
Report to: Audit Committee

Date of Meeting: 11 February 2021

**Subject: Annual report to those charged with Governance and the
Controller of Audit for Financial Year Ended 2019/20**

Report by: Chief Finance Officer

1.0 Purpose

- 1.1. This report and appendices set out the findings arising from the work carried out by the External Auditors on the Audit of the 2019/20 Financial Statements.

2.0 Recommendations

It is recommended that the Committee:

- 2.1. note the content of the Independent Auditor's Report;
- 2.2. approve the content of the Letter of Representation (ISA 580), and
- 2.3. note the recommendations for improvement and the follow up on prior year recommendations within Appendix 1 of the Annual Audit Report.

3.0 Considerations

- 3.1 International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 3.2 Appendix 1 of this report contains a covering letter from the Auditor and the Independent Auditors Report. This sets out the basis of the audit work and the Audit opinion.
- 3.3 Also contained within Appendix 1 is the draft Letter of Representation (ISA 580) to the Auditor which the Council is required to prepare confirming the representations that have been made in connection with the audit of the Councils annual accounts for the year ended 31 March 2020. On approval, this letter will be signed by the Council's Chief Finance Officer.
- 3.4 The 2019/20 Annual Audit Report is included at Appendix 2 and sets out the significant findings from the 2019/20 audit of the Councils Annual Accounts (Exhibit 3). The report covers the scope of the audit as set out in the Annual Audit Plan presented to the Audit Committee in February 2020, considering the four audit

dimensions that frame the wider scope of public audit set out in the Code of Audit Practice 2016 covering:

- Financial Sustainability;
- Financial Management;
- Governance & Transparency; and
- Value for Money.

3.5 The report also sets out recommendations and provides an action plan which has been agreed with Senior Officers, set out at Appendix 1. Contained within the action plan is an update on progress on recommendations brought forward from 2018/19.

4.0 Conclusion

4.1 The Committee is asked to approve the Letter of Representation and note the content of the Independent Auditor's Report and the 2019/20 Annual Audit Report.

5.0 Sustainability Implications

5.1 Not applicable

6.0 Resource Implications

6.1 *Financial Details*

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

6.3 Finance have been consulted and has agreed the financial implications as set out in the report. Yes

7.0 Exempt Reports

7.1 Is this report exempt? Yes (please detail the reasons for exemption below) No

8.0 Declarations

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

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

- The area has a positive image and attracts people and businesses
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported
- Substance misuse and its effects are reduced

- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- The Council is effective, efficient and recognised for excellence

(2) Council Policies (Please detail)

9.0 Equalities Impact

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

Yes No

10.0 Legality

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

11.0 Appendices

11.1 Appendix 1 - Independent Auditor's Report and ISA 580 and Letter of Representation

11.2 Appendix 2 - Clackmannanshire Council 2019/20 Annual Audit Report

12.0 Background Papers

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


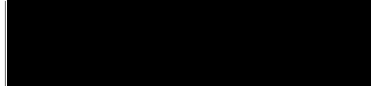
Yes (please list the documents below) No

Council Draft and Audited Financial Statements 2019/20

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Lindsay Sim	Chief Financial Officer	2022

Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	
Stuart Crickmar	Strategic Director, Partnership & Performance	

Audit Committee

4 February 2021

Clackmannanshire Council Audit of 2019/20 annual accounts

Independent auditor's report

1. Our audit work on the 2019/20 annual accounts is now substantially complete. Subject to receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 4 February 2021 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Audit Committee's consideration our draft annual report on the 2019/20 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.
6. We have no unadjusted misstatements to be corrected.

Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Audit Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from the Chief Finance Officer

8. As part of the completion of our audit, we are seeking written representations from the Chief Finance Officer on aspects of the annual accounts, including the judgements and estimates made.
9. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Chief Finance Officer with the signed annual accounts prior to the independent auditor's report being certified.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Clackmannanshire Council and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Clackmannanshire Council and its group for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, and Balance Sheets, the council-only Cash Flow Statement, Housing Revenue Account Income and Expenditure Statement, Movement in Housing Revenue Account Statement, Council Tax Income Account, Non Domestic Rates Income Account, the Common Good and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is four years. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Finance Officer and the Audit Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

The Chief Finance Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gordon Smail
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

4 February 2021

APPENDIX B: Letter of Representation (ISA 580)

Gordon Smail, Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

4 February 2021

Dear Gordon

Clackmannanshire Council Annual Accounts 2019/20

1. This representation letter is provided about your audit of the annual accounts of Clackmannanshire Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Strategic Leadership Group, the following representations given to you in connection with your audit of Clackmannanshire Council's annual accounts for the year ended 31 March 2020.

General

3. Clackmannanshire Council and I have fulfilled our statutory responsibilities for the preparation of the 2019/20 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Clackmannanshire Council have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that I am not aware of any uncorrected misstatements within the financial statements.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (2019/20 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of Clackmannanshire Council and its group at 31 March 2020 and the transactions for 2019/20.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2019/20 accounting code where applicable.

Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Clackmannanshire Council circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Clackmannanshire Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Clackmannanshire Council's ability to continue as a going concern.

Assets

10. I carried out an assessment at 31 March 2020 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
11. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2020.
12. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
13. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

14. All liabilities at 31 March 2020 of which I am aware have been recognised in the annual accounts.
15. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2020 of which I am aware where the conditions specified in the 2019/20 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2020. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.
16. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2020 or to reflect material changes in the assumptions underlying the calculations of the cash flows.
17. The accrual recognised in the financial statements for holiday untaken by 31 March 2020 has been estimated on a reasonable basis.

18. The pension assumptions made by the actuary in the IAS 19 report for Clackmannanshire Council have been considered and I confirm that they are consistent with management's own view.
19. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

20. There are no significant contingent liabilities, other than those disclosed in Note 37 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and IAS 37.

Fraud

21. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

22. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

23. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2019/20 accounting code. I have made available to you the identity of all the Clackmannanshire Council's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

24. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management Commentary

25. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

26. I confirm that Clackmannanshire Council has undertaken a review of the system of internal control during 2019/20 to establish the extent to which it complies with proper practices set out in

the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

27. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. I am satisfied that governance arrangements have been adequately maintained.

