
Report to: Audit Committee

Date of Meeting: 3 February 2022

**Subject: Annual report to those charged with Governance and the
Controller of Audit for Financial Year Ended 2020/21**

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 2020/21 Financial Statements.

2.0 Recommendations

It is recommended that the Committee:

- 2.1. note the content of the Independent Auditor's Report (Appendix 1);
- 2.2. approve the content of the Letter of Representation (ISA 580), (Appendix 1) and
- 2.3. note the content of the Annual Audit Report, the recommendations for improvement and the follow up on prior year recommendations (Appendix 2).

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 2021. On approval, this letter will be signed by the Council's Chief Finance Officer.
- 3.4 The 2020/21 Annual Audit Report is included at Appendix 2 and sets out the significant findings from the 2020/21 audit of the Councils Annual Accounts (Exhibit 2). The report covers the scope of the audit as set out in the Annual Audit Plan presented to the Audit Committee in June 2021, 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 2019/20.

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 2020/21 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 | <input type="checkbox"/> |
| Our communities are more cohesive and inclusive | <input type="checkbox"/> |
| People are better skilled, trained and ready for learning and employment | <input type="checkbox"/> |
| Our communities are safer | <input type="checkbox"/> |
| Vulnerable people and families are supported | <input type="checkbox"/> |
| Substance misuse and its effects are reduced | <input type="checkbox"/> |

- Health is improving and health inequalities are reducing
- 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 Letter of Representation (ISA 580)

11.2 Appendix 2 - Clackmannanshire Council 2020/21 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 2020/21

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	Director of Partnership & Performance	

Audit Committee

3 February 2022

Clackmannanshire Council Audit of 2020/21 annual accounts

Independent auditor's report

1. Our audit work on the 2020/21 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 3 February 2022 (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 2020/21 annual audit report. 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 Section 95 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

Reporting 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 2021 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, Balance Sheets and Cash Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, Movement in Housing Revenue Account Statement, Council Tax Income Account, Non Domestic Rates Income Account, Common Good and notes to the financial statements, including a summary of 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 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council and its group as at 31 March 2021 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 2020/21 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 10/06/2021. The period of total appointment is one year. 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 concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from 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 judgements thereon.

Responsibilities of the Chief Finance Officer and 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the council is complying with that framework;
- identifying which laws and regulations are significant in the context of the council;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result 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.

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.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report

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

Statutory other information

The Chief Finance Officer is responsible for the statutory other information in the annual accounts. The statutory other information comprises the Management Commentary, Statement of Responsibilities, Annual Governance Statement and the unaudited part of the Remuneration Report.

My responsibility is to read all the statutory other information and, in doing so, consider whether the statutory 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this statutory other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on Management Commentary and Annual Governance Statement

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 the 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.

Carole Grant, CPFA

Audit Director
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

Date will be inserted automatically on date of signing

APPENDIX B Letter of Representation (ISA 580)

Carole Grant, Audit Director
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

3 February 2022

Dear Carole

Clackmannanshire Council

Annual accounts 2020/21

1. This representation letter is provided about your audit of the annual accounts of Clackmannanshire Council for the year ended 31 March 2021 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 Senior 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 2021.

General

3. Clackmannanshire Council and I have fulfilled our statutory responsibilities for the preparation of the 2020/21 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 the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

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 2020/21 (2020/21 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 the Clackmannanshire Council and its group at 31 March 2021 and the transactions for 2020/21.

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 2020/21 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's 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. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2021 does not differ materially from that which would be determined if a revaluation had been carried out at that date.

11. I carried out an assessment at 31 March 2021 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.

12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2021.

13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

15. There are a number of assets that may be regarded as Heritage Assets that have not been included on the Balance Sheet. It has not been possible to obtain reliable cost or valuation information due to the diverse nature of these assets.

Liabilities

16. All liabilities at 31 March 2021 of which I am aware have been recognised in the annual accounts.

17. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2021 of which I am aware where the conditions specified in the 2020/21 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 2021.

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.

18. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2021 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

19. The accrual recognised in the financial statements for holiday untaken by 31 March 2021 has been estimated on a reasonable basis.

20. 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.

21. 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

22. 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 2020/21 and IAS 37.

23. With specific reference to equal pay claims I can confirm that it is not possible to quantify the contingent liability.

Fraud

24. 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

25. 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

26. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2020/21 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

27. 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

28. 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

29. I confirm that the Clackmannanshire Council has undertaken a review of the system of internal control during 2020/21 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.

30. 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. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2021, which require to be reflected.

Group Accounts

31. 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 2020/21 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

32. All events subsequent to 31 March 2021 for which the 2020/21 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Chief Finance Officer

Clackmannanshire Council

2020/21 Annual Audit Report – DRAFT



 AUDIT SCOTLAND

Prepared for the Members of Clackmannanshire Council and the Controller of Audit
February 2022

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Key messages

2020/21 annual accounts

- 1 Our audit opinions on the annual accounts of the council and its group are unmodified.
- 2 The impact of Covid-19 created additional challenges for council staff which led to agreeing an extension to the agreed audit timetable for the 2020/21 financial statements.

Financial management and sustainability

- 3 The Covid-19 pandemic had a significant impact on the 2020/21 budget, however processes were appropriate and the council achieved 91 per cent of planned efficiency savings.
- 4 Covid-19 has had a significant impact on staff capacity and the control environment. The council recognise this issue and are working to address it.
- 5 Action is needed to strengthen awareness of the council's anti-fraud arrangements and ensure all staff know their responsibilities.
- 6 The Covid-19 pandemic is impacting on the short-term finances of Clackmannanshire Council with the Social Services Childcare budget seeing pressure due to the demand to support vulnerable people.
- 7 The 'Be the Future' transformation programme has continued to progress and support change across the council.

Governance and transparency

- 8 The governance arrangements introduced in response to the pandemic were appropriate and operated effectively.
- 9 The council demonstrates its commitment to conducting its business in an open and transparent manner through the recording of committee meetings and availability of information through the council website.

Best Value

- 10 Clackmannanshire Council has continued to make progress on the Best Value recommendations.
- 11 Performance reporting during 2020/21 was appropriate and the LGBF data demonstrates improvement across a number of areas.

