



# Clackmannanshire Council

Final report to the Council and the Controller of Audit on the on the 2022/23 audit  
Issued on 16 August 2024 for the meeting on the 29<sup>th</sup> August 2024

# Contents

## 01 Final report

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Partner Introduction [3](#)

### **Annual Accounts**

Quality indicators [7](#)

Our audit explained [9](#)

Significant risks [10](#)

Other areas of focus [15](#)

Your control environment and findings [17](#)

Other significant findings [18](#)

Our audit report [19](#)

Your Annual Accounts [20](#)

### **Wider scope audit**

Overview [22](#)

Financial management [23](#)

Financial sustainability [29](#)

Vision, leadership and governance [41](#)

Use of resources to improve outcomes [44](#)

Follow-up of Accounts Commission findings [48](#)

Service performance [50](#)

Climate change [52](#)

Cyber security [56](#)

Purpose of our report and responsibility statement [57](#)

### **Sector Developments**

---

Local Government Overview [59](#)

### **Appendices**

---

Action plan [69](#)

Follow-up Action Plan [74](#)

Audit adjustments [78](#)

Our other responsibilities explained [81](#)

Independence and fees [82](#)

# 1.1 Partner introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to Clackmannanshire Council (“the Council”) for the 2022/23 audit. The report summarises our findings and conclusions in relation to the audit of the Annual Accounts and the wider scope requirements, the scope of which was set out within our planning report presented to the Audit and Scrutiny Committee (“the Committee”) in June 2023.

I would like to draw your attention to the key messages of this paper:

### **Conclusions from our testing**

Based on our audit work completed to date, we expect to issue an unmodified audit report.

The Management Commentary and Annual Governance Statement comply with the statutory guidance and proper practice and are consistent with the Annual Accounts and our knowledge of the Council. We provided management with comments and suggested changes based on review of the first draft and an update has been received confirming compliance.

The auditable parts of the Remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page [9](#).

No material errors have been identified to date and there are no uncorrected misstatements. 1 corrected misstatement in excess of our reporting threshold of £107,000 has been identified up to the date of this report which is included within the Appendix to this report. These have no impact on the General Fund of the Council.

## 1.2 Partner introduction (continued)

### The key messages in this report (continued)

#### **Status of the Annual Accounts audit**

Outstanding matters to conclude the audit include:

- Completion of internal quality procedures;
- Final pension clearance from Deloitte Pension Specialists;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2023.

#### **Conclusions from wider scope audit work**

**Financial management** – effective budget setting and monitoring arrangements are in place. The capital budget setting and monitoring arrangements should be reviewed to ensure that realistic budgets are set with clear timelines and a clear linkage to Council priorities. The finance team continues to be significantly stretched, and in particular has been unable to recruit a permanent capital accountant. We are pleased to note that the Council are undertaking a service review of the finance team to reconsider the size and structure of the team. We will continue to monitor progress with this during our appointment.

**Financial sustainability** – Financial balance was achieved in 2022/23 and budgeted in 2023/24 by using one-off solutions including use of reserves, which is unsustainable in the medium to longer-term. The level of uncommitted reserves as of 31 March 2023 was at the lower end agreed in the Council’s reserves strategy, and there is an ongoing risk associated with the HSCP overspends in 2023/24.

A funding gap of £11.6m is projected for 2024/25, increasing to £21.9m in 2026/27. The Council is therefore not financially sustainable in the medium-term and urgent action is required. While regular budget updates are provided to members, the Council should develop a comprehensive Medium-Term Financial Strategy setting out how financial sustainability is to be achieved.

The Council’s approach to transformation has evolved over the year, and is able to demonstrate a number of positive developments. Clear governance arrangements are in place and a new model of resourcing has been agreed in March 2023. However, more work is required to build the detail behind each project within the transformation programme and fully align this to the development of a medium-term financial strategy including adding greater detail about individual projects and developing a benefits realisation tracker to assess whether the Council has achieved its aims.

**Vision, leadership and governance** – Our view of the vision and leadership of the Council has been considered as part of the separate management report “Best Value thematic work 2022/23”.

The Council’s revised decision-making framework is being embedded. The Audit and Scrutiny Committee plays a key role in the governance arrangements and in line with best practice has recently carried out a self-assessment and skills audit, with areas of development identified. We will continue to monitor the progress with this during our audit appointment. The Council continues to be open and transparent.

# 1.3 Partner introduction (continued)

## The key messages in this report (continued)

### Conclusions from wider scope audit work (Continued)

**Use of resources to improve outcomes** – Our view on the Council’s performance management framework has been considered as part of the separate management report “Best Value thematic work 2022/23”.

There are appropriate arrangements in place to comply with the SPI Direction, including its public performance reporting requirements.

**Best value** - The Council has an appropriate and effective best value framework in place and has continued to make positive progress in addressing the recommendations contained in the 2018 BVAR and subsequent progress report published in June 2019. The Council has a clear understanding of areas which require development.

**Climate change** – The Council has a comprehensive Climate Change Strategy with ambitious targets in place and reporting annually in accordance with the regulation and legislation. Clear governance arrangements are in place with the Climate Emergency Board, and good links in place to involve communities in the decision-making process. It is essential that as detailed actions plans are developed, the Council is transparent about the gaps and challenges that exist in achieving its targets.

**Cyber risk** - We have obtained an understanding of the Council’s cyber risk management programme and internal controls in relating to cyber risk. No issues have been noted. It is important that the internal audit review is progressed as planned to assess the appropriateness of the cyber security arrangements in place.

### Next steps

An agreed Action Plan is included on pages [69 to 73](#) of this report, including a follow-up of progress against prior year actions.

We have also prepared a separate management report as part of the Best Value thematic work in 2022/23 assessing the leadership of the development of the Council’s priorities.

### Added value

Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision-making, and more effective use of resources. This is provided throughout the report.

We have also included our “sector developments” on pages [58 to 67](#) where we have shared our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the local government.

**Pat Kenny**  
Lead audit partner

# Annual Accounts Audit








# 2.1 Quality indicators

## Impact on the execution of our audit





Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting judgements		Documentation supporting management’s assessment of key estimates – including pensions, provisions and property valuations – was provided on time.	
Adherence to deliverables timetable		The draft annual accounts were provided on 1 <sup>st</sup> September 2023 which was two weeks after the agreed timetable.	As noted below, the finance team has been under significant staffing pressure which has meant a delay to the responses to audit requests. Due to this, and the adjustments identified (page 69) it was agreed to revise the audit reporting deadline.
Access to finance team [and other key personnel]		Deloitte and Council staff worked together to facilitate remote communication during the audit. We are aware that the finance team is experiencing significant staffing challenges which has meant a delay in responses to audit requests as the team managed their competing priorities.	

## 2.1 Quality indicators (continued)

### Impact on the execution of our audit

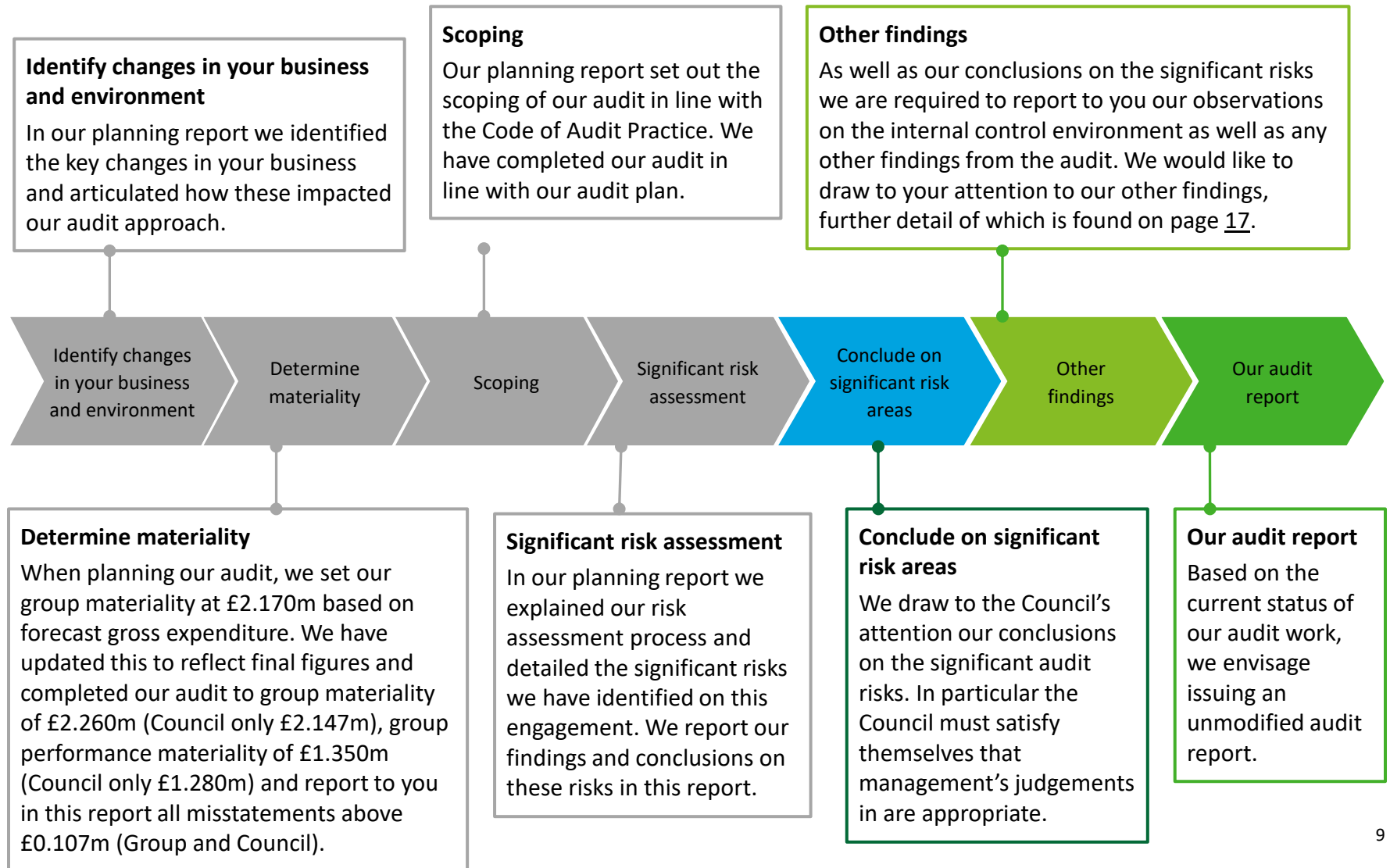
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Area	Grading	Reason	Further detail
Quality and accuracy of management accounting papers		There were instances where the quality and accuracy of the supporting evidence did not meet the standard required, with significant sub sampling being required for PPE additions work and listings of revalued properties taking time to compile.  We plan to hold a detailed de-brief with all members of the audit team and Council finance team to identify lessons learned and improve this for future years.	
Quality of draft Annual Accounts		The initial draft of the Annual Accounts received for audit was generally of a good standard.	
Response to control deficiencies identified		Deloitte have not identified any significant control deficiencies over the course of the 2022/23 audit.	
Volume and magnitude of identified errors		A material adjustment relating to property valuations (page 69) was identified.	








