be included in the financial statements.

# Representation letter (continued)

## *Information provided*

15. 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.

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

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

18. 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.

19. 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.

20. 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.

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

22. 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.

# Representation letter (continued)

- 23. No claims in connection with litigation have been or are expected to be received.
- 24. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
- 25. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
- 26. 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 Board of Directors



# Appendix 6: Additional resources available to you



# How to keep you up to date: Financial Reporting

## IAS Plus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the internet about international financial reporting for accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. 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>

## IFRS Podcasts

Our leading experts provide you with a short discussion on new IFRS standards and practical insights. These can be accessed via our website. [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit). Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

## Publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance to companies reporting under the relevant GAAP; 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 round up of recent developments. iGAAP alerts are issued whenever a new exposure draft or standard is issued.



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