Introduction

1. This report summarises the findings arising from the 2020/21 audit of Clackmannanshire Council and its group. The scope of the audit was set out in our 2020/21 Annual Audit Plan presented to the April 2021 meeting of the Audit Committee. This report comprises the findings from our audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).

2. The main elements of our audit work in 2020/21 have been:

- an audit of the annual accounts of Clackmannanshire 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,
- reviewing the council's progress in addressing the matters arising from previous Best Value reports, and
- consideration of the four audit dimensions of financial management, financial sustainability, governance and transparency and value for money.

3. The global coronavirus pandemic has had a considerable impact on Clackmannanshire Council during 2020/21. This has had significant implications for the services it delivers, the work priorities for staff, and delays in capital expenditure projects. Risks related to the pandemic were included in our Annual Audit Plan and we report on how we have addressed them in [Appendix 2](#).

Adding value through the audit

4. We add value to Clackmannanshire Council 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.

Responsibilities and reporting

5. Clackmannanshire 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. 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.

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

7. 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.

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

9. 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.

10. 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 progress that has been made in implementing them.

Auditor Independence

11. 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.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standards and we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

13. We completed additional substantive testing in response to control weaknesses identified during our interim testing. Details of these additional audit procedures were set out in our Management Report presented to the Audit Committee in September 2021. We have charged an additional fee for this work of £7,000. This increased the 2020/21 audit fee to £214,720.

14. 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.

1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts of the council and its group are unmodified.

The impact of Covid-19 created additional challenges for staff resulting in an extension to the agreed audit timetable for the 2020/21 financial statements.

Our audit opinions on the annual accounts are unmodified

15. The accounts for the council and its group for the year ended 31 March 2021 were approved by the Audit Committee on 3 February 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, 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

The Covid 19 pandemic impacted on the audit process and the annual accounts were signed off later than planned

16. The unaudited annual accounts were received in line with our agreed audit timetable on 31 August 2021. The council has operated in challenging circumstances while supporting the response to the Covid-19 pandemic. The introduction of remote working, significant additional duties and regular reprioritisation of tasks impacted on capacity across the council.

17. To support the Covid-19 response some key finance staff had to be redeployed and this impacted on the time available to engage with the audit process. Particular pressures were noted during our work on staff costs and non-current assets with delays in providing the requested supporting audit information. This was compounded by vacancies which required a core member of the finance team to respond to audit across a number of areas. Further information is included in [Exhibit 2](#).

There were no objections raised to the annual accounts

18. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the annual accounts. This must remain on the website throughout the inspection period. The council complied with the regulations and there were no objections from the public to the 2020/21 annual accounts.

Overall materiality was revised on receipt of the unaudited annual accounts to £2.3 million

19. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

20. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

21. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. On receipt of the unaudited annual accounts we reviewed our planning materiality calculations. The revised materiality levels summarised in [Exhibit 1](#) were not significantly different from planning materiality levels, however our audit approach was revised to ensure sufficient assurance was obtained following the control weaknesses identified.

Exhibit 1 Materiality values

Materiality level	Planning	Revised
Overall materiality	£2.6 million	£2.3 million
Performance materiality	£1.3 million	£1.2 million
Reporting threshold	£50,000	£50,000

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work performed to address these

22. [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any 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. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

We have significant findings to report on the annual accounts

23. 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 body's accounting practices. We have reported a number of issues from the work done on the identified risks of material misstatement. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Discretionary Housing Payment funding adjustment</p> <p>The council received late notification from the Scottish Government of the final Discretionary Housing Payment resulting in an additional funding accrual of £0.2 million.</p> <p>This will result in a reduction in the deficit on the provision of services contained within the Comprehensive Income and Expenditure Statement (CIES) with an equal increase in the current assets in the Balance Sheet.</p>	<p>This has been adjusted in the audited financial statements.</p>
<p>2. Gross income and expenditure adjustments in the CIES</p> <p>In preparing the Local Financial Return officers identified the inaccurate classification of income and expenditure transactions within the CIES. These changes have no impact on the Net Deficit on the Provision of Services however the increase gross expenditure by £0.9 million with an equal movement in gross income.</p>	<p>The CIES has been adjusted in the audited financial statements.</p>

Issue	Resolution
<p>3. Assets held for sale</p> <p>The Capital Operation Group meets regularly and receives notification of any assets sold or proposed for sale / change of use. In addition the Valuer and senior officers regularly review the assets list to identify possible surplus assets.</p> <p>Audit inquiry indicates that assets with a value of £0.1 million have been sold since the year end and were being marketed for sale prior to the 31 March 2021.</p>	<p>The balance sheet has been adjusted in the audited financial statements.</p> <p>The process for identifying assets held for sale should be strengthened to ensure they can be accurately captured in the financial statements.</p> <p>Recommendation 1</p>
<p>4. Accounting for developer income</p> <p>Audit testing identified a £0.1 million balance within short term creditors for income from developers arising from an agreement under Section 75 of the Town and Country Planning (Scotland) Act 1997.</p> <p>As there is no requirement for this to be repaid it should not be included within the creditors balance and should be recognised as income in the CIES.</p>	<p>This has been adjusted in the audited financial statements.</p> <p>A further £1 million short term creditors balance remains within the Balance Sheet for items that appear to be similar in nature and should be reviewed to ensure they are correctly accounted for in future.</p> <p>Recommendation 2</p>
<p>5. Common Good accounting</p> <p>Statutory adjustments are made in local government accounting to ensure that the accounting treatment for non-current assets does not impact the General Fund. These statutory adjustments are not permitted for Common Good funds.</p> <p>Statutory adjustments had been made in the Clackmannanshire Common Good Fund accounts for a number of years.</p>	<p>The disclosure of 'Adjustment between accounting basis and funding' has now been removed from the financial statements.</p> <p>The Capital Adjustment Account has been replaced with a 'Funds Tied up in Fixed Assets' reserve.</p>
<p>6. Group accounting</p> <p>The consolidated financial information in the unaudited accounts for Coalsnaughton NHT 2012 LLP was based on the prior year financial statements. Accounting standards require the information to be within 3 months of the year end of the group financial statements.</p> <p>Audit testing also identified that £0.2 million common good income was an intra-group transaction with the council that had not been eliminated on consolidation.</p>	<p>The council received updated management information for Coalsnaughton NHT 2012 LLP and made the necessary adjustments in the group financial statements.</p> <p>The common good income and council expenditure of £0.2 million have now been adjusted in the group financial statements.</p>