## 2.2 Our audit explained

We tailor our audit to your business and your strategy



## 2.3.1 Significant risks

### Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls			Satisfactory	
Property valuations			Satisfactory	
Capital Expenditure			Satisfactory	



#### Controls approach adopted

Assess design & implementation

#### Consistency of judgements with Deloitte's expectations



Consistent



Improvement required



Inconsistent

## 2.3.2 Significant risks (continued)

### Management override of controls

#### **Risk identified**

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Accounts and accounting records.

#### **Deloitte response and challenge**

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

#### **Journals**

- We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Accounts. In designing and performing audit procedures for such tests, we have:
- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

#### **Accounting estimates and judgements.**

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Accounts of the prior year.

#### **Significant and unusual transactions**

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

#### **Deloitte view**

We have not identified any instances of management override of controls from our testing to date.

## 2.3.3 Significant risks (continued)

### Management override of controls (continued)

**Key estimates and judgements** The key estimates and judgments in the Annual Accounts includes those which we have selected to be significant audit risks around capital expenditure (see [page 14](#)) and property valuations (see [page 13](#)). This is inherently the area in which management has the potential to use their judgement to influence the Annual Accounts. While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (see [page 15](#)) and the recognition of expenditure (see [page 16](#)). In the table below, we set out our challenge of the assumptions used in the determination of the Public Finance Initiatives and Public Private Partnership projects.

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Private Finance initiatives ('PFI')	<p>The Council currently has one PFI project for the provision of education buildings, their maintenance and related facilities: Alloa, Alva, and Lornshill Acadamies.</p> <p>Each PFI liability is valued based on the value of the remaining lease payments under IAS 16 and IAS 17. The minimum lease rental is split between interest and principal using the actuarial method.</p>	<p>We obtained and assessed the initial PFI agreements in place and reconciled to the payment schedules for each model. We have checked the integrity of the models and have performed a reconciliation to the Annual Accounts. We have conducted a retrospective review of the prior year liability to assess accuracy, and have challenged any changes made to the model. We have assessed the value of the underlying buildings through our Valuations work.</p> <p>We are satisfied that the PFI liability recognised in the accounts is in line with the models and there is no indication of management bias.</p> <p>We have challenged management's accounting treatment and concluded that the net book value has been appropriately disclosed.</p>

## 2.3.4 Significant risks (continued)

### Property valuations



#### Risk identified and key judgements

The Council held £394.489m of property assets (Council dwellings, land & buildings) at 31 March 2022 which increased to £394.763m as at 31 March 2023 due to a combination of upwards revaluations and impairments as a result of the Council carrying out a combination of asset valuations as part of the 5-year rolling programme and a desktop valuation of schools and non operational assets.

The Council is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with its modern equivalent asset. The valuations are by nature significant estimates which are based on specialist and management assumptions, and which can be subject to material changes in value.



#### Deloitte response and challenge

We have performed the following procedures:

- used our valuation specialists, Deloitte Real Asset Advisory, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's Land and Buildings;

- tested the design and implementation of key controls in place around the property valuation;
- tested the inputs to the valuation and the key asset information provided by the Council to the valuer back to supporting documentation; and
- Challenged management's assessment for material changes in value for those property assets not subject to full valuation in the year.

In response to the UK government notice regarding Reinforced Autoclaved Aerated Concrete (RAAC), we have followed up the action taken to date with the Council. Management has confirmed that it is undertaking an assessment of RAAC in Council homes and public buildings, with some isolated occurrences being identified. These occurrences are not material to the overall financial statements and the Council is continuing to review its portfolio as of June 2024.

#### Deloitte view

We have identified an overstatement of £10.5m in relation to Alva Academy, and a £1.6m overstatement in relation to Alva Primary. This also impacted the desktop valuation performed by the Council, with the total impact being a £57m reduction in PPE net book value. These misstatements were corrected, and no further adjustments noted.

## 2.3.5 Significant risks (continued)

### Capital Expenditure



#### Risk identified and key judgements

The Council has a significant capital programme, and had budgeted £19.697m for capital works during 2022/23 (2021/22: £16.415m). Key projects include investment in the education estate, roads infrastructure improvements and expenditure associated with the Wellbeing Complex.

Where the Council develops properties as part of its capital programme, determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards. The increasing pressures on the revenue budgets increases the risk of amounts being incorrectly capitalised.

The Council has a significant assets under construction balance for current ongoing capital projects (£2.385m as at 31 March 2023). The timing in which projects are completed and assets are brought into use directly impacts the level of depreciation incurred by the Council and as such is an area that we judge could be open to management override.



#### Deloitte response and challenge

We have performed the following procedures:

- Reviewed the Council's capital plans as part of the planning process and discussed with management potential risks or issues identified.
- Tested the design and implementation of controls around the capitalisation of costs and test spending on a sample basis to confirm that it complies with relevant accounting requirements;
- Tested the design and implementation of controls around the transfer of assets out of assets under construction and into use and test completed projects on a sample basis to ensure depreciation is charged from the correct date;
- Evaluated the completeness of disposals or impairments of existing assets on completion of the above key projects; and
- Challenged any significant judgements made by management in regards to these projects, for example the capitalisation of staff costs and other project development costs, to ensure they comply with relevant accounting requirements.

#### Deloitte view

We have not identified any issues with regards to capitalisation of capital expenditure.

## 2.4.1 Other Areas of Audit Focus

### Defined benefits pension scheme

#### Background

The Council participates in two defined benefits schemes:

- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Falkirk Pension Fund, administered by Falkirk Council.

The net pension liability has changed from a net liability of £88.859m in 2021/22 to a net asset of £29.249m. This significant movement is largely as a result of an increase in the corporate bond yield, upon which the discount rate is derived, and is reflective of the pension fund triennial valuation which took place in May 2024 and was effective from March 2023.



#### Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We reviewed and challenged the assumptions made by Hymans Robertson;
- We have obtained assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund Annual Accounts;
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities;
- We have assessed whether the recognition of the asset is in line with standards; and
- We reviewed the disclosures within the accounts against the Code.

	Council	Comments
Pension increase (CPI)(% p.a.)	2.95	Appropriate
Salary increase (% p.a.)	3.55	Appropriate
Discount rate (% p.a.)	4.75	Appropriate
Mortality - Life expectancy of a male/female pensioner from age 65 (currently aged 65)	20.3/23.3	Appropriate
Mortality - Life expectancy of a male/female pensioner from age 65 (currently aged 45)	20.8/24.8	Appropriate

#### Deloitte view

We have not identified any issues with regards to the defined benefits pension scheme from our procedures performed to date, subject to final clearance from Deloitte pension specialists. The Council have updated the disclosure to reflect the most recent pensions fund triennial valuation report as of May 2024, effective from March 2023.



## 2.4.2 Other Areas of Audit Focus (continued)

### Expenditure recognition

#### Risk identified

In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on the basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We have considered this risk for the Council and concluded that we are satisfied that the control environment is strong and there is no history of errors or audit adjustments. This was therefore not been assessed as a significant risk area, but continued to be an area of audit focus.



#### Deloitte response

We performed the following procedures to address the above risk:

- A review of the number and median value of invoices processed in the year. As illustrated in table opposite, based on the medium amount, the Council would need to omit over 13,655 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 1,054 invoices were processed. We therefore concluded that a risk of material misstatement was remote.
- Analytical review to test the completeness and accuracy of year-end creditor balances was carried out. We are satisfied that the amount recorded is reasonable.
- Detailed testing of a sample of accruals was completed with no issues arising.

Invoice Analysis	
Median invoice amount	£157
Average number of invoices processed per month	4,283
Number of invoices that would need to be unrecorded to cause a material misstatement	13,655
Total invoices processed in April 2023 (one month after year-end)	1,054 (total value £2,176m)

#### Deloitte view

We have concluded that expenditure has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

## 2.5 Your control environment and findings

### Control deficiencies and areas for management focus

No control deficiencies have been identified as a result of our audit procedures.

## 2.6 Other significant findings

### Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

#### Qualitative aspects of your accounting practices:

The Council's Annual Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the "Code"). Following our audit work, we are satisfied that the accounting policies are appropriate.

#### Significant matters discussed with management:

We have discussed the Council's response to the national issue arising relating to RAAC, which is discussed further on page [13](#).

#### Regulatory change

IFRS 16, Leases, was due to come into effect on 1 April 2022, however, has been deferred to be effective from 1 April 2024 and will be included in the 2024/25 Code. Local authorities may adopt it in preceding financial periods if deemed appropriate.

Clackmannanshire Council has opted to wait until the implementation date of 1 April 2024. In accordance with the Code, there is therefore no requirement in the 2022/23 accounts to disclose the impact of this upcoming change. This is something that will need to be considered for the 2023/24 accounts as the Council will then need to disclose the expected impact from 1 April 2024.

#### Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from the Council on matters material to the Annual Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

## 2.7 Our audit report

### Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

66  
99

#### **Our opinion on the Annual Accounts**

Our opinion on the financial statements is expected to be unmodified.



#### **Going concern**

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.



#### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in any other matter paragraph.



#### **Other reporting responsibilities**

The Annual Accounts is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page [20](#).

## 2.8.1 Your Annual Accounts

We are required to provide an opinion on the auditable parts of the Remuneration report, the Annual Governance Statement and whether the Management Commentary is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The report outlines the Council's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the Council.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance.</p> <p>We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Following updates made as agreed during the audit, we are satisfied that the Management Commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</p>
The Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the Council.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
The Annual Governance Statement	The Annual Governance Statement reports that the Council's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Accounts and has been prepared in accordance with the Delivering Good Governance in Local Government Framework. Following updates made as agreed during the audit for minor improvements we can conclude that the Annual Governance Statement is consistent with the Annual Accounts, our knowledge and the accounts regulations.