Group Accounts

28. I have identified all the other entities in which Clackmannanshire Council has a material interest and have classified and accounted for them in accordance with the 2019/20 accounting code. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

Events Subsequent to the Date of the Balance Sheet

29. All events subsequent to 31 March 2020 for which the 2019/20 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Chief Finance Officer

Clackmannanshire Council

2019/20 Annual Audit Report – DRAFT



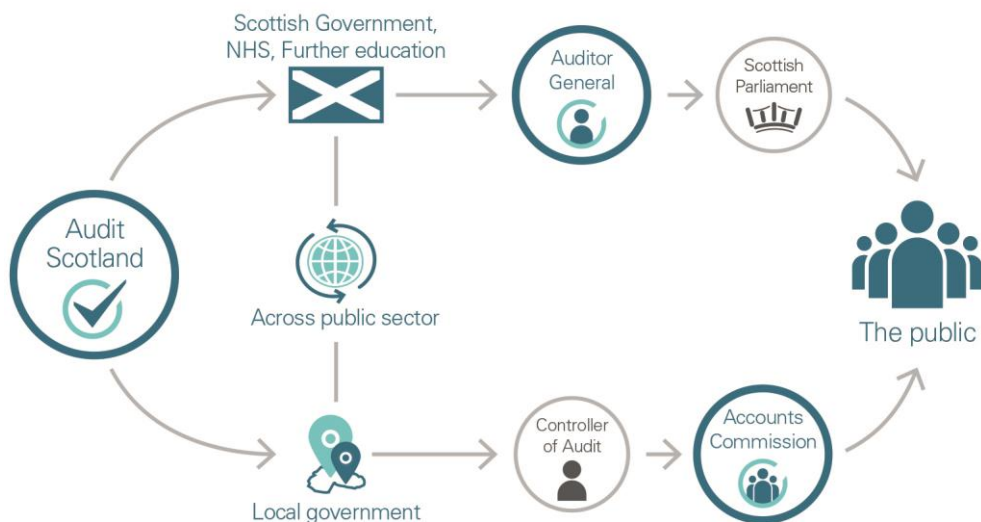
 AUDIT SCOTLAND

Prepared for the Members of Clackmannanshire Council and the Controller of Audit
February 2021

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2019/20 annual accounts

- 1 The financial statements of Clackmannanshire Council (the council) and its group give a true and fair view and were properly presented.
- 2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant requirements.
- 3 The audit was later than planned. Additional priorities for the finance team to respond to Covid-19 alongside business as usual led to delays in preparing the annual report and accounts.

Financial management

- 4 The council operated within its revenue budget for 2019/20.
- 5 Underspending against the capital budget continued in 2019/20. Work to complete a longer-term capital strategy is ongoing.
- 6 The council needs to strengthen its arrangements for preventing fraud and corruption in the procurement function as this is an area where instances of fraud can be particularly common.

Financial sustainability

- 7 The council's financial position improved in 2019/20, but actions to address the financial impact of Covid-19 will affect 2020/21. The council's track record in managing its finances in challenging circumstances will be tested further as it looks to secure financial sustainability.
- 8 The council's transformation programme is the basis for building financial and service sustainability. The council continued to progress transformation work in 2019/20 and has refreshed its priorities in response to the pandemic.

Governance and transparency

- 9 The council's governance arrangements provided an appropriate framework for decision-making and scrutiny. The council made reasonable and pragmatic changes in response to Covid-19.
- 10 Overall, the council conducts its business in an open and transparent manner.

Best Value

- 11 The council made further progress in implementing the changes required to improve its finances and services.
- 12 The council has agreed steps designed to ensure it has the staff capacity to respond to, and recover from, the challenges presented by Covid-19.

Introduction

1. This report summarises the findings from the 2019/20 audit of Clackmannanshire Council (the council) and its group.
2. The scope of the audit was set out in our 2019/20 Annual Audit Plan presented to the February 2020 meeting of the audit committee. This report comprises the findings from:
 - an audit of the annual accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2019/20 have been:
 - an audit of the annual accounts of the council and its group and the issue of an independent auditor's report setting out our opinions
 - a review of the council's key financial systems
 - consideration of the four audit dimensions.
4. Since publication of the Annual Audit Plan the council, like all public bodies, has had to respond to the global coronavirus pandemic. This impacted on the final month of the 2019/20 financial year and continues to have a significant impact in 2020/21. Covid-19 has had significant implications for the services the council delivers. The council is involved in administering schemes providing financial

support to businesses and individuals affected by the pandemic. This has affected the council's capacity and services.

5. We reviewed our assessment of audit risks and planned audit work in August 2020 and confirmed that they remained relevant.

Adding value through the audit

6. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- helping the council promote improved standards of governance, better management and decision making and more effective use of resources
- reviewing the council's progress in addressing matters arising from our Best Value reports.

Responsibilities and reporting

7. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

8. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

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

10. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

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

12. This report sets out matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

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

Auditor independence

14. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £202,210 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

15. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual accounts



Main judgements

The financial statements of the council and its group give a true and fair view and were properly presented.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant requirements.

The audit was later than planned. Additional priorities for the finance team to respond to Covid-19 alongside business as usual led to delays in preparing the annual report and accounts.

The annual accounts are the principal means of accounting for the stewardship of resources and performance.

Our audit opinions on the annual report and accounts are unmodified

16. The accounts for the council and its group for the year ended 31 March 2020 were approved by the audit committee on 4 February 2021. As reported in the independent auditor's report;

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, and the management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

Additional priorities for the finance team to respond to Covid-19 alongside business as usual led to delays in preparing the annual report and accounts

17. The Scottish Government advised that it considers the provisions in the Coronavirus (Scotland) Act 2020 allow each local authority to determine its own revised timetable for the annual accounts. The council used the powers in the 2020 Act to postpone the availability of the unaudited accounts beyond the usual date of 30 June 2020.

18. The council's finance team faced competing pressures to support the council's response to Covid-19 alongside its routine business. As a result, the council was unable to provide unaudited annual accounts in accordance with the original audit timetable. We agreed a revised timetable for the audit with officers, and this had to be extended at the request of officers due to additional and continuing Covid-19 response work. The unaudited accounts were made available on 15 September 2020 and provided to us for audit on 7 September 2020.

19. The unaudited annual report and accounts were of an acceptable standard but would have benefitted from further review by officers to identify and correct

typographical and presentational errors. We received a complete working papers package in support of the accounts. Officers supported us during the audit, but we experienced delays in receiving information and responses to queries due to the increased workload of the finance team.

20. The finance team's resources have been stretched due to the additional priorities to respond to Covid-19. For example, administering schemes providing financial support to businesses and individuals affected by Covid-19. It has also had to adjust to new ways of working.



Recommendation 1

The council should continue work to ensure the finance team has the resources needed to prepare its annual accounts, and respond to additional priorities and new ways of working due to Covid-19.

Objections

21. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. These requirements were amended by Schedule 6 of the Coronavirus (Scotland) Act 2020. The council complied with the revised regulations. There were no objections to the 2019/20 accounts.

Overall materiality is £2.4 million

22. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of any misstatement in the financial statements.

23. On receipt of the annual report and accounts for audit we reviewed our materiality calculations and concluded that they remained appropriate as shown in [Exhibit 2](#).