Issue	Resolution
<p>7. Reserve disclosure note</p> <p>The reserves disclosures (Note 8) in the unaudited accounts did not show the amounts earmarked within the reserves and the transfers during the year as required by the accounting code.</p>	<p>The disclosure note has been amended.</p>
<p>8. Finance team capacity</p> <p>There were delays in receiving audit information due to workload pressures on this small team. In particular we note reliance on one officer to cover additional significant areas, such as non-current assets, due to the vacancy in the key capital accountant role.</p> <p>We recognise that the job market is challenging and that the council is continuing to work to recruit to key finance posts.</p>	<p>The necessary audit information was provided to support the conclusion of the audit.</p> <p>We will work with the council to clarify our requirements to support the delivery of a full package of working papers alongside the unaudited accounts.</p> <p>Recommendation 3</p>

Source: Audit Scotland

Identified misstatements were above performance materiality but our audit approach did not need to be revised

24. The cumulative total of misstatements identified was £1.6 million. These mainly consist of the adjustments highlighted in [Exhibit 2](#) for the late notification of Discretionary Housing Payment funding and adjustments to correct inaccurate classifications of income and expenditure. The net impact of these adjustments is a decrease in the deficit on the provision of services within the CIES of £0.3 million and an increase in net assets and total reserves in the Balance Sheet by £0.3 million.

25. In addition to the adjustments detailed in [Exhibit 2](#) a further two minor issues were identified for personal protective equipment (£0.06 million) and an incorrect re-classification of funding (£0.09 million). These had no net impact on the financial statements.

26. It is our responsibility to request that all misstatements, other than those below the reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

The Management Commentary has been changed to ensure compliance with key requirements

27. The Management Commentary that accompanies the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

28. The reduced reporting requirements for 2019/20 annual accounts did not apply to the 2020/21 annual accounts and full performance reporting was required in the Management Commentary. The disclosures have been amended to ensure full compliance with requirements. Further improvement areas have been identified, including a clear reconciliation between the budget and the financial statements, and we will continue to work with management to improve the overall clarity of the Management Commentary.

Progress has been made on prior year recommendations

29. The council has made some progress in implementing our prior year audit recommendations. Workload pressures and capacity issues have delayed progress of several agreed improvement actions as detailed in [Appendix 1](#).

2. Financial management

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

Main judgements

The Covid-19 pandemic had a significant impact on the 2020/21 budget, however processes were appropriate and the council achieved 91 per cent of planned efficiency savings.

Underspending against the capital budget continued in 2020/21. As part of the 2021/22 budget setting process the council approved a 20-year capital programme and is now developing a capital strategy.

Covid-19 has had a significant impact on staff capacity and the control environment. The council recognise this issue and are working to address it.

We concluded that the council had appropriate arrangements in place for the distribution of Covid-19 support grants on behalf of the Scottish Government with a value of £12.8 million.

Action is needed to strengthen awareness of the council's anti-fraud arrangements and ensure all staff know their responsibilities.

The Covid-19 pandemic had a significant impact on the 2020/21 budget, resulting in revisions during the year

30. The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

31. Clackmannanshire Council approved its 2020/21 general revenue budget in February 2020. The budget was set at £128.3 million and included the application of unapplied capital receipts of £1.2 million and a contribution from earmarked reserves of £0.7 million. The budget also required the achievement of £1.1 million of efficiency savings in addition to the £2.3 million previously approved during the budget process. The 2020/21 budget was revised during the year due to the impact of the Covid-19 pandemic with a final budget of £141.5 million and a total general fund underspend of £9.7 million.

32. Lockdown restrictions impacted on the level of income the council was able to generate. In 2020/21 this resulted in an income reduction of £2.1 million. However, the council received an additional £9.9 million funding to support the response to the Covid-19 pandemic, with £3.9 million discretionary enabling the council to allocate the funding based on need. The remaining £6 million was allocated for specific funding priorities.

33. The more significant under and overspends are summarised in [Exhibit 3](#). A significant proportion of the underspend was attributable to unspent Covid-19 funding received later in the year from the Scottish Government which has been ring-fenced and carried forward to 2021/22.

Exhibit 3

Summary of significant under/overspends against budget

Area	£ million	Reason for variance
Underspends		
Incident management	£4.8	Covid-19 funding carried forward for use in 2021/22.
Education service	£3.2	Underspends due to additional Covid-19 funding and staffing turnover. This includes £1.3 million in primary non devolved and £0.5 million in early years.
Development and environment	£2.7	Underspends due to reduced costs and additional Covid-19 funding. Main areas include catering (£0.7 million), building operations (£0.4 million) and waste management (£0.3 million).
Overspends		
Social services	£2.1	Overspend in other residential placements (£1.2 million) and corporate parenting (£0.8 million). Action is underway to fully understand the key overspend areas recognising their demand-led nature.

Source: Clackmannanshire Council

34. Clackmannanshire Council also paid out £12.8 million of Covid-19 support grants on an agency basis on behalf of the Scottish Government. This does not impact on the financial statements of the council and is instead disclosed in the management commentary. We considered the arrangements in place for the Covid-19 grants, including the work completed by internal audit, and concluded that the council had appropriate arrangements in place.

Budget processes were appropriate and the council achieved 91 per cent of planned efficiency savings

35. We observed that senior management and members receive regular and accurate financial information on the council's performance against budgets. We concluded that the council has appropriate budget setting and monitoring arrangements.

36. In prior years we have reported that the council did not prepare a year end outturn report for councillors setting out details of the overall financial performance of the council. 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. We are pleased to report that the council presented a 2020/21 year-end outturn report to the Audit Committee in September 2021.