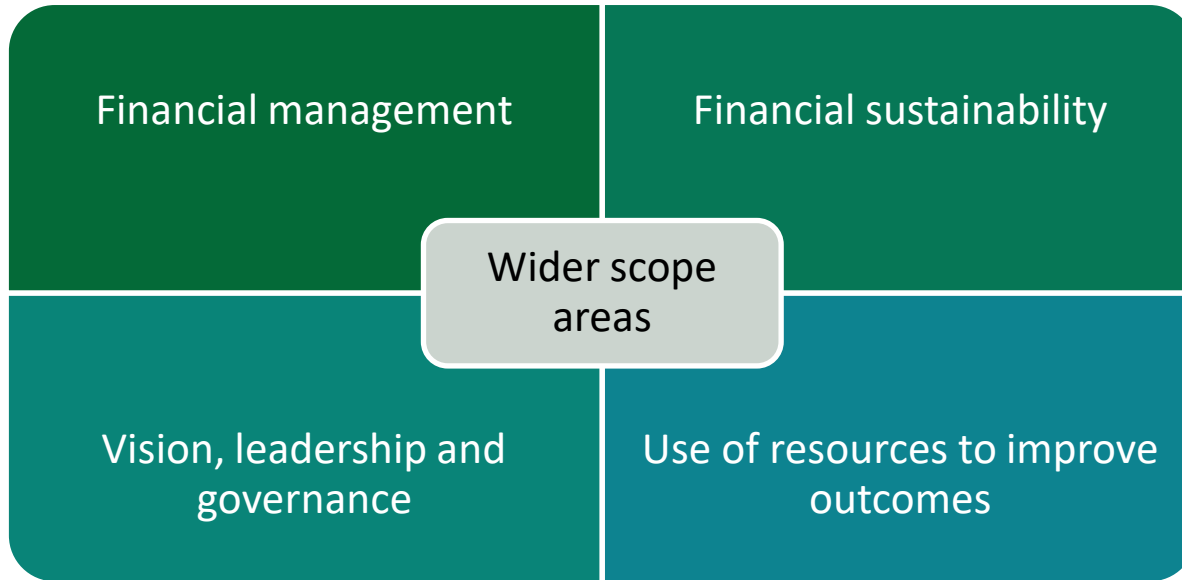
# Wider scope audit



# 3.1 Wider scope requirements

## Overview

As set out in our audit plan, Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



In its planning guidance, Audit Scotland has also highlighted the following national or sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits:

- Climate change.
- Cyber security.

Our audit work has considered how the Council is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.



## 3.2 Wider scope requirements (continued)

### Financial management

Is there sufficient financial capacity?



Is there sound budgetary processes in place?



Is the control environment and internal controls operating effectively?



**Financial Management**

#### Significant risks identified in Audit Plan

We highlighted in our Audit Plan that there was a significant risk in relation to the financial management arrangements of the Council. This was largely due to a number of areas being highlighted by the previous auditors including the need to strengthen internal controls, delays in completing a fully reconciled bank reconciliation and a lack of finance team resources. We have considered these on the following pages, including follow-up on the recommendations made by the previous auditors.

#### Current year financial performance

The **2022/23 General Fund budget** was approved by the Council on 4 March 2022. In approving a balanced budget, the Council agreed the following:

- Policy savings of £50,000;
- Management efficiencies of £1.788m;
- Use of uncommitted reserves of £3.942m; and
- Loans Fund principal repayment holiday to reduce expenditure by £0.966m.

In setting its budget, the Council recognised the challenging context within which the budget is presented.

The budget has been updated throughout the year to include in year movements with the final outturn reporting an underspend of £5.428m (4%) against the revised budget. This has significantly moved in the year, from a projected overspend of £2.226m reported in June 2022. £4.431m of the underspend has been carried forward as earmarked reserves for ring-fenced areas such as Pupil Equity Funding (PEF), Devolved School Management (DSM) and Housing, resulting in a net underspend and contribution to reserves of £997,000, i.e. less use of uncommitted reserves were required than initially budgeted. £1.618m (88%) of the approved savings were achieved. The Strategic Management Team and Councillors regularly review progress against budget throughout the year including progress against savings, with quarterly reporting to the Audit and Scrutiny Committee. From review of the reporting throughout the year, variances are clearly reported and explained.

## 3.3 Wider scope requirements (continued)

### Financial management (continued)

#### Current year financial performance (continued)

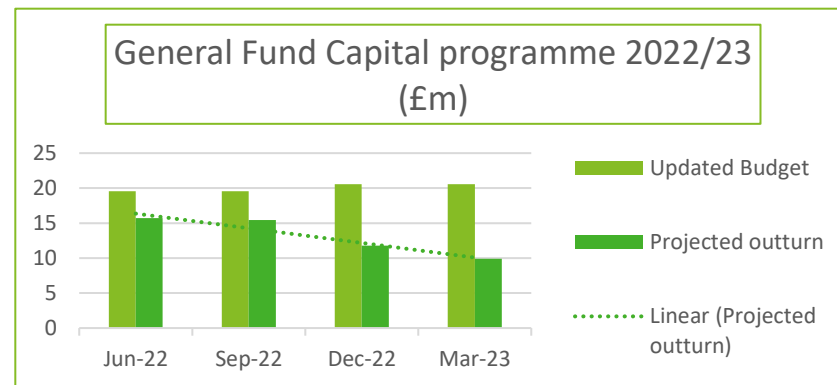
The key reasons for the underspend are:

- A £2.897m underspend in the People Directorate. This includes £614,000 in DSM and £571,000 in early years largely as a result of staff turnover and vacancies. In addition, a £788,000 underspend reported in PEF which is allocated on an Academic Year and therefore carried forward to be spent by July 2023.
- A £2.507m underspend in the Place Directorate. This includes an underspend of £701,000 largely as a result of funding carried forward for housing Ukrainian refugees. A £1.305m underspend was also reported in property services, largely in building operations due to work no longer being required.

The **2022/23 Housing Revenue Account (HRA)** budget was agreed by the Council on 10 February 2022, being a budgeted surplus of £5.62m which was agreed to be added to existing reserves to fund the HRA capital programme. Updates have been reported to members throughout the year as part of the normal reporting cycle. The final outturn position was a surplus of £6.986m, being £1.361m above the budgeted surplus. The main reason for this was an underspend in employee costs of £820,000 and an underspend in supplies and services of £441,000 as a result of delays in progressing the service restructure and difficulties in recruiting during the year, mainly tradespersons.

The **2022/23 HRA Investment Programme** was agreed at the same time as the HRA budget and has been monitored throughout the year as part of the normal reporting cycle. The final outturn reported an underspend of £4.759m against a revised budget of £12.582m (original budget of £15.903m). The underspend is as a result of a combination of new build development being delayed, issues with procurement and contractors and inability to resource and progress contracts internally.

The **2022/23 General Services Capital Programme** was approved by the Council on 4 March 2022. This was updated during the year to incorporate carry forward projects and additional funding received, resulting in a revised budget of £20.585m approved for the year. The projected outturn reported during the year is illustrated below, showing a decrease on the outturn position and the final outturn representing less than 50% of the approved budget.



## 3.4 Wider scope requirements (continued)

### Financial management (continued)

#### Current year financial performance (continued)

The significant underspend is as a result of delays due to internal and external factors, the main being:

- £3.430m underspend against Community Investment Strategy, including £1.333m underspend relating to Clackmannan Regeneration;
- £2.321m underspend on IT projects, the most significant being digital transformation (£751,000) which has been rephased to 2023/24 following engagement with contractors; and
- £4.381m underspend on Property, the most significant being £2.154m associated with Wellbeing Complex due to cession of project for interim pool and budget being repurposed in line with overall Wellbeing Complex.

While the reasons for the underspends are clearly understood and reported to members during the year, Improvements are required to the capital budget setting and monitoring process to ensure that realistic budgets are set, with clear timelines and links with the capital investment requirements of the Council. This should include a clear link to the impact on service delivery or transformation where there is slippage in projects. The Council has recognised that improvements are required and the recently recruited Senior Manager for Transformation and Capital is expected to move this forward. We have considered the capital planning and asset management further in our separate report “Best Value thematic work 2022/23”.

#### Finance capacity

The previous auditors highlighted workload pressures within the finance team as a risk, with ongoing vacancies adding to the pressure.

At a Strategic Level, the finance leadership has remained consistent, with the Chief Finance Officer being in post for a number of years. However, at an operational level, the finance team continues to be stretched, as demonstrated by the quality dashboard on page [7](#) where there were delays in information being provided for audit. The Council has found it particularly challenging to recruit a permanent capital accountant, which is a key role within the team, with the post currently being filled on a temporary basis.

We are pleased to note that the Council are undertaking a service review of the finance team to reconsider the size and structure of the team. As part of this, consideration is being given to introducing apprenticeships and/or trainee positions which should support increased resilience and future succession planning. We will continue to monitor progress with this during our appointment.

## 3.5 Wider scope requirements (continued)

### Financial management (continued)

#### Internal controls

The previous auditors concluded in their 2021/22 Annual Audit Report that “financial systems of internal control need to be strengthened and supported by updated financial management and governance documents”. We have considered and followed up on the recommendations made by the previous auditors, which is detailed within the Action Plan on page [74](#), however, in summary:

- Bank reconciliations are being completed regularly and the March 2023 reconciliation was fully reconciled at the time of the 2022/23 audit;
- The Financial Regulations were updated in June 2023 to reflect current practices. However, the Scheme of Delegation and Standing Orders have still to be updated.

#### Internal audit

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have reviewed all internal audit reports published throughout 2022/23. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The Internal Audit service is provided by Falkirk Council as part of a Joint Working Agreement between the two Council's. The 2022/23 Internal Audit Plan was approved by the Audit and Scrutiny Committee in October 2022. Ordinarily the Plan would have been presented to the Committee for approval in March or April, however, as a result of the local government elections in May 2022, the plan was presented later.

The plan included 381 audit days assigned across 16 assignments. Summary reports are provided to the Committee for each assignments.

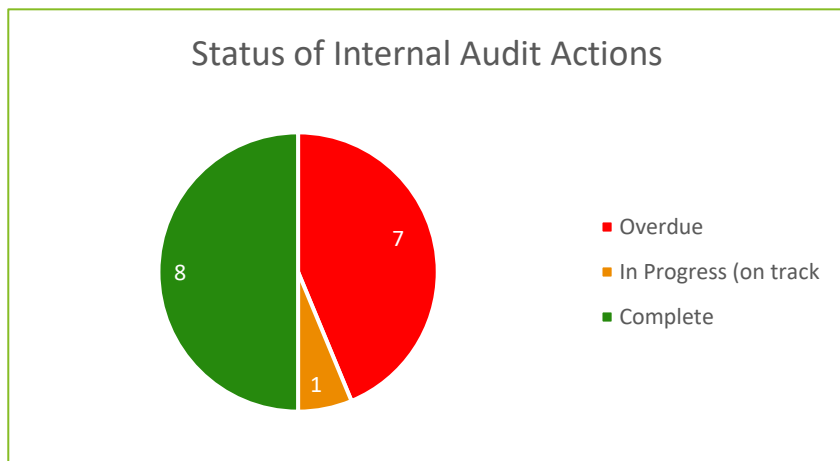
In the update to the Committee in August 2023, it was noted that systematic updates on progress with outstanding actions had not been provided to the Committee since the pandemic response began. Given reprioritisation of service provision and associate staff over the 3-year period, it was inevitable that a backlog of outstanding actions would occur.

## 3.6 Wider scope requirements (continued)

### Financial management (continued)

#### Internal audit (continued)

The status of report actions is summarised in the chart below, showing that 7 reports (43%) have overdue actions, with a total of 18 actions overdue. It is positive to note that Internal Audit now plan to provide regular reports to the Committee. It is important that management ensure that the agreed actions are addressed on a timely basis.