Exhibit 2 Materiality values

Overall materiality	£2.4 million
Performance materiality	£1.2 million
Reporting threshold	£50,000

Source: Audit Scotland

24. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. [Appendix 2](#) identifies the work we undertook to address these risks and our conclusions from this work.

25. We have no issues to report from our work on the risks of material misstatement highlighted in our 2019/20 Annual Audit Plan. We have reported several points from our wider dimension work. These relate to financial sustainability and governance and transparency, and are included in the action plan at [Appendix 1](#).

We have no significant findings to report on the accounts

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the council's accounting practices. We have no significant findings to report on the qualitative aspects covering accounting policies, accounting estimates and financial statements disclosures.

The council adjusted identified misstatements of £15.7 million in the accounts

27. There was one material adjustment to the unaudited financial statements arising from our audit. The total value of this adjustment is £13.3 million and relates to the following transactions that were credited to income in error:

- pensions accounting adjustment of £10.2 million
- support services recharges of £1.3 million
- internal trading contract income of £1.8 million.

28. The adjustment reduced gross expenditure by £13.3 million and gross income by the same amount, with no overall effect on net expenditure. The council adjusted group income and expenditure by the same amount.

29. We also identified three monetary misstatements below our materiality level which exceeded our reporting threshold:

- Omission of the share of other comprehensive income for the council's subsidiary, associates and joint ventures. Management amended the misstatement. As a result of this change group total comprehensive income increased by £1.7 million.
- Omission of common good revaluation movements. The council made a £0.06 million adjustment to correct this misstatement which reduced common good net assets and total comprehensive income by this amount.
- Incorrect accounting treatment of common good revaluation movements. Management amended this misstatement. This reduced the surplus on revaluation of non-current assets by £0.6 million and credited the surplus or deficit on provision of services by the same amount, with no overall effect on total comprehensive income and expenditure.

30. We have concluded that the misstatements identified arose from isolated issues and do not indicate systematic error.

Financial and performance reporting in the management commentary could be improved

31. The management commentary that accompanies the financial statements is intended to assist users' understanding of the financial statements and the council's financial position and performance generally. It provides context for the financial statements, analysis of performance, and insight into the council's priorities and the strategies it has adopted to achieve its objectives.

32. The management commentary meets the minimum statutory requirements, but we noted several areas where financial and performance reporting could be strengthened. This includes clearer analysis of how the council performed against its priorities and better financial information which can be reconciled more easily to the financial statements.

33. The Audit Scotland [Good Practice Note: Management Commentaries Enhancing the quality of local government annual accounts](#) is a useful reference point to help enhance the management commentary.



Recommendation 2

The council should make improvements to the management commentary to ensure it provides users of the annual report and accounts with a more comprehensive analysis of its performance.

The council has made limited progress on prior year recommendations

34. The council has made limited progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

The council operated within its revenue budget for 2019/20.

Underspending against the capital budget continued in 2019/20. Work to complete a longer-term capital strategy is ongoing.

The council needs to strengthen its arrangements for preventing fraud and corruption in the procurement function as this is an area where instances of fraud can be particularly common.

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

The council operated within its revenue budget in 2019/20

35. The council approved its 2019/20 budget of £125.5 million in March 2019. The council recorded a general fund revenue underspend of £5.3 million in 2019/20. The more significant under and overspends are summarised in [Exhibit 3](#).

36. The council's 2019/20 budget included approved savings of £4.8 million. The council achieved £3.9 million (81%) of these savings in-year. While this is less in percentage terms compared with 2018/19 (87% savings achieved) it represents good progress in achieving savings year on year.

Exhibit 3

Summary of significant under and overspends against budget

Underspends

Education	£2.0 million	<p>The early years budget was underspent by £0.4 million due to vacant posts and carry forward of £0.3 million to fund the Scottish Government commitment to increase early learning and childcare provision in 2020/21.</p> <p>The primary schools staff costs budget was underspent by £0.6 million due to vacant posts.</p> <p>The secondary school budget had a range of underspends totalling £0.2 million.</p> <p>The council received pupil equity funding for the 2019/20 academic year (August 2019 to</p>
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July 2020). The council recorded a £0.6 million underspend reflecting unspent funds at the financial year end which were carried forward for use in the remainder of the academic year.

Development and environmental services	£1.1 million	A range of underspends with the most significant ones in the building operations, catering, implementation, and roads and street lighting budgets.
Housing and community safety	£1.0 million	Income from housing benefits was greater than the council forecast.
Loans fund repayments	£1.9 million	The council agreed to restructure the repayment of loans fund advances.
Overspends		
Social services	£0.7 million	The council overspent its budget for residential placements for children by £0.7 million.

Source: Clackmannanshire Council

The housing revenue account operated within budget

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

38. The council made a surplus of £7.1 million in 2019/20 on its HRA which was higher than the budgeted surplus of £4.9 million. This increase was mainly due to lower than expected staff costs, a delay to a new IT system and restructuring of loans fund repayments.

39. The council has used the HRA surplus to make a £6.2 million capital contribution to fund future improvements to its housing stock in accordance with its housing business plan. The council also transferred £0.1 million to the general fund to cover transfer of land to the HRA. The balance on the HRA at the end of the 2019/20 financial year increased to £4.5 million. These results indicate that the council's HRA remains financially sustainable.

The level of general fund reserves increased in 2019/20

40. One of the key measures of financial health is the level of reserves. The usable reserves held by the council increased from £20.0 million in 2018/19 to £22.4 million in 2019/20. The council's general fund balance, which provides a contingency to meet unexpected expenditure and manage the impact of uneven cash flows, increased from £8.6 million to £11.9 million.

41. The council reviews the level of its uncommitted reserves when setting the budget each year. The uncommitted element of the general fund at 31 March 2020 was £6.2 million which represents 4.8 per cent of net expenditure, above the 3 per cent minimum set in the council's reserve strategy. This is an increase of £1.4 million from the position reported in 2018/19 of £4.8 million (3.8 per cent of net expenditure).

42. Further information on the reserves position and the impact of Covid-19 is included in the next section of our report.

Underspending against the capital budget continued in 2019/20

43. The council's total capital expenditure in 2019/20 was £20.7 million of which £14.2 million related to general services and £6.5 million to the HRA. This represents an overall underspend of £10.5 million (34 per cent) on the council's capital programme.

44. The underspend was mainly due to delays to large projects covering several financial years, including City Region Deal projects and the digital infrastructure project. The HRA part of the budget was also underspent due to delays in the repairs and refurbishment programme.

45. We previously highlighted recurring capital underspends and recommended that the council presses on with work to improve the management of its capital programme. The council has been planning for several years to produce a capital strategy setting out its priorities for the next five to ten years and to better align capital planning and spending. This work remains ongoing.



Recommendation 3

The council should implement a capital strategy which clearly sets out how it will manage and deliver its programme of capital expenditure in the medium and longer-term.