37. The 2020/21 budget included planned savings and contributions from reserves to address the identified funding gap. We note that the council achieved savings of £3 million which is 91 per cent of the target for the year. The achievement of savings has been significantly impacted by the Covid-19 pandemic with the majority of the unachieved savings balance being identified as due to the pandemic.

There has been a significant increase in the level of usable reserves held by Clackmannanshire Council

38. One of the key measures of the financial health and sustainability of a body is the level of usable reserves held. For Clackmannanshire Council usable reserves have increased by £10.4 million during 2020/21 to a balance of £32.8 million at the year end.

39. The council's general fund, which provides a contingency to meet unexpected expenditure and manage the impact of uneven cash flows, makes up the majority of this balance with £19.7 million held as at 31 March 2021. The housing revenue account reserve has also increased by £3.1 million with a closing balance of £7.6 million.

40. It is worth noting that within this increase in usable reserves there is an increase in the amount that is already earmarked for future purposes. Clackmannanshire Council is reporting an increase in the level of earmarked usable reserves from £5.6 million in 2019/20 to £13.4 million in 2020/21 with £5.2 million directly due to Covid-19 funding.

The housing revenue account operated within budget

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

42. The council made a surplus of £7.1 million in 2020/21 which was higher than the budgeted surplus of £5.2 million. This increase was mainly due to lower-than-expected staff costs and reduced expenditure on repairs as the Covid-19 restrictions impacted on the council's ability to complete this work.

Underspending against the capital budget continued in 2020/21 largely due to the Covid-19 pandemic

43. Total capital expenditure in 2020/21 was £17.6 million of which £13.6 million related to general services and £4 million to the housing revenue account. This represents an overall underspend of £14.1 million.

44. The capital programme for 2020/21 has been adversely impacted by the Covid-19 pandemic. Many projects faced delays at the start of the financial year due to restrictions and reprioritisation of council resources. The underspend was mainly due to delays in Community Investment Strategy projects, including Village and Small-Town Alva project, Tullibody South Campus and Clackmannanshire Regeneration. The housing revenue account underspend was due to lockdown restrictions limiting access to homes and contractors being unable to progress work due to furloughing staff.

45. We have 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. As part of the 2021/22 general fund budget, the council produced a 20-year capital investment programme that sets the foundation for the capital strategy, which is due to be submitted to council during 2021/22.

Covid-19 has had a significant impact on the council's control environment

46. There is increasing demand on the council's resources. The response to the Covid-19 pandemic has brought significant, additional pressures to the council and its staff. The finance team has had vacancies in key roles during 2020/21 and are experiencing issues recruiting to these roles on a permanent basis due to the external market conditions.

47. The risk profile of public bodies during 2020/21 has been affected by the Covid-19 pandemic. The risk of fraud and error has increased as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner.

48. Our management letter presented to the Audit Committee in September 2021 concluded that the introduction of remote working, additional duties and reprioritisation of tasks had a significant impact on capacity to undertake routine tasks on a regular basis. This impacted on the control environment with a number of control weaknesses identified that required us to revise our audit approach and increase our substantive testing to enable us to obtain the required audit assurances.

49. We received the year end bank reconciliation during our audit of the financial statements and noted that many of the items highlighted as unmatched at 31 March 2021 remained outstanding when we were completing our audit work in December 2021. Finance staff have commenced further investigations to understand and address these items.

Recommendation 4

The council must reintroduce key controls to ensure the overall control environment is robust and appropriate.

The Your Reputation @ Risk Survey indicates that the arrangements for preventing fraud and corruption need to be strengthened

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

51. YR@R is a web-based survey that helps bodies assess the business conduct and behaviours of staff. It provides a snapshot of whether staff have a good awareness of the key governance policies, including codes of conduct and anti-fraud and whistleblowing, and are aware of their responsibilities and the correct course of action to take in response to specific scenarios.

52. During October and November 2021, over 4 weeks, staff within the council (approximately 2,080 individuals) were invited to participate in the web-based survey. A total of 51 staff completed the survey – a response rate of only 2.5 per cent. The council has full details of the survey results to enable further analysis of the data, but the limited engagement suggests this is an area that the council should focus on moving forward.

53. The responses identified a generally high awareness of key policies, however many of the respondents indicated that they did not understand the key policies or had not even read them.

54. The survey asks the respondents to select the factors which would stop them reporting a concern at work. The majority of respondents identified at least one reason why they would not report a concern at work with only 9.8 per cent stating that nothing would stop them. 52.9 per cent of respondents stated they

would not report a concern at work due to the belief it would not be acted on appropriately and 45.1 per cent believe managers are already aware but have been turning a blind eye.

55. While 84.3 per cent of respondents were aware of the council's fraud policy, only 49 per cent were aware of the procedure to report fraud, bribery, corruption, suspicious activity and unacceptable business practices. Also 37.3 per cent of respondents had never received training on whistleblowing and counter-fraud and corruption. The availability of training is a key aspect of the prevention and detection of fraud and the understanding of key policies. The council should ensure this is provided to all staff with a system of regularly refreshing and updating the material.

56. In addition to this, only 33.3 per cent of respondents felt that there was a strong counter-fraud culture which is driven by management with 49 per cent stating they don't know and 17.6 per cent disagreeing. It is important that anti-corruption messages come from management as this is where many people will look for guidance on their actions and behaviour.

Recommendation 5

Clackmannanshire Council should focus on improving the communication of key corporate policies and implement training for staff on whistleblowing and preventing and detecting fraud and corruption.

National Fraud Initiative activity needs to increase

57. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud through data matching. 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.

58. We have reported in previous years that the NFI activity needs to increase, and the council should review its approach to investigating high risk matches.

59. The current exercise has identified 1,478 matches, of which 166 are deemed to be high risk and are therefore recommended for investigation. High risk matches are those most likely to indicate possible fraud or irregularity. To date the council has investigated 104 matches of varying risk levels, covering only 30 per cent of the high-risk matches. We view the pace of this progress as slow and it is an area that requires additional focus.

3. Financial sustainability

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

Main judgements

The Covid-19 pandemic is having a significant impact on the short-term finances of Clackmannanshire council. The Social Services Childcare budget is seeing particular pressure due to the demand to support vulnerable people. Plans are in place to make improvements but it will be some time before the impact will be realised.