The Internal Audit Annual Assurance Report for 2022/23 was considered by the Committee in August 2023. This concluded that sufficient work was undertaken to support a balanced assurance and that the Internal Audit Manager could provide “substantial assurance” on the Council’s arrangements for risk management, governance and control for the year to 31 March 2023.

Three, out of the agreed 16 assignments, have been carried forward into the 2023/24 plan. These have not impacted on the ability of the Internal Audit Manager to provide overall assurance.

#### Standards of conduct for prevention and detection of fraud and error

We have assessed the Council’s arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the Audit Scotland’s publication “Fraud and irregularities 2021/22 – sharing risks and case studies to support the Scottish public sector in the prevention of fraud”.

The prior year auditors highlighted weaknesses in the Council’s anti-fraud arrangements and recommended that it review and update its anti-fraud arrangements and policies and ensure these are clearly communicated to staff.

Overall, we found the Council’s arrangements to be designed and implemented appropriately.

## 3.7 Wider scope requirements (continued)

### Financial management (continued)

#### National Fraud Initiative (NFI)

All Councils are participating in the most recent NFI exercise. We have monitored Clackmannanshire Council's participation and progress in the NFI exercise.

Although the Council have made efforts to investigate a large amount of matches, as at February 2024 there remains little to no follow up activity on certain reports – creditors, HMRC, companies house, along with many of the matches within the NFI system. It is clear that financially, the Council benefits from this exercise so it would be beneficial for them to increase the priority of NFI to service managers.

Additionally, documentation on the comments within the matches could be improved.

Our overall RAG rating for the Council is therefore Amber.

#### Deloitte view – financial management

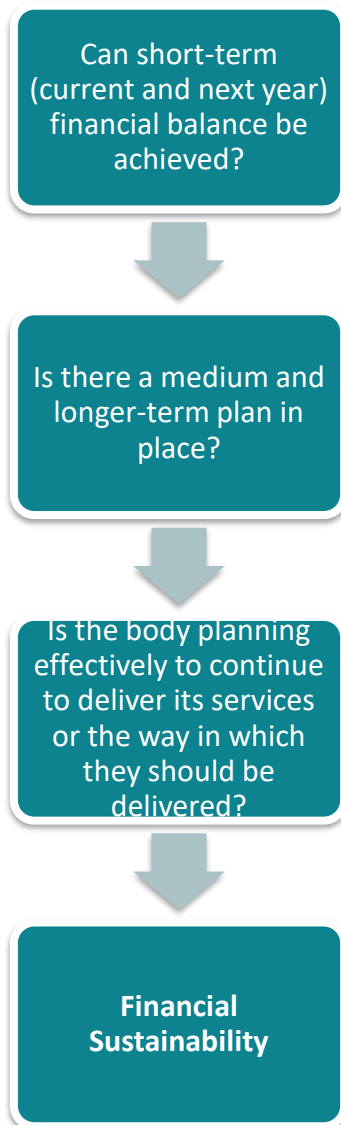
The Council continues to have effective budget setting and monitoring arrangements in place. The capital budget setting and monitoring arrangements should also be reviewed to ensure that realistic budgets are set with clear timelines and a clear linkage to Council priorities.

The finance team continues to be significantly stretched, and in particular has been unable to recruit a permanent capital accountant. We are pleased to note that the Council are undertaking a service review of the finance team to reconsider the size and structure of the team. We will continue to monitor progress with this during our appointment.

A robust independent internal audit function is in place, however, there has been a delay in implementing internal audit recommendations as a result of the Covid-19 pandemic. There are appropriate arrangements for the prevention and detection of fraud and error.

## 3.8 Wider scope requirements (continued)

### Financial sustainability



#### Significant risks identified in Audit Plan

In our audit plan we highlighted that while the Council had historically achieved financial balance, there remains a potential risk that robust medium-to-long term planning arrangements are not in place to ensure that the Council can manage its finances sustainably and deliver services effectively. This was based on the following factors:

- In line with the whole public sector, pressures on expenditure including public sector pay costs and inflationary pressures not being met by increased income, resulted in an initial budget gap in 2023/24 of £11.311m which was closed by utilising one-off actions including use of uncommitted reserves, capital receipts and the in year benefit of the Service Concessions. Savings were also approved to reduce the gap.
- Indicative gaps of £11.561m and £5.723m identified for 2024/25 and 2025/26 respectively for the General Services budget.

We have considered these aspects on the following pages.

#### 2023/24 budget setting

The Council approved a balanced budget of £152.184m for 2023/24 on 9 March 2023. The paper presented to members included an initial budget gap of £9.608m (6% of the Council's expenditure), with the following actions agreed to achieve a budget position.

Agreed action	£m
Management efficiencies (£1.358m cash releasing and £1.674m permanent)	3.032
Policy and redesign savings	0.782
Use of uncommitted reserves	3.441
Use of capital receipts to offset loans fund principal repayments	1.203
Service concession – in year benefit	1.150
<b>Total</b>	<b>9.608</b>



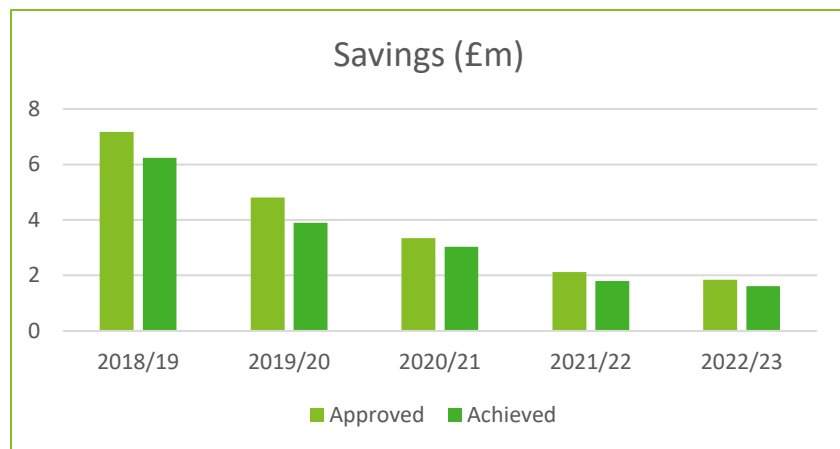
## 3.9 Wider scope requirements (continued)

### Financial sustainability

#### 2023/24 budget setting (continued)

As illustrated in the table on the previous page, a large proportion of the agreed actions are based on one-off solutions and therefore not sustainable in the medium-term.

The Council has a track record of achieving savings, with £35m achieved over the last 10 years. Performance against planned savings is illustrated below, showing a high percentage of planned savings achieved. The level of savings identified is, however, reducing as the options available become more limited and demonstrate the need for service redesign which is considered on page [36](#).



The Scottish Government published Finance Circular 5/2022 in May 2022 and 10/2022 in September 2022, which provided Councils with options to apply financial flexibility to address funding pressures in the short-term. These were as follows:

1. Use of Capital receipts to fund statutory elements of voluntary severance, transformation and offset costs of Covid-19 in 2021/22 and 2022/23;
2. Loans Fund principal repayment holiday in 2021/22 and 2022/23; and
3. Reprofile principal repayments relating to PFI/PPP contracts/ service concession arrangements over the life of the asset as opposed to the service contract in 2022/23 and 2023/24.

Clackmannanshire Council has used the capital receipts flexibility in previous years to create the capital element of the Transformation Fund and the Employment Fund which have contributed to supporting the revenue budget. As these flexibilities end at 31 March 2023, any unused capital receipts have been returned to the general capital receipts reserve.

At the time of approving the 2023/24 budget, the Council agreed to apply the service concession flexibility, which in practice means extending the current repayment terms from 30 years to 50 years. This results in an increase in General Fund balances of £12.5m. As noted on the previous page, the Council has agreed to use the in year benefit of £1.150m to support the budget.

## 3.10 Wider scope requirements (continued)

### Financial sustainability

#### **2023/24 budget setting (continued)**

In line with the process for setting the 2022/23 budget discussed on page [32](#), the Council recognised the challenging context within which the budget is presented, including the unprecedented inflationary pressures. While this is clearly one of the biggest risks that are faced by all Councils, the Council should also set out within its budget papers any other specific risks that impact on the achievement of a balanced financial position and what mitigating action the Council has planned to manage these risks.

The consultation and engagement process for the 2023/24 budget consisted of a four-stage approach. The first two being carried out prior to setting the budget with the third phase focussing on communicating the approved budget decision. The fourth phase then focused on the following year plans. The paper presented to the Council as part of the formal budget approval process set out the key outcomes from that engagement. We have considered how the Council engaged with communities as part of the separate management report “Best Value thematic work 2022/23”.

In addition to the four-stage consultation process, various briefings are provided to all elected members throughout the year setting out officer’s proposals and giving all members the opportunity to ask questions in advance of the formal budget setting meeting.

For 2023/24, the briefings started in November 2022 and included:

- Briefing to the Admin group, followed by all Member briefing and briefing with Trade Unions;
- Additional briefings for the Admin group; and
- Briefing to the HSCP and IJB, jointly with Stirling Council.

There are also opportunities for the Leader, the Chief Finance Officer and other officers to meet with other party Leaders in the run up to the budget meeting to discuss any potential amendments.

In approving the 2023/24 budget on 9 March 2023, no budget amendments were put forward and while there were some questions raised during the meeting, there was no debate. This could be as a result of the extensive briefings held in advance of the meeting resulting in members being satisfied that all questions had been resolved before the formal meeting. However, it is important that the Council is conducting its business in public so care needs to be taken to ensure there is sufficient balance between private briefings and public meetings.

## 3.11 Wider scope requirements (continued)

### Financial sustainability

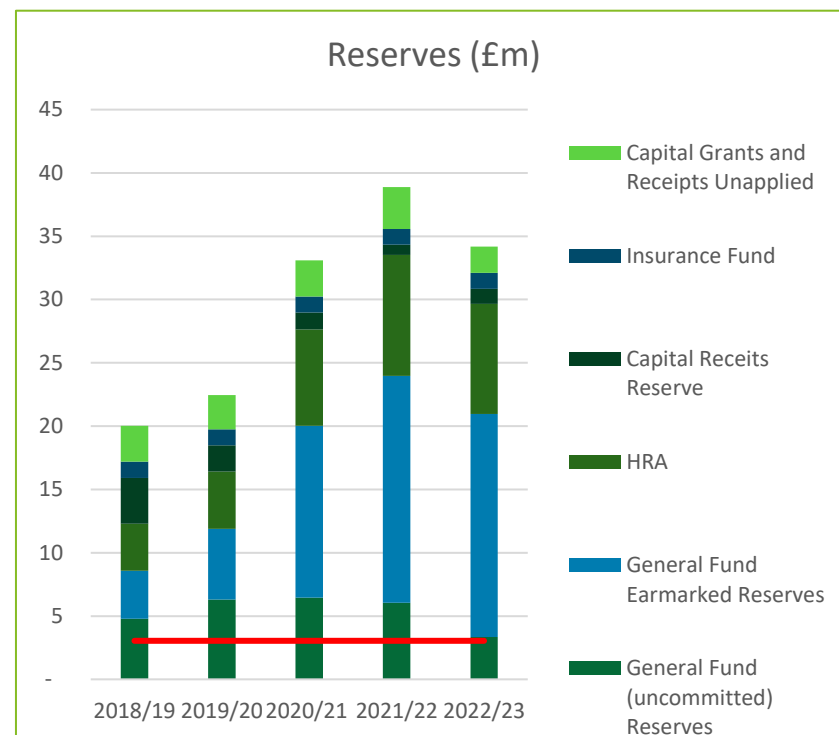
#### Reserves

At the time of approval of the 2023/24 budget on 9 March 2023, the Council carried out its annual review of its Reserves Strategy. The Council's previous strategy was to maintain a minimum level of uncommitted reserves of 3% of net expenditure. In setting the 2022/23 budget, this was reduced to 2.4% on a temporary basis with plans to be brought back to Council to bring this back up to 3%. In setting the 2023/24 budget, the Council agreed to reduce this to 2% on a permanent basis. This was in recognition of the continued significant increases in inflation and rising costs and demand along with no increase in core Revenue Grant.