The council's borrowing remained within authorised limits

46. The council had outstanding loans of £141.0 million at 31 March 2020, an increase of £3.7 million compared with the previous year. This consists of external borrowing of £101.8 million and long-term liabilities relating to three school public private partnership leases of £39.2 million.

47. The council sets an authorised limit for external debt in its annual treasury management strategy. This provides authority for the maximum figure the council can borrow at any given point. The council also sets a lower operational boundary based on an estimate of the most likely level of external borrowing. The council's borrowing remains within its external borrowing limit of £160.0 million and operational boundary of £150.0 million.

The council's budget monitoring arrangements were affected by Covid-19

48. Scrutiny of financial performance is carried out by service committees and overall review of the council's financial position is delegated to the audit committee. The audit committee receives revenue and capital monitoring reports showing an overall picture of the budget position. The reports also forecast the outturn position for the year and include explanations for significant variances against budget.

49. Due to Covid-19 the council's committees did not meet between late March and early October 2020. Committees started to meet again from October 2020 and resumed scrutiny of financial performance. This meant that management did not prepare a final outturn report for councillors setting out details of the financial performance of the council in 2019/20. This report provides an important opportunity to scrutinise the financial performance of individual services and investigate the reasons for significant revenue and capital over and underspends based on the year-end figures. With the return to regular committee meetings, the council should ensure it has clear year-end budgeting review arrangements in place. See Appendix 1, prior year recommendation 1.

50. The council has notified us of pressures in its 2020/21 social work budget due to increased spending on children's services. We have agreed to carry out

additional work in this area as part of our 2020/21 audit. This will give us an opportunity to consider how the council is managing a key element of its budget, particularly aspects which are demand-led and difficult to plan. The council plans to use the outcome of our work to inform its wider transformation and organisational redesign activity.

51. The council has also identified that the housing repairs and social work systems do not provide accurate commitments in the financial ledger to allow accurate budget management.

We identified areas where internal controls could be strengthened

52. We identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

53. Our 2019/20 testing covered key controls in areas including bank reconciliations, supplier bank detail changes, controls over changes to standing data and budget monitoring. We also followed up the council's progress in addressing the weaknesses identified in our 2018/19 management report.

54. We identified areas where controls could be strengthened. These relate to control weaknesses we reported in 2018/19 and therefore further work is required, as a matter of urgency, to address the recommendations. Risks remain until these matters are resolved. We carried out additional work to gain the assurance we required for our audit of the council's 2019/20 annual accounts. The control weaknesses we identified are covered in the remainder of this section. We would normally include points of detail like this in the management report but we were unable to present the report to the audit committee because the committee did not meet due to Covid-19. We made management aware of the control weaknesses at the time of completing the work in April 2020.

55. Council staff are aware of the importance of ensuring changes to a supplier's bank details are genuine. They verify requests for changes in bank details by contacting the supplier by telephone using the number already held by the council. In 2018/19 we found that for 11 of the 20 cases we tested there was documentary evidence of a request to change the supplier bank details on file but no evidence of council verification of the change. In four of the 11 cases, the council should have taken steps to ensure the requests for change were authentic.

56. This year we found that for three of the 25 cases we tested the council had not recorded evidence of supplier verification on file. Evidence of supplier verification should be noted on file for every change of supplier bank details. Staff should record a note of the verification against the supplier file in the system and attach backup of the new details received.

57. Authorised signatories approve the opening and closing of bank accounts, authorise payments, and approve changes to the list of signatories. We previously identified that the authorised signatory list was out of date and included an employee who no longer worked for the council. We also found that the user access list for the council's banking system was out of date. Some employees whose responsibilities meant that they did not require access to the system were listed.

58. This year we found that the authorised signatory lists have been updated. The user access list for the council's banking system has also been updated. However, the listing shows that there are officers with view-only access who have not logged on to the system for up to four years. This would suggest that access is no longer required. The council should ensure that access rights are up-to-date, appropriate and reflect current responsibilities.

59. In 2018/19 we reported that the council did not prepare reconciliations between the housing rents system and the financial ledger system. Our 2019/20 testing found that officers prepare monthly reconciliations between the housing rents system and the financial ledger and investigate variances. However, we found unreconciled differences which officers had not yet investigated. Housing rent system reconciling differences should be investigated timeously.

60. The scheme of delegation is out of date and was last reviewed in 2014. It was due to be updated in March 2019. We note that the scheme of delegation has not been updated as the council has yet to complete the restructure of the people directorate. Documents which set out the council's financial management and governance arrangements should be updated and reflect current structures and roles.



Recommendation 4

The council should progress actions agreed to resolve the control weaknesses relating to changes in supplier bank details, bank access rights and housing rent reconciliations, and update its schemes of delegation.

Internal audit

61. The council's internal audit function is provided through a joint resourcing arrangement with Falkirk Council. Falkirk Council provides management and resources under the terms of the agreement. Each year we consider whether we can rely on internal audit work to avoid duplication of effort.

62. We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. We planned to place reliance on internal audit's work on access privileges to key corporate systems. After review of the report, terms of reference and audit work we concluded that the audit did not cover the key control we identified for user access restrictions. We therefore did not place reliance on this work.

63. We considered the findings of internal audit work throughout the year to inform our work.

The council needs to strengthen its arrangements for preventing fraud and corruption in the procurement function

64. The council is responsible for establishing arrangements for the prevention and detection of fraud and error and irregularities. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

65. The council has a range of procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, corporate anti-fraud policy, fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

66. In 2018/19 we reported that the council needed to update its arrangements for the prevention and detection of fraud and corruption. This included updating relevant policies and strategies and ensuring staff are aware how to report suspected fraud. Officers committed to updating the council's fraud and raising concerns at work policies and process to produce a comprehensive approach. This work has not been concluded and is still to be approved by councillors. See Appendix 1, prior year recommendation 2.

67. The consideration of financial management includes evaluating the arrangements in place for fraud and corruption. Instances of fraud and corruption can be particularly prevalent in the procurement function.

68. We assessed the effectiveness of the council's controls and policies in preventing procurement fraud and found:

- there were at least 11 contracts across various services which had elapsed but were still being used
- a large number of invoices that had not been matched to purchase orders, mainly for the health and social care partnership.



Recommendation 5

The council should review its arrangements for preventing procurement fraud to ensure they are effective.

National Fraud Initiative activity needs to increase

69. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Audit Scotland coordinates NFI in Scotland. Computerised techniques are used to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

70. We reported in our 2018/19 annual audit report that at September 2019 the council had investigated 64 matches of varying risk levels, eight per cent of all matches. The NFI identified 160 cases that are deemed to be high risk matches recommended for investigation. We reviewed the NFI system in 2019/20 and found that the council had only investigated one additional match and has not investigated 111 high risk matches.