Medium term financial plans have been updated to reflect the impact of the pandemic, but the longer-term impact is not yet known.

The 'Be the Future' transformation programme has continued to progress and support change across the council.

The financial impact of the COVID-19 pandemic on Clackmannanshire Council will be significant

60. Clackmannanshire Council approved its 2021/22 general revenue budget in March 2021. The budget was set at £131.9 million and included the application of unapplied capital receipts of £0.7 million and a contribution from earmarked reserves of £0.9 million. The budget also required the achievement of £2.1 million of efficiency savings. The latest forecast outturn for 2021/22 indicates a projected overspend for the council of £2.5 million, of which £2.2 million is directly related to the impact of the Covid-19 pandemic.

61. The majority of the projected overspend sits within the People Directorate with £1.5 million attributable to Social Services Childcare. This mainly relates to Residential placements (£1.1 million) and Corporate Parenting (£0.4 million). The council is putting plans in place through its 'Be the Future' transformation programme to make improvements however it will likely be some time before the impact will be seen. For example, it has recently prepared a new Children's Services plan 2021-24 and the improvement and risk management plan for children's services includes a number of improvement actions. The council is also planning to procure a new Social Work System jointly with Stirling Council, with the business case currently under development.

62. The council has received £1.5 million of discretionary funding to mitigate the financial impact of the Covid-19 pandemic. Applying this earmarked reserve would reduce the projected general fund overspend to £0.9 million.

Medium to longer term financial plans are in place but will have to be updated to continue to reflect the impact of the pandemic

63. The financial impact of the Covid-19 pandemic on the council is likely to extend across several years. It may include a reduction in income from business rates and council tax non-payments as well as a reduction in fees and charges from, for example, leisure, public transport and parking. Bodies may also face increased costs such as higher staff costs to cover the delivery of services.

64. Clackmannanshire Council has longer term financial plans in place that include low, medium and high scenarios for a rolling four-year period. These scenarios, which it regularly reviews, are based on different sets of assumptions for variables such as the level of Scottish Government funding, demand pressures and pay awards. Councillors regularly reviewed budget strategy reports during 2020/21.

65. The council updated its indicative funding gap for 2022/23 to 2024/25 as part of the 2021/22 budget setting process. This resulted in indicative funding gaps of £6 million, £4.2 million and £3.5 million. This is a cumulative gap of £13.7 million which is an improvement from the three-year funding gap of £21.2 million highlighted in our 2019/20 Annual Audit Report. The council are considering the options available to bridge these gaps.

66. The council's longer-term financial plans have been developed with the establishment of a 20-year capital budget, organised around the council's 'Be the Future' transformation programme priorities. The council's medium to longer term financial plans must continue to be updated to reflect the future financial impact of the Covid-19 pandemic.

Recommendation 6

Long-term planning arrangements, including a range of scenarios, should continue to be updated to support the council in recovering from the Covid-19 pandemic.

Transformational planning has continued during 2020/21 with key plans realigned and work underway to assess the future workforce requirements

67. In December 2018 the council approved its new Corporate Plan '[Be the Future](#)'. The plan sets out the vision, priorities and values against which all aspects of the council's work will be measured and aligned. It also includes a streamlined range of corporate priorities and outcomes aligned with the Local Outcomes Improvement Plan.

68. 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 has now agreed the management structure for the people portfolio which includes the introduction of the permanent roles of Chief Education Officer and Chief Social Work Officer.

69. The council appointed a Strategic Director of Transformation in March 2021 to help align the transformation programme and maximise the outcomes achieved from the investment being made.

70. The council is using its 'Be the Future' transformation programme as the basis for building financial and service sustainability. Programme activity continued throughout 2020/21 despite the additional pressures of the Covid-19 pandemic. In fact the council took the opportunity to review and realign a number of key areas including Organisational Redesign and the Recovery Plan to ensure consistency of priorities and focus.

71. The Organisational Redesign Framework provides a basis to monitor and evaluate progress and support the ongoing learning process. The Framework comprises the following four key phases to support the delivery of medium to long term sustainability:

- Creating the conditions - alongside delivering business as usual the council must invest for the future.
- Developing the team - a positive and empowering culture is needed to support the vision for change.
- Releasing the potential – establishing empowered teams, confident in delivering both services and innovative approaches.
- Sustainability – delivery of the agreed outcomes and priorities.

72. The council's Recovery Plan is based on Scottish Government guidance, however it's alignment with the 'Be the Future' programme supports transformation alongside the necessary pandemic recovery. The key strategic themes identified are:

- New ways of working – considering areas such as new models of education provision, the role of partnership working, digital solutions, including remote / home working and virtual democracy and governance.
- Supporting economic recovery – developing a Regional Economic Strategy within Forth Valley, progressing the City Region Deal and promoting community wealth building.
- Financial sustainability – supporting income maximisation for vulnerable communities and securing longer term financial balance for the council.
- Workforce and elected members – ongoing focus on health, safety and wellbeing, including revisions to employment policies to reflect the new and evolving environment.

73. The council is working at pace to review and clarify how all proposed projects fit into the 'Be the Future' plan and to convert key aspects of the plan into actions. An important element of this will be the workforce analysis to ensure sufficient resources and skills are in place to support delivery alongside considering the impact of digital transformation.

74. Capacity issues have been recognised across the council and these have been exacerbated by the additional work required to respond to the Covid-19 pandemic. As part of the response the council has developed a workforce programme in consultation with staff and trade union representatives. This brings together the pandemic recovery, support and transformation activity set out in the council's strategic workforce plan, its organisational redesign plan and its Covid-19 recovery plan. A council wide workforce analysis will also be undertaken to identify training, skills gaps and behavioural competencies.

75. The council is working at pace to review and clarify how all proposed projects fit into the 'Be the Future' plan and to convert key aspects of the plan into actions. There is regular reporting to ensure committee members are aware of progress and the direction of travel. This is a 10-year programme that will deliver significant outcomes. Additional detail on the 'Be the Future' Strategic Roadmap for 2021/23 which was agreed by the council in June 2021 is contained in [Section 5](#) of this report.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

The governance arrangements introduced in response to the pandemic were appropriate and operated effectively. Governance changes due to Covid-19 restrictions were disclosed in the Annual Governance Statement.