As discussed on page 23, the Council ended 2022/23 in an underspend position and as a result was able to contribute £997,000 to the unearmarked reserves.

The reserves position as at 31 March 2023, and the previous four years is illustrated on the chart opposite. The uncommitted general fund reserve is now just above the minimum target level, therefore any overspends and unplanned costs in 2023/24 could impact on the short-term financial sustainability of the Council. The monitoring report to Audit and Scrutiny Committee in October projected a small underspend of £602,000 for 2023/24 against the General Fund. However, the Health and Social Care Partnership (HSCP) is currently forecasting an overspend of £3.417m in the Clackmannanshire element of the partnership.

As part of the HSCP recovery plan, this is being managed through use of HSCP reserves. However, any further overspends at the year-end will potentially be covered by the three partner bodies. Given the Council's uncommitted reserves is just above the minimum level, any requirement to provide additional funding to the HSCP would present a significant risk to the financial position of the Council.



## 3.12 Wider scope requirements (continued)

### Financial sustainability

#### Reserves (continued)

The overall reserves position is showing a reduction from previous years, with 2020/21 and 2021/22 significantly impacted by the additional funding as a result of the Covid-19 pandemic.

A detailed review of all earmarked reserves was carried out as part of the 2023/24 budget setting process. The £17.598m general fund earmarked reserves comprise a series of specific reserves, the most significant being:

- Transformation Fund - £1.841m;
- Covid-19 general funding - £1.455m and Covid-19 specific funding - £428,000;
- Amounts to support revenue budget (as discussed on page [30](#)) - £4.643m;
- Ring-fenced housing grants - £1.139m; and
- Homeless accommodation - £1.109m.

There is currently no reporting on progress with the use of the earmarked reserves as part of the regular monitoring reports to Committee. Given the significant value of earmarked reserves, we recommend that the monitoring reports are expanded to give members an update on progress with the use of these reserves to ensure that they are being actively monitored and being applied for the purposes intended.

#### HRA and Capital Investment 2023/24

The HRA revenue budget and Capital Investment Programme for 2023/24 was approved by the Council on 16 February 2023. This included approval to increase Council house rent by 3%. Similar to 2022/23, the Council agreed a surplus budget of £4.777m to support the Housing Capital Programme. This specific strategy was considered as part of the tenant consultation where 69.35% of respondents agreed that it would be appropriate to increase 3% to continue capital investment at the current level.

The total capital investment approved was £15.261m, which is to be funded by reserves and new borrowing of £6.203m.

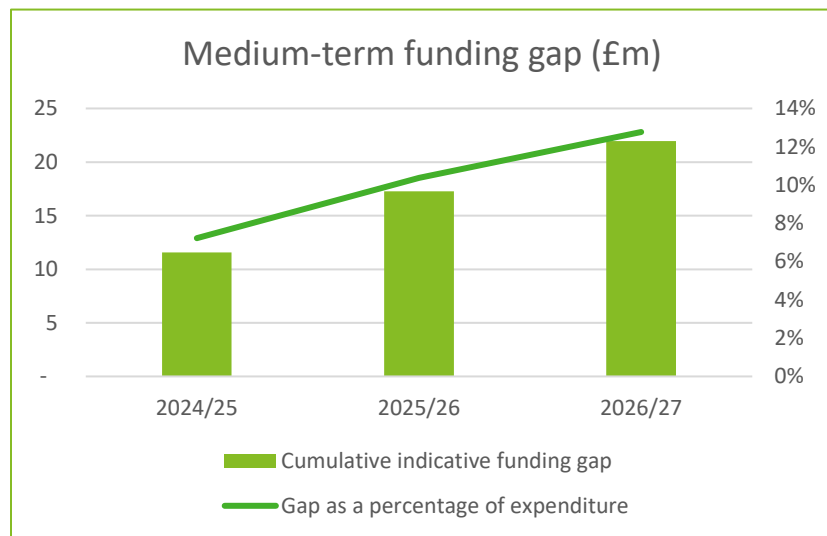
We have considered the Council's capital and asset management arrangements further as part of the separate management report "Best Value thematic work 2022/23".

## 3.13 Wider scope requirements (continued)

### Financial sustainability

#### Medium-to-long term financial planning

At the same time as setting the 2023/24 budget, the Council set out indicative financial plans for the following three financial years. The indicative gap over the years is illustrated below.



As explained on page 30, a number of one-off solutions were agreed to address the gap in 2023/24, however, there are currently no plans in place to address the expected gaps in future years. The Council is therefore not financially sustainable in the medium-term.

Regular “Budget Strategy updates” are provided to Council. The update provided in May 2023 set out the main assumptions within the indicative funding gap and highlighted that there is much uncertainty around funding for future years and fluctuations in the main assumptions which could have a significant impact on the budget gap. It is positive to note that further modelling scenarios and updates on planning assumptions will be provided in future updates. This is a key element of any Finance Strategy to ensure that members have full information to be able to make decisions.

The Council has recognised “insufficient financial resilience” as the highest risk on the Corporate Risk. While the Budget Strategy updates provide helpful information to elected members, we would recommend that a Medium-Term Financial Strategy be developed, with clear actions on how financial sustainability is to be achieved.

Audit Scotland’s report in June 2014 [Scotland's public finances – A follow-up audit: Progress in meeting the challenges \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/scotland-s-public-finance-a-follow-up-audit-progress-in-meeting-the-challenges) includes a helpful summary of important features of a financial strategy, as summarised on the following page. We would recommend that management use this as a reference for developing its medium-to-long term strategy.

While there is no comprehensive Medium-Term Financial Plan in relation to the revenue budget, the Council does have a 20-year capital programme, which we have considered further in our separate management report “Best Value thematic work 2022/23”.

## 3.14 Wider scope requirements (continued)

### Financial sustainability

#### Medium-to-long term financial planning

Area	Important features of a financial strategy
<b>Period</b>	A financial strategy should cover 5-10 years.
<b>Cost</b>	A clear understanding of the business model and the cost of individual activities within it
<b>Savings options</b>	Evidence based options for achieving savings
<b>Savings details</b>	Details of one-off and recurring savings
<b>Scenario planning</b>	Scenario planning to outline best, worst and most likely scenarios of the financial position and the assumptions used
<b>Assets/Liabilities and Reserves</b>	Details of assets, liabilities and reserves and how these will change over time
<b>Capital Investment Activity</b>	Details of investment needs and plans and how these will be paid for
<b>Demand</b>	An analysis of levels of service demand and project income
<b>Funding shortfalls</b>	Any income or funding shortfalls and how to deal with these
<b>Strategy links</b>	Clear links to the corporate strategy and other relevant strategies such as workforce and asset management
<b>Risks and timescales</b>	The risks and timescales involved in achieving financial sustainability

The Council has recognised that it is facing an extremely challenging time and as a consequence needs to prioritise reducing its expenditure further on an ongoing basis. The 2024/25 budget process has been revised with the aim to ensure that a balanced budget position is met, addressing the existing deficit and financial sustainability in the longer term.

A Budget Working Group has been established, replacing the Budget Challenge Board which operated in preparation for the 2023/24 budget. This group is chaired by the Chief Finance Officer and attended by the Chief Executive and the Directors of each Portfolio area. The process will include three Budget Challenge Sessions to provide a mechanism for the strategic review and challenge of departmental spending requirements and demand pressures. Each session will focus on individual portfolio areas as well as cross portfolio to identify opportunities to look at broader options for improvement within and between services.

The above approach is a positive step and acknowledges that management recognise the challenges faced by the Council. It is critical that the early engagement and buy-in of elected members and the public is progressed to ensure that there is sufficient lead in time to make the necessary changes in advance of the start of 2024/25 to deliver the full year impact of the savings agreed. Consultation is planned in line with the process for 2023/24, across 4 stages, which we have considered further in our separate management report “Best Value thematic work 2022/23”.

## 3.15 Wider scope requirements (continued)

### Financial sustainability

#### Transformational change

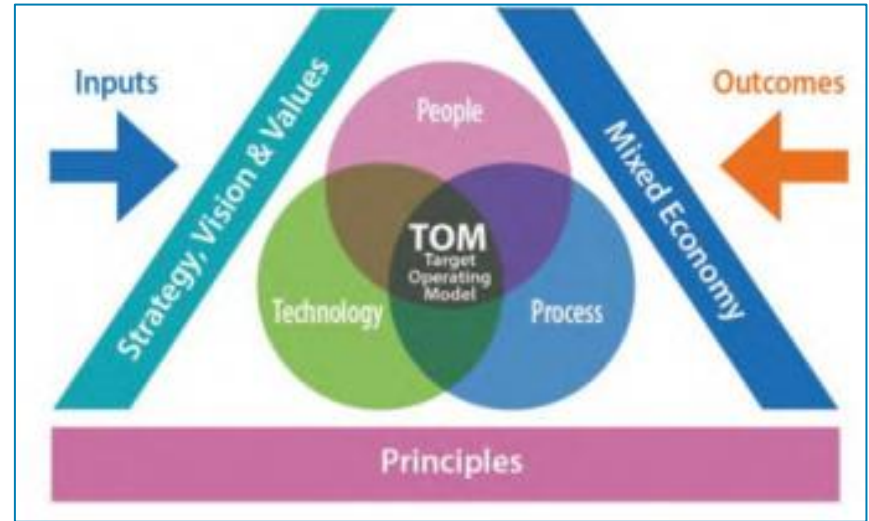
The current Corporate Plan covering 2018-2022 entitled “Be the Future” (BtF) recognises that the Council need to make significant organisational transformation. As discussed on page [29](#), while the Council has been successful in making year on year savings, service redesign is needed to make the long-term changes required. The response to the Covid-19 pandemic has also recognised that the way the Council operates and delivers services has and needs to change.