Recommendation 6

The council should review its approach to investigating high risk matches.

Part 3

Financial sustainability



Main judgements

The council's financial position improved in 2019/20, but actions to address the financial impact of Covid-19 will affect 2020/21. The council's track record in managing its finances in challenging circumstances will be tested further as it looks to secure financial sustainability.

The council's transformation programme is the basis for building financial and service sustainability. The council continued to progress transformation work in 2019/20 and has refreshed its priorities in response to the pandemic.

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

The council has effective financial planning arrangements

71. The council regularly reviews its financial position. It has longer-term plans that include best, most likely and worst-case scenarios for a rolling four-year period. These scenarios, which it regularly reviews, are based on different sets of assumptions for variable such as Scottish Government funding, inflation and pay awards. Councillors received regular budget strategy reports during 2019/20.

The council's financial position improved in 2019/20, but actions to address the financial impact of Covid-19 will affect 2020/21

72. The council agreed a balanced budget for 2020/21 in February 2020. It updated its indicative funding gap for 2021/22 to 2023/24 based on the decisions agreed in the budget. This resulted in indicative funding gaps of £7.9 million, £6.6 million and £6.7 million for the three years to 2024. This is a cumulative gap of £21.2 million which is an improvement from the three-year funding gap of £23.4 million highlighted in our 2018/19 Annual Audit Report.

73. In June 2020, the chief executive presented a report to the council highlighting risks to the council's finances from the Covid-19 pandemic. These include:

- increased costs for response and recovery work, which additional Scottish Government funding may not cover
- delays in implementing previously agreed savings and transformation projects
- reduced council tax, non-domestic rates, rents and other income
- delayed completion of capital projects.

74. In September 2020, the chief finance officer presented a finance update to the council. This highlighted the council was forecasting an overspend of £2 million for 2020/21 due mainly to Covid-19. The council agreed:

- to use £1.5 million of uncommitted reserves to support the 2020/21 budget
- to urgently develop and implement a recovery plan for social care and to implement spending restraint across all council services
- to delegate an additional £0.25 million from uncommitted reserves to the senior leadership group to address unmet resourcing needs
- to use uncommitted reserves to increase the transformation fund by £0.5 million.

75. These measures reduce the council's uncommitted general fund reserves to just £30,000 above the minimum level set out in the council's reserve strategy.

76. The council has a track record in managing its finances in challenging circumstances. It has arrangements in place to respond to the impact of Covid-19 on its finances and these will be tested further as it looks to secure financial sustainability.

The council continued to progress transformation work in 2019/20 and has refreshed its priorities in response to the pandemic

77. The council is using its 'Be the Future' transformation programme as the basis for building financial and service sustainability. It implemented a new financial planning approach with the 2020/21 budget, which involves closer integration with the transformation programme. The council's longer-term financial plans will be updated as individual business cases are developed to include the impact of approved transformation projects. The council hopes this will allow it to chart progress toward financial and service sustainability.

78. Be the Future is a ten-year programme which combines the council's local outcome improvement plan outcomes and corporate plan priorities into three programmes of activity:

- Sustainable inclusive growth
- Empowering families and communities
- Health and well-being.

79. The council revisited the core workstreams and priorities of the Be the Future programme in the first half of 2020/21. The review included a series of externally facilitated stakeholder engagement events involving councillors, officers and community planning partners. The council concluded that the three programmes of activity provide a relevant response to Covid-19 and associated recovery activity, including financial recovery. Priority areas of work were identified covering:

- new ways of working
- supporting economic recovery
- financial sustainability.

80. The council has agreed to prioritise these projects through the Be the Future programme. Progress will be monitored by the transformation programme board, now known as the Be the Future Board, and the council. We are aware that the council has continued to progress transformation work during 2020/21 and we will review progress as part of our 2020/21 audit.



Recommendation 7

The council should keep its transformation programme projects under review to ensure they support financial and service sustainability.

Part 4

Governance and transparency



Main judgements

The council's governance arrangements provided an appropriate framework for decision-making and scrutiny. The council made reasonable and pragmatic changes in response to Covid-19.

Overall, the council conducts its business in an open and transparent manner.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

The council's governance arrangements provided an appropriate framework for decision-making and scrutiny

81. The council's governance arrangements are centred on council meetings, three service committees and the audit committee. The audit committee is chaired by a member of the opposition in line with accepted good practice.

82. Council and committee meetings are well attended by councillors and papers are subject to a good level of scrutiny. The governance arrangements in place for the majority of 2019/20 provided an appropriate framework for organisational decision-making and scrutiny.

The council made reasonable and pragmatic changes to governance arrangements in response to Covid-19

83. The council's annual governance statement explains the impact of Covid-19 on its governance arrangements. The council made significant changes to allow it to manage the challenges presented by the pandemic and protect its communities and staff.

84. The council cancelled all scheduled council and committee meetings from 25 March to 28 May 2020 and set up an emergency decision making forum (EDMF), which met remotely, to deal with council business. The EDMF included councillors from all political parties. This reduced face-to-face contact and allowed for urgent decision-taking. It also allowed senior staff to focus on the council's response to the pandemic. Establishing the EDMF was an appropriate response to the challenging situation faced by the council and ensured continued scrutiny of council decisions.

85. Regular council meetings resumed from 25 June 2020. The council's committees started meeting again from the beginning of October 2020. All meetings are held remotely and continue to be well attended by councillors.

The council could improve the transparency of financial performance reporting

86. The management commentary that accompanies the financial statements should help readers understand clearly how the council has performed against its

budget and how this reconciles with its financial statements. In part 1 of this report we highlighted improvements the council could make to the management commentary to improve financial performance reporting, and which in turn would enhance financial transparency.

Overall, the council conducts its business in an open and transparent manner

87. Openness and transparency support understanding of decision-making and performance and effective scrutiny. A transparent organisation shares clear, relevant and timely information about how it is taking decisions and using resources.

88. Overall, the council conducts its business in an open and transparent manner. Before Covid-19 restrictions came into force, members of the public could attend council and committee meetings. Minutes of these meetings and supporting papers are available on the council's website. Since the move to remote meetings the council has also made video recordings of council meetings available on its website.

89. We carried out a review of council papers to assess the openness and transparency of decision-making. This covered access to papers and the extent to which business is taken in private session and included comparison against other Scottish councils. Overall, we concluded that the position at Clackmannanshire was similar to other councils. We note that the council has updated its standing orders to make the process for consideration of exempt papers more transparent.

90. The council did not maintain an up to date register of senior leadership team interests in 2019/20. The register of interests supports open and transparent council business by identifying potential conflicts of interest.



Recommendation 8

The council should ensure it maintains an up to date record of senior leadership team interests.