The council demonstrates its commitment to conducting its business in an open and transparent manner through the recording of committee meetings and availability of information through the council website.

Governance and transparency arrangements were appropriate

76. Our previously reported conclusions on governance arrangements remain valid, that the council has appropriate and effective governance arrangements in place.

77. The governance and transparency arrangements we consider include:

- council and committee structure and conduct
- openness of council and committees
- reporting of performance and whether this is fair, balanced and understandable.

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

78. The council made significant changes to its governance arrangements in response to the pandemic. These have been set out in the Annual Governance Statement in the annual report and included cancelling all scheduled council and committee meetings from 25 March to 28 May 2020 and setting up an emergency decision making forum (EDMF), which met remotely to deal with council business.

79. Regular council meetings resumed from 25 June 2020 with the remaining council committees meeting again from the beginning of October 2020. All meetings continue to be held remotely and are well attended by councillors. The council records its main council and committee meetings, and these are available on the council's website alongside the agenda papers and minutes of each meeting.

80. We have concluded that Clackmannanshire Council has appropriate governance arrangements in place which support effective scrutiny, challenge and decision making.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

Clackmannanshire Council has continued to make progress on the Best Value recommendations with a clear focus on the 'Be the Future' transformation programme.

Performance reporting during 2020/21 was appropriate and the LGBF data demonstrates improvement across a number of areas.

The council has continued to make progress to address the Best Value recommendations

81. 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 will be considered by the Accounts Commission at least once in this period. The BVAR report for Clackmannanshire Council was published in January 2018 with a BVAR progress report published in June 2019.

82. Our 2020/21 audit work focused on the 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.

83. The Stirling and Clackmannanshire City Region Deal was signed in February 2020. In response to the Covid-19 pandemic a revised delivery plan was formally agreed in December 2020 to ensure that all programmes supported recovery from the pandemic. Year 1 of the Deal (2020/21) was focused on ensuring the governance structures and overall plans were appropriate. As the council moves through year 2 there has been a move to delivery activity with business cases approved for the Skills and Inclusion Programme and the Regional Energy Masterplan.

84. Regular 'Be the Future' transformation programme updates are presented to councillors and include in-depth detail of programme activity and plans. There is evidence that councillors and officers are working collaboratively and have agreed a number of key transformation initiatives including the wellbeing economy and community wealth building.

85. In June 2021 the council agreed the 'Be the Future' Strategic Roadmap for 2021-2023. This sets out the council's transformation portfolio over the next two years as well as the governance arrangements for delivering across four strategic priority workstreams of:

- Multi-agency collaboration for whole system change: it will scale-up the Safeguarding through Rapid Intervention (STRIVE) project into a sustainable service. The STRIVE project focused on a multi-agency public sector team delivering for the most vulnerable residents through a whole-systems approach. It was piloted during the pandemic and has resulted in the integration of police services into the council buildings. Co-location leads to benefits in terms of asset utilisation, clearer community engagement routes and closer working relationships.
- Well-being economy - Alloa Transformation Zone: bringing together the activity and investment including the Well-being campus, learning estate and City Region Deal projects to develop a masterplan. This will embed the work of the Social Innovation Partnership.
- Community wealth building – Alloa Transformation Zone: focusing on community wealth building opportunities to develop sustainable approaches to tackling food and fuel poverty. Following the approval of the 20-year capital budget the council is using this longer-term planning to focus and target levelling up proposals and secure additional resources from the Scottish Futures Trust to invest in this area.
- Preparing our young people for life, work and the future: bringing together the work on The Family well-being partnership, secondary curriculum transformation, skills and inclusion programme with the City Region Deal and our strategic partnership with the University of Stirling and Forth Valley College.

86. We will continue to monitor the council's progress against the improvement actions and report this in next year's annual audit report.

Performance reporting during 2020/21 was appropriate

87. Our 2019/20 Annual Audit Report noted some issues with the year-end performance reporting. As noted earlier in the report we are pleased that a final outturn report for 2020/21 was presented to the Audit Committee in September 2021.

88. Year-end performance data was included in the forward-looking business plans for all three service areas presented to Committee. Due to services' response to the Covid-19 pandemic there was a delay in reporting this information, however all have now been presented to the relevant committee.

89. 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.

90. The council presented the results from the 2019/20 LGBF to the June 2021 Audit Committee. Alongside providing the analysis of past performance the council recognises the important of learning from past experience, and from the performance of others, to help inform future improvement and areas of focus. An immediate focus for the council is developing a clearer understanding of how the community need has changed due to the pandemic and what this means for the transformation of public services.

91. Overall for Clackmannanshire Council the 2019/20 LGBF data shows that the overall average ranking improved from 27th to 16th place out of the 32 Scottish local authorities. Performance data can be analysed in a number of different ways and [Exhibit 6](#) presents the overall performance based on the LGBF rankings within the relevant quartiles. The more detailed analysis can be found in the [committee report](#).

Exhibit 4

Service performance for LGBF indicators in 2019/20

Service Area	Number of LGBF indicators	Performance in upper 2 quartile		Performance in bottom 2 quartile	
		Number	(%)	Number	(%)
Place (environment, development, property and housing)	34	22	64.7%	12	35.3%
People (education and children's social work)	36	12	33.3%	24	66.7%
Health & Social Care (adult social work and older people's care)	11	8	72.7%	3	27.3%
Partnership & Performance (finance & revenues, legal & governance and workforce)	15*	7	46.7%	7	46.7%
<i>* Note that 1 indicator has not been ranked</i>					
All LGBF indicators	96	49	51.0%	46	47.9%

Source: 2019/20 Local Government Benchmarking Framework report to Audit Committee (June 2021)

The council complies with the Accounts Commissions' Statutory Performance Information Direction

92. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. 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.

93. The Accounts Commission issued a revised 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.

94. We have evaluated the council's arrangements for fulfilling the above requirements and concluded that the council complies with the direction.