In February 2020, the Council agreed the “**Be the Future Transformation Plan**” which consolidated the vision, outcomes and priorities set out in the Local Outcome Improvement Plan (LOIP) and Corporate Plan. This work was underpinned by work that had been undertaken in 2019 to start the process of internal organisational redesign to ensure that the Council is able to take forward its ambitious transformation plans over the next ten years.

During 2022/23, the Council’s approach to transformation has evolved, with the following key steps:

- A **Target Operating Model (TOM)** was approved in August 2022 along with revised organisational redesign principles. This was designed to provide a consistent framework from which wider organisational change and redesign can be accelerated and individual activities better coordinated.

The key elements of the TOM are below.



- Regular updates are provided to Council on progress. In December 2022, the increasing convergence between the TOM, the finance and budget strategy and the BtF transformation programme was noted.
- A review and refresh of the programme was carried out with an updated **BtF TOM Plan** (by programme themes) was approved in September 2023. The BtF TOM priorities for 2023/24, by strategic theme, are summarised on the following page.



## 3.16 Wider scope requirements (continued)

### Financial sustainability

#### Transformational change (continued)

Transformation Activity/Theme – 2023/24
Digital and Data Transformation
Asset Strategy
Sustainable Transport
Communication and Engagement Model
Tackling Poverty
Investment Strategy
Workforce Strategy
Value based leadership/cultural change
Collaborative Community Models
Place Redesign

The governance of the BtF programme is provided as follows:

- at an Officer level through the Strategic Oversight Group which meets on a 6-weekly basis.
- At an elected member level, the BtF Board has cross-party representation and chaired by the BtF Sponsor, who is the Council Leader. The Board meets on a quarterly basis.
- Any decisions relating to the allocation of Transformation Funds or significant changes in the programme are taken by the Council.

The resourcing model for the BtF TOM Plan has also evolved during 2022/23. Initially, it was based on a tradition Project Management Officer (PMO), however, in January 2022 a new Transformation Management Office was established to better support capacity and resilience in respect of innovation, investment and collaboration. The Council is committed to investing in a Transformation team, however, following several rounds of recruitment, the approved project management and business analysts posts remained vacant due to competitive recruitment market. 5 Transformation Officers were instead appointed in May 2022 on fixed term contracts, which ended in April 2023.

As part of agreement of the 2023/24 budget, the Council agreed a new model of support as follows:

- A permanent Senior Manager (Transformation and Capital) post funded 50% from revenue and 50% from capital. This post has recently been filled;
- Two permanent Project Managers (Capital). One post has recently been filled, with the other remaining vacant;
- £1.8m of capital investment in posts designed to support the delivery of priority capital projects which support transformation such as Digital, the Wellbeing Complex and the City Region Deal;
- Additional capacity in legal, finance and procurement.



## 3.17 Wider scope requirements (continued)

### Financial sustainability

#### Transformational change (continued)

- £1.1m Transformation Fund delegated to the Chief Executive; and.
- Council's commitment to maximise the deployment of the benefit of adopting the Service Concession flexibility (discussed further on page 30) to support the implementation of the TOM and associated transformation projects to deliver service and financial sustainability.

In addition to the above, the Council has agreed a broader strategy to maximise the quantum, quality and impact of the resources deployed to develop and implement transformation, including:

- A **Flexible Resourcing Fund** was provided to increase capacity and capability in critical projects and activities. This resource has supported the Wellbeing Hub, Digital and data transformation, Climate emergency response, Transformation Zones, Learning Estate and STRIVE;
- A **Discovery Fund** was established to provide funding to access any short-term expertise to undertake discovery work to help move ideas through feasibility and options appraisal to a position where the proposal could confidently either be discounted or developed on further;
- Partnership Alignment has also focused on **sharing resources** and targeted on priority cross-cutting themes, including Community Wealth Building and Wellbeing Economy and City Region Deal;

- The Council is also **leveraging significant external resourcing**, for example the Wellbeing Hub with SportScotland, the Family Wellbeing Partnership with the Hunter Foundation, The Promise with the Vardy Foundation, and the BtF Programme with the Improvement Service.

Key requirements to achieving successful transformational change are ensuring that there is sufficient capacity and resources to deliver the change required and appropriate governance structure in place. The above approach is therefore positive and demonstrates the Council's commitment to the need for making transformational change. This is also a positive step in response to the recommendation in the 2018 BVAR report that the Council should balance the drive for savings with the need for sufficient officer time and skills to support change. The BVAR report also recommended the Council consider how it makes more use of external assistance to support improvement, which is now in place.

The agreement of the transformational activity as priority for 2023/24 is also a positive step. However, more work is required to build the detail behind each project and fully align this to the development of a medium-term financial strategy by:

- Adding greater detail about individual projects;
- Setting clear timelines for each project;
- Assess the resources and support required to deliver these projects (taking into account the resources that are already identified); and
- Developing a benefits realisation tracker to assess whether the Council has achieved its aims.

## 3.18 Wider scope requirements (continued)

### Financial sustainability

#### Transformational change (continued)

The Council has recognised this and noted that once the new Senior Manager is in place, work will be undertaken to review governance arrangements and to streamline the reporting and monitoring of progress, including benefit realisation of the BtF Programme priorities.

As part of the regular BtF updates to the Council, the following areas have been highlighted as key areas where progress has been delivered:

- 1. Place-based Wealth Building** – we have considered the work on Community Wealth Building in our separate management report “Best Value thematic work 2022/23”. Another example is the development of a new Wellbeing Hub, with swimming and sport and leisure facilities, which aligns to the Council’s priorities to help communities be active, live well and leveraging benefits for community wealth building.
- 2. Social Innovation** – key achievements include work in respect of the Family Wellbeing Partnership and STRIVE which we have considered in our separate management report “Best Value thematic work 2022/23”.
- 3. Digital and Data Transformation** – significant investment (£7.179m specifically allocated for this in the 2023/24 capital budget) has been committed to the programme which has enabled the Council to bring in a scaled up multi-disciplinary delivery team. A range of Business Use cases are in development.

We have considered the digital strategy further in our separate management report “Best Value thematic work 2022/23”.

- 4. New Models of Delivery** – Since 2020, the Council has adopted new models of providing its services. Specific examples include Kilncraigs Co-location and STRIVE, Upstream approaches tackling poverty and inequality (Family Wellbeing Partnership, Values-based Leadership with Columba 1400), The Promise and Scottish Approach to Service Design, Engagement (Sponsor’s Voice, Community capacity and SIEC Young Pathfinders).
- 5. Grant Capture and Investment Strategy** – more innovative and strategic approach to how the Council pursues external investment into opportunities within Clackmannanshire. Specific progress includes the approval of the Council’s Investment Strategy and supporting a total of c£6.9m of funding into Clackmannanshire between summer 2020 and spring 2023.

The above examples provide useful qualitative information and a clear ambition by the Council to implement transformational change. However, linked with the need for a clear benefits realisation tracker, there is a need for more data driven reporting to demonstrate how projects are progressing, any blockers, resource implications and assessing whether they are achieving the expected outcome. This is a key step that is currently missing from the Council’s reporting to allow it to demonstrate the impact of the work that is being undertaken.

## 3.19 Wider scope requirements (continued)

### Financial sustainability

#### **Deloitte view – Financial sustainability**

The Council has set a balanced budget for 2023/24, however, this was only achieved by using one-off solutions including use of reserves and service concession flexibility which is unsustainable. The level of uncommitted reserves as of 31 March 2023 was at the lower end agreed in the Council's reserves strategy and whilst the latest monitoring reports for 2023/24 indicate an underspend is projected, there continues to be risks associated with the HSCP and whether the Council may need to fund any further overspending in the year which would reduce the uncommitted reserves to below the minimum level.

A funding gap of £11.6m is projected for 2024/25, increasing to £21.9m in 2026/27. The Council is therefore not financially sustainable in the medium-term and urgent action is required. While regular budget updates are provided to member, the Council should develop a comprehensive Medium-Term Financial Strategy setting out how financial sustainability is to be achieved.

The Council's approach to transformation has evolved over the year, and is able to demonstrate a number of positive developments. Clear governance arrangements are in place and a new model of resourcing has been agreed in March 2023. However, more work is required to build the detail behind each project within the transformation programme and fully align this to the development of a medium-term financial strategy including adding greater detail about individual projects and developing a benefits realisation tracker to assess whether the Council has achieved its aims.

## 3.20 Wider scope requirements (continued)

### Vision, leadership and governance



#### Significant risks identified in Audit Plan

In our audit plan, we highlighted that following the local government elections in May 2022, a new Audit and Scrutiny Committee was established, replacing the previous Audit Committee, but with an expanded remit. There is a risk that there is insufficient capacity to provide effective scrutiny and challenge as a result of the expanded remit of the Audit and Scrutiny Committee.

We also noted that the Strategic Director for Transformation was on a fixed term contract which ended on 31 March 2023. While proposals had been put forward to establish a permanent Senior Manager for Transformation, there was a significant risk that the Council does not have sufficient capacity, at a leadership level, to drive forward the transformational change required. We have considered these risk on the following pages.

#### Vision and strategy

We have considered the Council's vision and strategy, and associated community engagement as part of the separate management report "Best Value thematic work 2022/23".

#### Leadership

We have considered the Council's leadership as part of the separate management report "Best Value thematic work 2022/23". We have considered the leadership capacity in relation to the transformation programme on page [40](#), where we have noted that a revised resourcing model has been agreed and a Senior Manager for Transformation and Capital has recently been appointed.

#### Governance and scrutiny arrangements

The Council's Local Code of Corporate Governance is made up of the key Council policies and strategies that together determine how the Council is directed, controlled, led and held to account. As discussed on page [26](#), while the Financial Regulations have been recently updated, the Standing Orders and Scheme of Delegation are outdated and need to be reviewed.

## 3.21 Wider scope requirements (continued)

### Vision, leadership and governance (continued)

#### Governance and scrutiny arrangements (continued)

Following the local government elections in May 2022, the Council agreed a number of changes to its decision-making framework. This recognised the size of the Council, being the smallest mainland Council in Scotland, with 18 elected members. The aim of the changes were to maximise participation of all elected members in decision-making, sustain maximum transparency over the Council's decision-making, streamline the administration of Council business and to enhance the effective scrutiny of Council activity and decisions.

The key changes were to disestablish the Partnership and Performance, People and Place Committees, as well as the Audit Committee, and create an Audit and Scrutiny Committee. Full Council meetings were also agreed to take place on an eight-weekly cycle.

In August 2022, the Council agreed further changes to the decision-making framework to establish four Boards which enhance the profile of specific strategic priorities and supplement the information provided to the Audit and Scrutiny Committee to facilitate routine scrutiny of operational performance and delivery against Portfolio Business Plans. The agreed Boards are as follows:

- **Be the Future Transformation Board** (incorporating Digital);
- **Climate Emergency Board**;
- **Children and Young People Board** (combining the former Towards Excellence and Equity Group with the Promise Group); and
- **Adult Social Care Board** (incorporating National Care Service).