The council is reviewing how it engages with residents and communities

91. Our June 2019 [BVAR Progress report](#) noted that the council knows it needs to demonstrate better the link between decisions on how it uses its resources and its priorities. Actions include earlier consideration of savings proposals and more targeted engagement with individuals and communities which will be affected, as part of the council's wider commitment to community engagement.

92. The council uses an online survey tool, Citizen Space, to consult on issues such as service satisfaction, policy proposals and strategies. This included the annual budget survey. The council notes that its communication approaches were significantly tested during early responses to Covid-19. This required adapting some approaches to ensure they were fit for purpose. Looking forward the council plans to consult on and agree a communication and engagement strategy.

Part 5

Best Value



Main judgements

The council made further progress in implementing the changes required to improve its finances and services.

The council has agreed steps designed to ensure it has the staff capacity to respond to, and recover from, the challenges presented by Covid-19.

Best Value is concerned with using resources effectively and continually improving services.

The council made further progress in 2019/20 towards the changes required to secure Best Value

93. Best Value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council is considered by the Accounts Commission at least once in this period. The BVAR report for the council was published in January 2018 and a BVAR progress report was published in June 2019.

94. Our 2019/20 audit work focused on council's progress against the recommendations of the BVAR Progress report, which were:

- Councillors and officers should build on recent progress and work collaboratively to agree initiatives which secure transformational change, long-term savings, and service and financial sustainability.
- The council should work urgently to finalise its new management structure and proceed with organisational change, and ensure the initiatives that are in train provide the necessary capacity to support and embed change.
- The council should further develop its working relationships with local councils and others and use these to secure efficiencies in services.

95. The council has made further progress towards implementing the changes required to improve its finances and pursue opportunities for service development. It will take time for this to result in new ways of working that secure efficiencies.

96. There is evidence of broad support between councillors for the council's transformation programme and a willingness to work together and with officers to agree transformational initiatives. In part 3 of this report we highlighted the changes the council is making to the transformation programme to ensure it supports recovery from Covid-19.

97. Last year we reported that the council had agreed new management structures for the place and partnership and performance portfolios and a transitional structure for the people portfolio. The council agreed the second phase of its organisational redesign plan in August 2019 which provides a clear roadmap to a new way of working.

98. The council has developed a workforce programme in consultation with staff and trade union representatives. This brings together the recovery, support and transformation activity set out in the council's strategic workforce plan, its organisational redesign plan and its Covid-19 recovery plan. The programme identifies project managers and timescales for each activity. The council is making reasonable progress against this plan which covers the period to 2021/22.

99. The council has also agreed a range of actions designed to ensure it has the capacity to respond to, and recover from, the challenges presented by Covid-19. This includes:

- recruitment to vacant posts, which has resulted in a permanent appointment for the strategic director (people) post
- additional investment from the transformation fund and uncommitted reserves to allow senior management to secure priority resources
- recruitment for an additional strategic director level resource for 18 months to focus on ongoing response and recovery activity and transformation priorities.

100. Our BVAR Progress report found that the council views collaboration as critical to achieving financial sustainability. During 2019/20 the council made connections and established relationships with a wide range of partners:

- regular meetings of Forth Valley chief executives were scheduled with a focus on developing regional economic potential
- Forth Valley council leaders agreed to develop options as the basis for wider political engagement
- the council established discussions and relationships with partners including the Scottish Government, Stirling University, the Clackmannanshire Alliance community planning partnership and a range of third sector partners.

101. The Stirling and Clackmannanshire City Region Deal was signed in February 2020. The deal focuses on delivering national and international sustainability through cutting-edge environmental projects, innovation in the digital and tourism sectors and boosting skills across the region. The council is reviewing its City Deal projects to ensure they remain relevant in the context of the Covid-19 pandemic.

102. We had planned to review the council's progress against the recommendations of the BVAR Progress report in more detail in 2019/20 but this was deferred due to Covid-19. We are aware that the council has made further progress in 2020/21 and we will review this as part of our 2020/21 audit.

The council is committed to promoting equal opportunities and fairness

103. We reviewed the council's commitment to equal opportunities and fairness as part of our cyclical work on aspects of Best Value. The council has provided evidence of its commitment to equal opportunities through its reporting on how it is mainstreaming equality and diversity. This shows that the council is making good progress against its equality outcomes.

104. The council is embedding equal opportunities and fairness in service delivery through its use of equality impact assessments, training programmes and its equal pay policy statement. The council's corporate plan outcomes have a strong focus on promoting equal opportunities and fairness in the community.

The council's performance management arrangements were affected by Covid-19

105. The council's corporate plan sets out a range of outcome measures for each of the council's priorities. Services set targets annually in their business plans. Officers prepare end of year reports for each service which include reporting against these performance measures. These are presented to service committees.

106. The council's service committees did not meet between the end of March and beginning of October 2020 due to the revised governance arrangements put in place to respond to Covid-19. This has led to a delay in the council presenting its end of year performance reports. At the time of reporting only the people service's report has been presented. This means it is difficult to obtain a complete picture of the council's performance.

107. The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

108. In the 2018/19 annual audit report we highlighted the council's comparatively high rates of teachers' and non-teachers' sickness absence according to the LGBF data. The most recent [National Benchmarking Overview Report 2018/19](#) by the Improvement Service shows that the council's performance against both measures has improved but the data indicates that the council is still not performing as well as most other local authorities. The council is taking a range of actions to explore and address this issue.

Overall, the council has appropriate arrangements for complying with statutory performance indicators direction

109. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information.

110. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments, and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

111. The council has appropriate arrangements in place for complying with the direction. However, as we note in the previous section of this report, there have been delays to it producing and publishing performance information.

National performance audit reports

112. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published reports which may be of interest to the council. These are outlined in [Appendix 3](#).

113. The council was selected as a fieldwork site for Audit Scotland's performance audit on [Digital progress in local government](#). The report found that councils are at different stages of digital transformation. Progress is strongest where councils have

focused on how digital technology can deliver better outcomes for people. The pace of change has increased as digital technologies have played a vital role in the public sector's response to the Covid-19 pandemic. It has also heightened the awareness of digital exclusion.