National performance audit reports

95. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland published a number of reports were issued which may be of interest to the council. These are outlined in [Appendix 3](#).

Appendix 1

Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Assets held for sale</p> <p>Audit testing identified assets that were being actively marketed at the year-end but were not identified as assets held for sale in the financial statements.</p> <p>Risk – The financial statements do not accurately capture the asset position or correct accounting treatment.</p>	<p>The process for identifying assets held for sale should be strengthened to ensure they can be accurately captured in the financial statements.</p>	<p>The 2021/22 year end Lead Schedule/working papers have been updated with a process note to ensure this is checked and details of the reporting requirements.</p> <p>Responsible officer - Team Leader Corporate Accountancy</p> <p>Agreed date 30th June 2022</p>
<p>2. Developer income</p> <p>Audit testing identified balances within short term creditors that relate to income from developers.</p> <p>Risk – The financial statements do not accurately capture this income stream.</p>	<p>The council should review the remaining short term creditors balances to ensure the correct accounting treatment for any that relate to developer income.</p>	<p>A review of the developers income balance within short term creditors will be undertaken for the 2021-22 Annual Accounts.</p> <p>Responsible officer – Team Leader Management Accountancy</p> <p>Agreed date 30th May 2022</p>
<p>3. Finance team capacity</p> <p>There were delays in receiving audit information, due to key staff vacancy, which impacted on our ability to progress the audit.</p> <p>Risk – Staff wellbeing and delivery of audit evidence is adversely affected.</p>	<p>The council should continue to work to recruit to key finance posts and develop a plan to address any capacity and skills issues identified by the workforce analysis.</p>	<p>Finance management continue to review team capacity and undertake recruitment of permanent staff to vacant posts. The finance team capacity has been strengthened during 2021/22 by the use of agency staff and permanent appointments to all Finance vacancies is now complete.</p> <p>Responsible officer - Chief Finance Officer</p> <p>Agreed date - ongoing</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Control environment</p> <p>The introduction of remote working, additional duties and reprioritisation of tasks has weakened the control environment within the council.</p> <p>Risk – The control environment is not robust enough to prevent fraud and error.</p>	<p>The council must reintroduce key controls to ensure the overall control environment is robust and appropriate.</p>	<p>The council continues to respond to, and recover from, the Covid-19 pandemic. Controls are being reviewed and being re-introduced during 2021/22 as appropriate alongside other priorities and management continue to monitor the control environment and the associated level of risk.</p> <p>Responsible officer - Chief Finance Officer</p> <p>Agreed date – ongoing</p>
<p>5. Whistleblowing and fraud and corruption awareness and training</p> <p>The YR@R survey indicates issues with the awareness of key council policies and individual responsibilities.</p> <p>Risk – Staff are not aware of their responsibilities and the steps they should take in response to issues identified.</p>	<p>Clackmannanshire Council should focus on improving the communication of key corporate policies and implement training for staff on whistleblowing and preventing and detecting fraud and corruption.</p>	<p>An annual fraud and corruption training plan will be developed for all staff and the profile of the whistleblowing policy raised through a programme of internal communication.</p> <p>Responsible officer Senior Manager, Legal & Governance</p> <p>Agreed date December 2022</p>
<p>6. Long-term planning</p> <p>The impact of the Covid-19 pandemic will impact on the council over the medium and longer term and this will require the regular review and update on key plans and strategies.</p> <p>Risk – Longer term planning does not reflect the changed environment.</p>	<p>Long-term planning arrangements, including a range of scenarios, should continue to be developed to support the council in recovering from the Covid-19 pandemic and in transforming services.</p>	<p>The council is reviewing its long term plan through its Be the Future (BtF) programme including plans for transforming services and adapting to the changed environment Regular updates continue to be provided to Council on the BtF programme.</p> <p>Responsible officer – Chief Executive & Director of Transformation</p> <p>Agreed date - ongoing</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
PY 1. Finance team capacity	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.	See Recommendation 3
PY 2. Management commentary	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.	In Progress The management commentary contains the necessary requirements and we will continue to work with management to identify further improvements.
PY 3. Capital programme	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.	Complete 20-year capital investment programme now developed.
PY 4. Internal controls	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.	See Recommendation 4
PY 5. Arrangements for preventing procurement fraud	The council should review its arrangements for preventing procurement fraud to ensure they are effective.	See Recommendation 5
PY 6. National Fraud Initiative (NFI)	The council should review its approach to investigating high risk matches.	In Progress We note that 30 per cent of the high-risk matches have now been investigated, but that the pace of progress has been slow.

Issue/risk	Recommendation	Agreed management action/timing
PY 7. Transformation programme	The council should keep its transformation programme projects under review to ensure they support financial and service sustainability.	See Recommendation 6
PY 8. Register of senior leadership team interests	The council should ensure it maintains an up-to-date record of senior leadership team interests.	Complete Up-to-date register is now in place.
PY 9. Budget scrutiny	The council should ensure it has clear year-end budgeting review arrangements in place.	Complete Outturn reporting in place for 2020/21.
PY 10. Fraud arrangements	The council should review and update its fraud arrangements and policies and ensure these are clearly communicated to staff.	See Recommendation 5
PY 11. Best Value	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.	See Recommendation 6

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](#).