In addition to these Boards, a more routine, planned approach to briefings on key strategic themes was also agreed to assist with the efficient management of the Council agenda.

The Audit and Scrutiny Committee plays a key role in the governance arrangements of the Council and in line with best practice is chaired by a member of the main Opposition, with the Vice-Chair also being outwith the political Administration. The agenda for each meeting is clearly structured to distinguish between "Audit and Finance" and "Scrutiny". The "Scrutiny" part of the agenda is, as far as possible, themed at each meeting to reflect the operational portfolios and related political portfolios.

Due to the increased scope of the Committee, the agenda's cover a number of significant areas. The previous auditors recommended that given the increased remit of the Committee, Officers should keep the revised Audit and Scrutiny committee arrangements under review to ensure there is sufficient time for members to review papers and provide effective scrutiny and challenge. This is being closely monitored by Officers and the Committee, with the following key actions taking place during the year.

- The Committee has recently agreed a forward plan for 2023/24 which endeavours to reflect the remit of the Committee agreed by the Council. This provides a structure to the meetings and helps ensure that there is sufficient time across the cycle of meetings to fulfil the Committee's remit;
- In line with best practice, the forward plan introduces the need for an Annual Report based on the CIPFA Committee Position Statement and an associated self-evaluation.

## 3.22 Wider scope requirements (continued)

### Vision, leadership and governance (continued)

#### Governance and scrutiny arrangements (continued)

- The Annual Report for 2023 was considered by the Committee in October and will be presented to the next available Council meeting.
- A self-assessment has been carried out, including a Committee skills audit. As a result, a number of areas have been identified for improvement which are being taken forward as a Committee.

These developments are welcome, and we will continue to monitor progress with these during our audit.

The Audit and Scrutiny Committee also plays a key role on monitoring the Corporate Risks of the Council. An updated Corporate Risk Register was considered by the Committee in October 2023.

We have reviewed meetings attendance from the past year and confirm that there has been generally good attendance. In addition, from attendance at meetings we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings. Given the remit of the Committee, the agendas are relatively long, however, we have not observed any curtailment in discussions with members given sufficient time to discuss and scrutinise. The agendas could be further enhanced by allocating provisional times for each item on the agenda to help manage the meetings within the set timeline.

While not formally agreed in the membership and remit of the Committee, substitute members regularly attend in place of Committee members where a particular topic is being discussed where they have a particular interest or expertise.

While we understand the reasoning for this, and agree that this should allow more informed scrutiny of particular areas, consideration should be given to formalising this arrangement within the Committee's Terms of Reference.

We would also recommend that the ASC receives regular updates from management on progress with the implementation of internal and external audit recommendations. At present, this is not a regular item on the ASC agenda.

#### Transparency of reporting

The Council publishes all minutes and papers of all Committees on its website. All Council and Committees meetings are also recorded and published on the Council's website. We are therefore satisfied that the Council continues to be open and transparent.

#### **Deloitte view – Vision, leadership and governance**

Our view of the vision and leadership of the Council has been considered as part of the separate management report "Best Value thematic work 2022/23".

The Council's revised decision-making framework is being embedded. The Audit and Scrutiny Committee plays a key role in the governance arrangements and in line with best practice has recently carried out a self-assessment and skills audit, with areas of development identified. We will continue to monitor the progress with this during our audit appointment. The Council continues to be open and transparent, with all Committee and Council meetings recorded and available on the website.

## 3.23 Wider scope requirements (continued)

### Use of resources to improve outcomes



#### Significant risks identified in Audit Plan

In our audit plan we highlighted that given the financial challenges faced by the Council, there is a risk that the Council is unable to demonstrate that resources are being used effectively with a focus on continuous improvement.

#### Performance management framework

We have considered the Council's performance management framework, and how it aligns to the Council's vision and priorities, as part of the separate management report "Best Value thematic work 2022/23".

#### Statutory performance indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's Best Value (BV) audit responsibilities. In turn, councils have their own responsibilities, under their BV duty, to report performance to the public. The Accounts Commission Statutory Performance Information Direction requires a council to report a range of information in the areas listed below

#### SPI 1: Improving local services and outcomes

- Performance in improving local public services, both provided by the Council and in conjunction with its partners and communities.
- Progress against desired outcomes agreed with its partner and communities.

#### SPI 2: Demonstrating Best Value

- The Council's assessment of how it is performing against its duty of BV, including self-assessments and service review activity, and how it plans to improve against this assessment;
- Audit assessments (including those in the annual audit) of how its performance against its Best Value duty, and how it has responded to these assessments; and
- Assessments from other scrutiny and inspection bodies, and how it has responded to these assessments.



## 3.24 Wider scope requirements (continued)

### Use of resources to improve outcomes

#### Statutory performance indicators (continued)

We have evaluated the effectiveness and appropriateness of the arrangements that the Council has in place, including the appropriateness of the information provided to members in responding to the Direction and concluded as follows:

- The Council produces an annual performance report demonstrating its performance across its corporate priorities set out within its Corporate Plan. These priorities are closely aligned to the Clackmannanshire Alliance strategic outcomes set out within the LOIP;
- Performance information is considered by the Audit and Scrutiny Committee on a cyclical basis during the year to allow each Director to report at six-monthly intervals;
- The Council participates in the Local Government Benchmarking Framework (LGBF) which brings 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; and
- A section of the Council's website is dedicated to Council and service performance, with clear links to where further detail is available..

Based on the above, we are satisfied that the arrangements are appropriate. As discussed in more detail in our separate management report "Best Value thematic work 2022/23", the Council has recently approved a revised approach to business planning and associated performance tracking.

#### Self-evaluation arrangements

We have considered the Council's self-evaluation arrangements, as part of the separate management report "Best Value thematic work 2022/23".

#### Performance data

We have also provided a summary of the latest performance reported by the Council. This incorporates a summary of the Performance Indicators (PIs), aligned to the corporate priorities, with reporting covering:

- The status of each indicator to monitor performance against targets;
- Trends in indicators, by comparison with previous years data; and
- How the Council benchmarks against other local authorities through the LGBF.

This data demonstrates that:

- a high proportion of the PIs are in line with targets. 21% are, however, reported as being 15% worse than target;
- There has been a swing in performance in comparison with previous years, with 47% improving and 46% declining in performance;
- 47% of LGBF indicators are in the upper two quartiles, which is largely in line with 2020/21;



## 3.25 Wider scope requirements (continued)

### Use of resources to improve outcomes

#### Performance data (continued)

- Raising attainment continues to be a challenge, with 7 out of the 25 indicators 15% below than target and 16 out of the 25 in the bottom two quartiles in 2021/22. There are clear actions and targets within the 2022/23 People Business Plan to focus and the data reported for 2022/23 to date attainment has seen improvement in a number of areas as a result of specific investment. This has been reported through the National Improvement Framework Report for 2022/23; and
- Progress with improvement actions in 2022/23 across the 3 Directorates is showing that progress is being made, particularly in the People Directorate. However, almost 50% of the actions under Place are expected to be completed outwith the target date. Some of these are due to resourcing and capacity constraints. The Council need to ensure that it has sufficient capacity to deliver on its ambitious plans and where there are pressures, workload is prioritised to be in line with the Council's core priorities.

#### **Deloitte view – Use of resources to improve outcomes**

Our view on the Council's performance management framework has been considered as part of the separate management report "Best Value thematic work 2022/23".

There are appropriate arrangements in place to comply with the SPI Direction, including its public performance reporting requirements.

## 3.26 Wider scope requirements (continued)

### Best value

#### Requirements

It is the duty of the Council to secure Best Value as prescribed in Part 1 of the Local Government in Scotland Act 2003. We have a statutory duty to be satisfied that the Council have made proper arrangements for securing BV.

#### Conclusions from Audit Work

Under the new Code of Audit Practice, the audit of Best Value is fully integrated within the annual audit work. We have evaluated and reported on the performance of the Council in meeting its Best Value duties as follows:

- 1. Follow-up and risk based work.** We have followed up on Accounts Commission findings, Controller of Audit recommendations and any outstanding improvement actions reported in Best Value Assurance Reports (BVAR) on page [38](#) and the Annual Audit Reports on page [26](#).
- 2. Service Improvement and reporting.** We have assessed how effectively the Council demonstrates service improvement on page [50](#). We have provided a summary of the information the Council reports publicly on its service performance on pages [50 to 51](#).

**3. Thematic reviews.** We have reported our conclusions on the thematic work for 2022/23 on “the effectiveness of council leadership (officers and elected members) in developing new local strategic priorities following the election in May 2022” in our separate management report, issued at the same time as this report.

**4. Contributing to Controller of Audit reports.** Clackmannanshire Council is due to be reported to the Accounts Commission in year one of our appointment (this cycle).

#### Deloitte view – Best Value

The Council has appropriate and effective best value framework in place and has continued to make positive progress in addressing the recommendations contained in the 2018 BVAR and subsequent progress report published in June 2019. The Council has a clear understanding of areas which require development.



Financial sustainability is the biggest risk that the Council face and it is critical that detailed plans are developed at pace, with robust benefits realisation tools to demonstrate that the Council is achieving its intended outcomes.

## 3.27 Wider scope requirements (continued)

### Follow-up on Accounts Commission findings



#### Best Value Assurance Report

We have assessed the Council's progress against each of the recommendations made, as summarised in the table below. Of the four recommendations, all are being actively taken forward as part of the Council's future plans, with clear evidence of progress.