114. The report includes references to the council's digital transformation work. The council will find the report's recommendations helpful in supporting its future work, along with the supporting good practice guide and checklist for elected members.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Finance team capacity</p> <p>The finance team's resources have been stretched due to the additional priorities to respond to Covid-19. For example, administering schemes providing financial support to businesses and individuals affected by Covid-19. It has also had to adjust to new ways of working.</p> <p>Risk</p> <p>The finance team does not have sufficient resources to deal with the additional pressures to respond to Covid-19 alongside business as usual.</p>	<p>The council should continue to ensure the finance team has the resources needed to prepare its annual accounts, and respond to additional priorities and new ways of working due to Covid-19.</p> <p>Paragraph 20</p>	<p>The Finance and Revenues teams are currently undergoing redesign which will incorporate a review of capacity to meet commitments both in the short and longer term. Additional staffing will be brought in where possible to meet additional demands.</p> <p>Responsible officer – Chief Finance Officer</p> <p>By when – Ongoing</p>
2	<p>Management commentary</p> <p>The management commentary meets the minimum statutory requirements, but we noted several areas where financial and performance reporting could be strengthened. This includes clearer analysis of how the council performed against its priorities and better financial information which can be reconciled more easily to the financial statements.</p> <p>Risk</p> <p>The council does not provide users of its annual report and accounts with a clear analysis of its performance.</p>	<p>The council should make improvements to the management commentary to ensure it provides users of the annual report and accounts with a more comprehensive analysis of its performance</p> <p>Paragraph 32 to 33</p>	<p>The management commentary will be reviewed during the preparation of the 2020/21 accounts.</p> <p>Responsible officer – Chief Finance Officer</p> <p>By when – August 2021</p>
3	<p>Capital programme</p> <p>We previously highlighted recurring capital underspends and recommended that the council presses on with work to improve the management of its capital programme. The council has been planning for several years to</p>	<p>The council should implement a capital strategy which clearly sets out how it will manage and deliver its programme of capital expenditure in the medium and longer-term</p>	<p>Work is continuing to establish a capital strategy in line with updated asset strategies focusing around the Be the Future priorities, including the Learning Estate Strategy, the Leisure Strategy and City Region</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>produce a capital strategy setting out its priorities for the next five to ten years and to better align capital planning and spending. This work remains ongoing.</p> <p>Risk</p> <p>Recurring capital underspends affect the ability of the council to improve services and achieve its strategic priorities.</p>	<p>Paragraph 45</p>	<p>Deal. The Capital Operations group re-established in 2019-20 continues to meet during the year to review capital outturns and review new bids.</p> <p>Responsible officer – Chief Finance Officer</p> <p>By when – March 2022</p>
4	<p>Internal controls</p> <p>We identified areas where the council could strengthen key controls within accounting systems. These relate to control weaknesses we reported in 2018/19 and therefore further work is required, as a matter of urgency, to address the recommendations. Risks remain until these matters are resolved.</p> <p>Risk</p> <p>The council's systems do not provide a sound basis for the preparation of the financial statements.</p>	<p>The council should progress actions agreed to resolve the control weaknesses relating to changes in supplier bank details, bank access rights and housing rent reconciliations, and update its schemes of delegation</p> <p>Paragraph 54 to 60</p>	<p>Work was undertaken following the recommendations provided in April 2020 and changes have been made to supplier verification processes. Bank access rights have also been reviewed and updated as noted in paragraph 58. We are satisfied that the controls in place within the banking system for those with view only access pose no immediate risk but will review as part of our ongoing processes.</p> <p>As noted, Housing rent reconciliations are being carried out however we will review timeframes for investigating reconciling differences.</p> <p>The scheme of delegation is planned for review following the completion of the review of the interim structure for the People Directorate and will be carried out as soon as possible subject to prioritisation of Covid19 response and recovery activity.</p> <p>Responsible officer – Chief Finance Officer/ Monitoring Officer</p> <p>By when – Ongoing</p>
5	<p>Arrangements for preventing procurement fraud</p> <p>We assessed the effectiveness of the council's controls and policies</p>	<p>The council should review its arrangements for preventing procurement fraud to ensure they are effective.</p> <p>Paragraph 68</p>	<p>Arrangements for increasing procurement support are being considered as part of the Finance and Revenues redesign including collaboration with Scotland</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>in preventing procurement fraud and found:</p> <ul style="list-style-type: none"> there were at least 11 contracts across various services which had elapsed but were still being used a large number of invoices that had not been matched to purchase orders, mainly for the health and social care partnership. <p>Risk</p> <p>Fraud and corruption in the procurement function is not identified.</p>		<p>excel. A review of the finance system is also being undertaken as part of the transformation plan to identify potential developments that would strengthen system controls in this area.</p> <p>Responsible officer – Chief Finance Officer</p> <p>By when – March 2022</p>
6	<p>National Fraud Initiative (NFI)</p> <p>We reported in our 2018/19 annual audit report that at September 2019 the council had investigated 64 matches of varying risk levels, eight per cent of all matches. The NFI identified 160 cases that are deemed to be high risk matches recommended for investigation. We reviewed the NFI system in 2019/20 and found that the council had only investigated one additional match and has not investigated 111 high risk matches.</p> <p>Risk</p> <p>Potential fraud or irregularity is not investigated.</p>	<p>The council should review its approach to investigating high risk matches.</p> <p>Paragraph 70</p>	<p>As the Council does not have a dedicated Fraud team, matches have been prioritised within services. Work is planned in this area linked to current arrangements with Falkirk and will be taken forward as prioritisation allows.</p> <p>Responsible officer – Monitoring Officer</p> <p>By when – June 2021</p>
7	<p>Transformation programme</p> <p>The council revisited the core workstreams and priorities of the Be the Future programme in the first half of 2020/21. It identified priority areas of work and has agreed to prioritise these projects through the Be the Future programme. Progress will be monitored by the Be the Future Board, and the council.</p> <p>Risk</p> <p>The council is unable to implement and embed the changes required for financial and service sustainability.</p>	<p>The council should keep its transformation programme projects under review to ensure they support financial and service sustainability.</p> <p>Paragraph 79 to 80</p>	<p>The Council has continued to prioritise and make good progress with its Transformation Plan. An early review of the Programme themes was undertaken in the latter stages of the first wave of the Covid-19 pandemic. As a consequence, seven priorities were agreed.</p> <p>The Council has embedded continuous and regular review of its projects and priorities as part of its Programme Management approach. This has most recently been undertaken in</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
8	<p>Register of senior leadership team interests</p> <p>The council did not maintain an up to date register of senior leadership team interests in 2019/20. The register of interests supports open and transparent council business by identifying potential conflicts of interest.</p> <p>Risk</p> <p>The council does not identify and take action to prevent potential conflicts of interest in decision making.</p>	<p>The council should ensure it maintains an up to date record of senior leadership team interests.</p> <p>Paragraph 90</p>	<p>preparation for 2021/22 budget setting to inform investment priorities.</p> <p>Responsible officer – Chief Executive</p> <p>By when – Ongoing</p> <p>This register had been in place and updated until a change of personnel resulted in the responsibility for this register not being clearly allocated. It is now the responsibility of the Monitoring Officer. The initial work to put in place a register for the Chief Executive Officer and Directors will take place immediately with further consideration given to the other officers who should be concluded in due course.</p> <p>Responsible officer – Monitoring Officer</p> <p>By when – March 2021 and August 2021</p>