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to management override of controls</p> <p>International Auditing Standards (ISAs) require that audits are planned to consider the risk of material misstatement in the financial statement caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of management override of controls to change the financial statements disclosures.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Assessment of the appropriateness of accounting estimates. • Focused testing of accruals and prepayments. • Cut-off testing to confirm expenditure and income is accounted for in the correct financial year. • Identification and evaluation of significant transactions that are outside the normal course of business. 	<p>Results: We did not identify any significant issues within our work on journals and accounting estimates were appropriate.</p> <p>Our testing of accruals and prepayments did not identify any error and there were no significant transactions outside the normal course of business.</p> <p>Conclusion: Audit work found no evidence of management override of controls due to fraud.</p>
<p>2. Risk of error in the areas of estimation and judgement</p> <p>There is significant subjectivity in the council's measurement and valuation of the material account areas of non-current assets and pensions.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions. • Testing of non-current asset balances focusing on the areas of judgement. • Assessment of the appropriateness of the actuarial assumptions. • Review the actual experience of significant estimates made in the prior year. 	<p>Results: No issues were identified with the competence and independence of experts providing valuations for non-current assets and pensions.</p> <p>Audit testing of non-current assets identified only minor adjustments.</p> <p>No issues were identified in our review of actuarial assumptions or with the experience of prior year estimates.</p> <p>Our work confirmed the completeness and accuracy</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> Assessment of the completeness and accuracy of information submitted by the council to the Falkirk Pension Fund to support the triennial valuation exercise. 	<p>of the submitted pension information.</p> <p>Conclusion: Audit work found no issues with the areas of estimation and judgement in the financial statements.</p>
<p>3. Risk of misstatement due to Covid-19 disclosure requirements</p> <p>COSLA analysis indicates that over £1.3 billion additional support to business has been routed through councils as part of the response to the Covid-19 pandemic. As a result, the council administered significant Covid-19 support grants on behalf of the Scottish Government during 2020/21.</p> <p>There is a risk of disclosure misstatement for this new area of agency expenditure. This will need to be separated from the Covid-19 funding the council has received to support its own budget.</p>	<ul style="list-style-type: none"> Assessment of the extent of the Covid-19 support grants administered and controlled by the council. Review of Covid-19 disclosures in the annual accounts for accuracy and completeness/ 	<p>Results: The disclosures within the accounts correctly distinguished between agency and principal arrangements.</p> <p>Conclusion: Disclosures were in line with LASAAC guidance.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>4. Financial sustainability</p> <p>The Covid-19 pandemic has had a significant impact on the council's financial position through increased expenditure and reduced income. The council is forecasting an indicative funding gap of £13.7 million</p>	<ul style="list-style-type: none"> Assessment of 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, 	<p>Results: The council continues to invest in long term planning with the approval of the 20-year capital programme. We have made a recommendation in relation to the revision of long-term plans to capture the impact of the pandemic.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>over the next three years.</p> <p>There is a risk that the council will find it increasingly difficult to maintain financial sustainability and deliver priority services.</p>	<p>including the identification of efficiency savings and history of delivery.</p>	<p>Despite the pandemic the council successfully delivered 90 per cent of planned efficiencies.</p> <p>Conclusion: Long-term planning remains an important area which will need to be updated to capture the impact of the pandemic but overall arrangements are appropriate.</p>
<p>5. Financial management and performance reporting</p> <p>Our 2019/20 Annual Audit Report noted that officers did not prepare a final outturn report for 2019/20 and that there was a delay in the council presenting its year-end performance reports for two service areas. This was due to committee meeting cancellations in response to the Covid-19 pandemic.</p> <p>There is a risk that, due to the ongoing pressures of the pandemic and capacity within the finance team, the budget monitoring and financial reporting arrangements do not support effective scrutiny of the council's finances. In addition, without performance reports, it is difficult to obtain a complete a complete picture of the council's performance.</p>	<ul style="list-style-type: none"> • Assessment of the quality and timeliness of financial information provided to councillors. • Review outturn reports provided to committee meetings during the year and compare these with the year-end results in the financial statements. • Review the performance management arrangements. • Assessment of whether management commentary tells a clear story and has been compiled in accordance with the appropriate guidance. 	<p>Results: The council regularly reviews its financial position and reports this to committee. Outturn reports were also presented alongside performance reporting.</p> <p>The management commentary has been enhanced following the audit process to ensure full compliance with guidance.</p> <p>Conclusion: Financial management and performance reporting has been appropriate.</p>
<p>6. Governance and controls over Covid-19 grant schemes</p> <p>The council has had a key role in supporting local businesses through distribution of grant support funding. Decision-making in a</p>	<ul style="list-style-type: none"> • For the most significant grants (by value) we will consider the governance and control arrangements in place including the steps taken to minimise fraud and error. • Consider the findings of 	<p>Results: We reviewed the highest value Covid-19 support grants and completed walkthroughs of the application and approval process to ensure key controls were in place and operation effectively.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>fast-moving environment presents a challenge for the council and other public bodies. These include maintaining good governance and controls while making decisions quickly, adapting performance measures and ensuring that anti-fraud arrangements remain robust at a time when the likelihood of fraud is increased.</p> <p>Due to the pace of establishing some of these schemes there is a risk that the governance and accountability arrangements and key financial controls were not effective.</p>	<p>internal audit work on the Covid-19 grants.</p>	<p>Internal audit reviewed business support fund grants and newly self employed hardship funds and concluded that substantial assurance could be taken from the arrangements in place.</p> <p>Conclusion: Appropriate governance arrangements had been put in place by the council and the controls operated effectively during 2020/21.</p>
<p>7. Anti-fraud arrangement</p> <p>Our 2019/20 Annual Audit Report highlighted weaknesses in the council's anti-fraud arrangements including the effectiveness of the controls and policies in preventing procurement fraud, lack of progress with investigating high risk matches in the National Fraud Initiative (NFI) and out-of-date anti-fraud policies. In addition, the council doesn't have a dedicated anti-fraud team to focus on addressing these issues.</p> <p>There is a risk that the council's arrangements for the prevention and detection of fraud and corruption are not effective and that staff are not aware of the processes for reporting concerns.</p>	<ul style="list-style-type: none"> Review the appropriateness and effectiveness of arrangements for the prevention and detection of fraud and corruption. Review the council's approach to investigating NFI high risk matches, and the matches for Covid-19 grants. Invite council staff to participate in the 'Your Reputation @ Risk' web-based survey to assess awareness of the council's key governance policies including anti-fraud and whistleblowing. 	<p>Results: The Your Reputation @ Risk survey highlighted the need for further strengthening of the council's arrangements which is captured in our recommendation.</p> <p>Due to capacity issues the council has made slow progress on reviewing NFI matches, but action is being taken.</p> <p>Conclusion: Anti-fraud arrangements are recognised as an area that requires strengthening as captured in our recommendation.</p>

Appendix 3

Summary of national performance reports 2020/21

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Clackmannanshire Council

Draft 2020/21 Annual Audit Report

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