Follow up of prior year recommendations

1	<p>Budget scrutiny</p> <p>Last year (2018/19) we reported that a 2018/19 draft outturn report was not presented to the June 2019 audit committee as planned.</p> <p>Risk</p> <p>The council's finances are not adequately scrutinised and services are not held to account for their spending.</p>	<p>The council should ensure it has clear year-end budgeting review arrangements in place.</p>	<p>Due to Covid-19 the council's committees did not meet between late March and early October 2020. Committees started to meet again from October 2020 and resumed scrutiny of financial performance. This meant that management did not prepare a final outturn report for councillors setting out details of the financial performance of the council in 2019/20.</p> <p>Outstanding</p>
2	<p>Fraud arrangements</p> <p>Last year (2018/19) we reported that the council needs to update its arrangements for the prevention and detection of fraud and corruption.</p> <p>Risk</p>	<p>The council should review and update its fraud arrangements and policies and ensure these are clearly communicated to staff.</p>	<p>Officers committed to updating the council's fraud and raising concerns at work policies and process to produce a comprehensive approach. This work has not been concluded and is still to be approved by councillors.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	There is an increased risk of undetected fraud.		Ongoing
3	<p data-bbox="256 479 408 517">Best Value</p> <p data-bbox="256 524 667 898">The June 2019 BVAR Progress report found that the council has laid the foundations for improvement but still has much to do to implement and embed the changes required for service and financial sustainability. At its meeting in August 2019 the council agreed an action plan to progress the recommendations contained in the BVAR Progress report.</p> <p data-bbox="256 904 325 943">Risk</p> <p data-bbox="256 949 667 1055">The council does not make the progress required to secure its financial position.</p>	The council should address the recommendations of the BVAR Progress report in its work to implement and embed the changes required for service and financial sustainability.	<p data-bbox="1075 479 1398 696">The council has made further progress against the recommendations of the BVAR Progress report. It will take time for this to result in new ways of working that secure efficiencies.</p> <p data-bbox="1075 703 1187 741">Ongoing</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

<p>1 Risk of material misstatement caused by management override of controls</p>	<p>Testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We tested journals, accounting estimates, accruals and prepayments. We did not identify any material errors.</p> <p>We found no evidence of transactions outside the normal course of business or management override of controls.</p>
<p>2 Risk of material misstatement caused by fraud in income recognition</p> <p>Auditing standards (ISA 240) states that there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements.</p> <p>The council receives a significant amount of income in addition to Scottish Government funding, for example council tax and charges for services. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Substantive cut-off testing of income to ensure it is recognised in the correct financial year.</p>	<p>We tested a sample of high-value revenue transactions and did not identify any issues.</p> <p>We did not identify any issues from our cut-off testing.</p>
<p>3 Risk of material misstatement caused by fraud in expenditure</p> <p>Guidance on auditing standards requires public sector auditors to consider the risk of fraud</p>	<p>Testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Substantive cut-off testing of expenditure to ensure it is</p>	<p>We tested a sample of high-value expenditure transactions and did not identify any issues.</p> <p>We did not identify any issues from our cut-off testing.</p>

over expenditure, extending the requirements of ISA 240. The extent of the council's expenditure, for example on benefits and grants, means that there is an inherent risk of fraud.

recognised in the correct financial year.

Review the council's participation and progress in the National Fraud Initiative.

We reviewed the NFI system in 2019/20 and found that the council had only investigated one additional match and has not investigated 111 high risk matches.

4 Estimates and judgements

There is significant subjectivity in the council's measurement and valuation of the material account areas of non-current assets, financial instruments and pensions. The council is commissioning a full revaluation of non-current assets, which needs to be completed before 31 March 2020 to comply with its accounting policy. It is also re-profiling loans fund repayments. The subjectivity of estimations and judgements represents an increased risk of material misstatement in the financial statements.

Testing of non-current asset balances focusing on the areas of greatest risk.

Assessment of the scope, independence and competence of the professionals engaged in providing valuations.

Review the appropriateness of estimates and judgements including comparison with other councils.

We tested samples of asset additions, disposals and transfers and did not identify any significant issues.

We assessed the scope, independence and competence of the valuer appointed by the council and did not identify any issues.

We reviewed the estimates and judgements used by the council in preparing the financial statements. The council agreed to make additional disclosures on the critical judgements made in the financial statements for valuation uncertainty.

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

5 Financial sustainability

The council continues to face significant financial pressures. This includes the costs of funding demand for its services and those provided by the integration joint board. There are ongoing general pressures on public finances. The council is forecasting it needs to achieve savings of £19 million over the next three years. The council needs to make difficult decisions about its services and how these are provided to ensure it balances its finances.

There is a risk that the council will find it increasingly difficult to maintain financial sustainability and deliver priority services.

Assess the effectiveness of financial planning in identifying the risks to financial sustainability in the short, medium and long terms.

Examine the arrangements in place to address identified funding gaps.

The council regularly reviews its financial position. Councillors receive budget strategy reports which update them on predicted funding gaps.

The council is using its transformation programme as the basis for building financial and service sustainability. It is revising the programme in response to the pandemic.

6 Governance and transparency

The council has a programme of work designed to secure transformational change, longer-term savings, and service and financial sustainability. This involves embedding new structures and arrangements across the council. There is a risk that

Review the appropriateness and effectiveness of arrangements for the prevention and detection of fraud and corruption.

Assess the quality and timeliness of financial information provided to councillors.

The council is updating its fraud and raising concerns at work policies and processes. Once concluded these will have to be approved by councillors.

Councillors receive revenue and capital monitoring reports showing an overall picture of the budget position. Due to Covid-19 the council's committees did not meet between late March and

processes to support the governance and transparency of council business do not operate as intended resulting in:

- ineffective arrangements for the prevention and detection of fraud and corruption
- financial information which is not clear, timely and detailed enough to enable effective scrutiny of the council's finances
- the council being unable to demonstrate the openness and transparency of its decision-making and use of public money
- the management commentary, published alongside the annual accounts, not providing a fair, balanced and understandable analysis of the council's performance.

Examine the openness and transparency of decision-making.

Review whether the management commentary tells a clear story and has been compiled in accordance with the appropriate guidance.

early October 2020. This meant that management did not prepare a final outturn report with the financial performance of the council in 2019/20.

We reviewed council papers to assess the openness and transparency of decision-making. This covered access to papers and the extent to which business is taken in private session and included comparison against other Scottish councils. Overall, we concluded that the position at Clackmannanshire was similar to other councils. We note that the council has updated its standing orders to make the process for consideration of exempt papers more transparent.

We have highlighted improvements the council could make to the management commentary to improve financial performance reporting.

Appendix 3

Summary of national performance reports 2019/20



**2019/20
Reports**

		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	Early learning and childcare: follow-up

Clackmannanshire Council

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