Recommendation – January 2018	Progress Report – June 2019	Status	2022/23 Update
<p>1. Councillors and officers should build on their constructive working relationships to provide the coherent, combined leadership necessary to secure the council's financial position.</p>	<p>There is evidence of improved working relationships between councillors and officers and a stronger commitment to work collectively in the best interests of the council.</p> <p>There are signs that councillors and officers support a more collaborative approach and have a shared understanding of the need to do things differently.</p>		<p>There continues to be evidence of improved working relationships between councillors and officers.</p> <p>Considered as part of the separate management report "Best Value thematic work 2022/23".</p>
<p>2. The council should consider savings options and decide how best to direct resources to priorities. It should work with communities to develop options and prepare for the difficult decisions it has to make.</p>	<p>The council acknowledges that it needs to demonstrate better the link between decisions on how it uses its resources and its priorities. Actions include earlier consideration of savings proposals through the change programme board and more targeted engagement with individuals and communities which will be affected, as part of the council's wider commitment to community engagement.</p>		<p>The Council now have a detailed 4-phased programme of engagement with communities as part of the budget process.</p> <p>Considered as part of the separate management report "Best Value thematic work 2022/23".</p>

## 3.28 Wider scope requirements (continued)

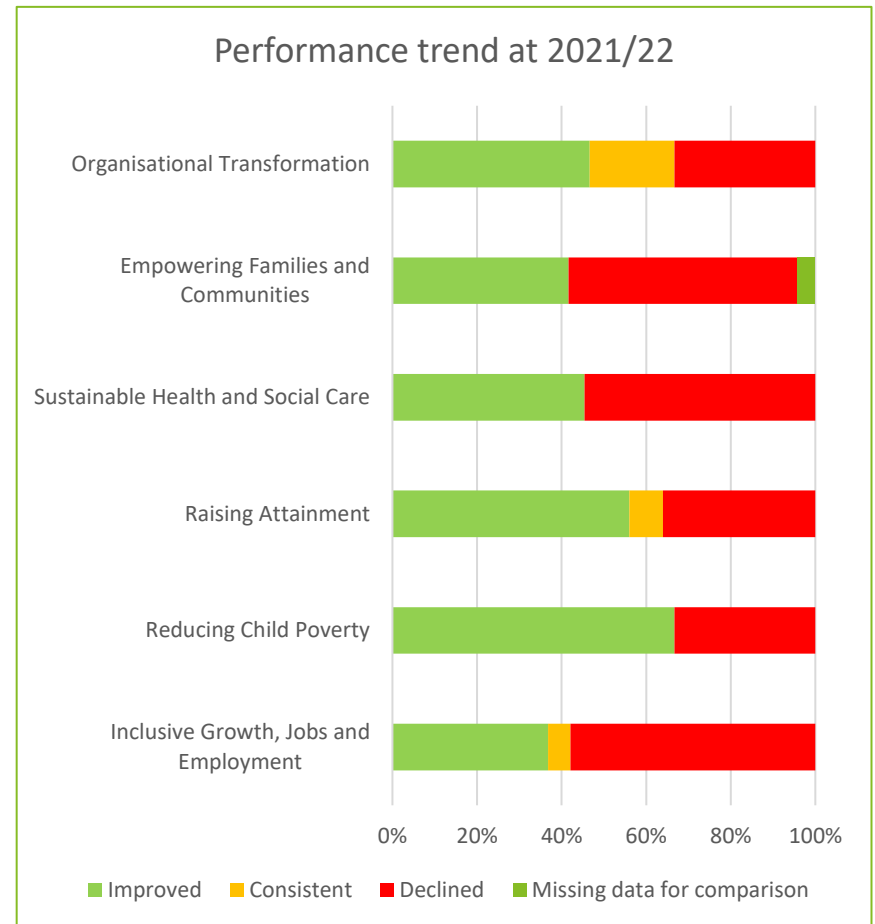
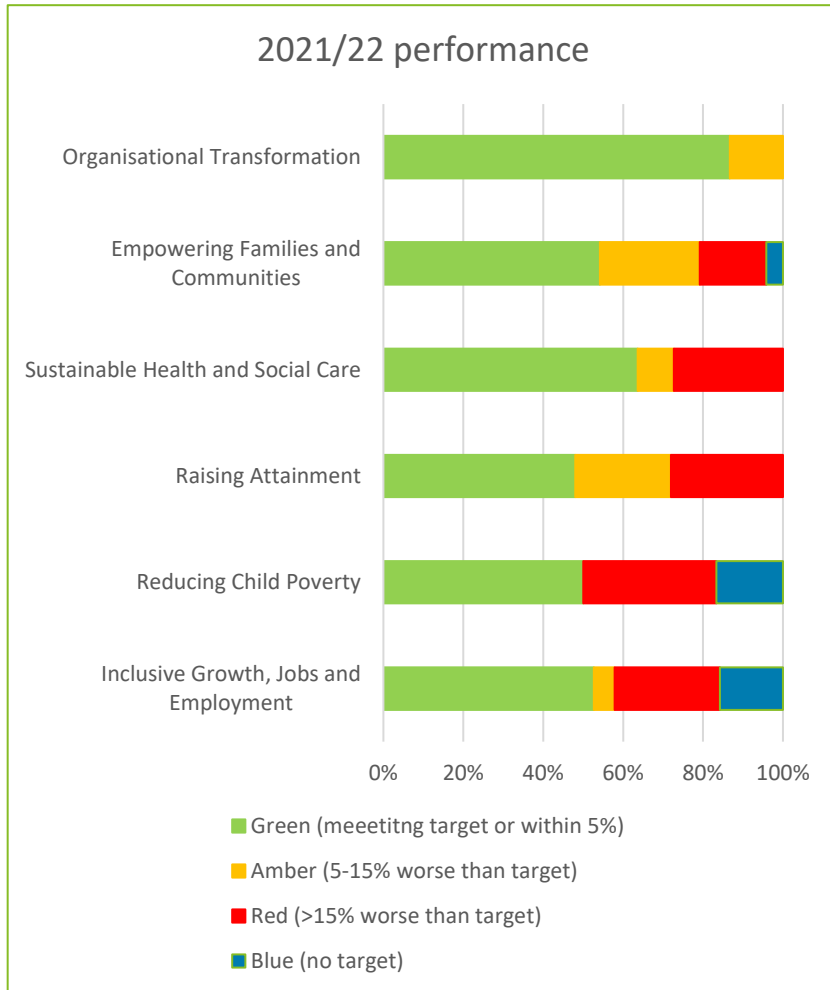
### Follow-up on Accounts Commission findings

Recommendation – January 2018	Progress Report – June 2019	Status	2022/23 Update
<p>3. The council should further develop its working relationships with community planning partners to ensure their combined resource is directed towards the strategic local outcomes</p>	<p>The council recognises that to transform services it also needs to increase collaboration with community planning partners, third sector organisations and its communities.</p>		<p>There are a number of examples of good working relations with community planning partners, including STRIVE, Family Wellbeing Partnership and Community Wealth Building.</p> <p>Considered as part of the separate management report “Best Value thematic work 2022/23”.</p>
<p>4. The council should balance the drive for savings with the need for sufficient officer time and skills to support change. It should also consider how it could make more use of external assistance to support improvement</p>	<p>The council has taken steps to build the capacity needed to support organisational change and service redesign. Further work is required to secure the skills and capacity needed to maintain momentum and to embed change throughout the council.</p> <p>The council has secured a range of external assistance to support improvement.</p>		<p>As part of agreement of the 2023/24 budget, the Council agreed a new model of support.</p> <p>Considered as part of transformation programme on page <a href="#">36</a>.</p>

# 3.29 Wider scope requirements (continued)

## Service performance

The below data summarises the how the Council has performed against targets in 2021/22 (the latest data available), analysed by strategy priority.

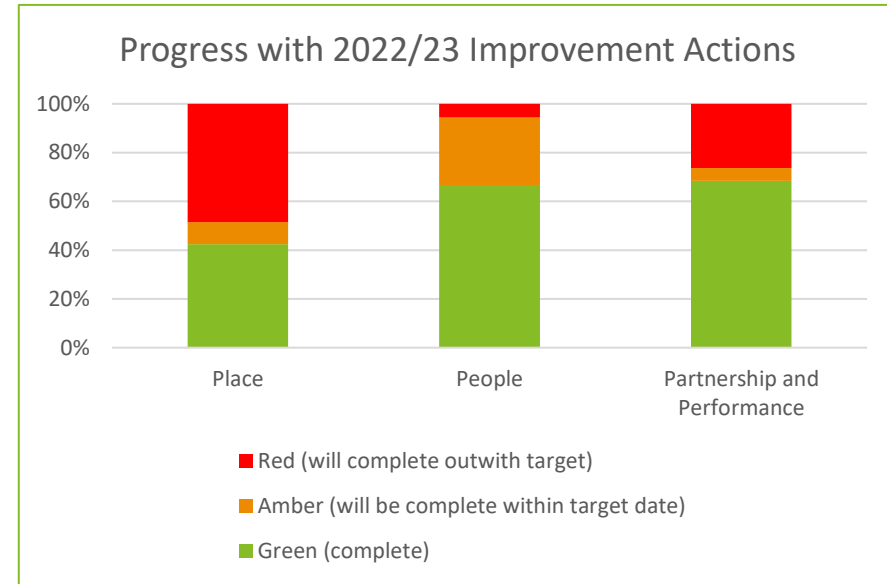
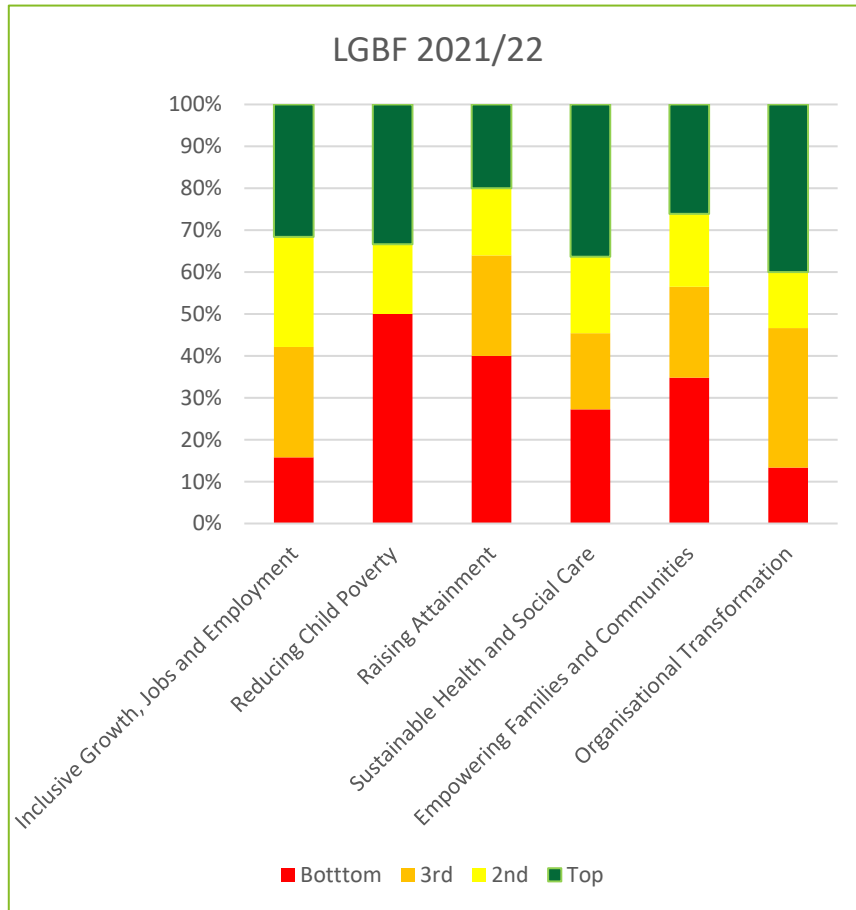


The above data summarises the performance trend in comparison with previous years.

## 3.30 Wider scope requirements (continued)

### Service performance (continued)

The below data summarises Clackmannanshire Council's ranking relative to the whole of Scotland, as reported in the LGBF report for 2021/22, by priority area.



The above data summarises the status of Improvement Actions from 2022/23 Business Plans, based on latest reporting to the Audit and Scrutiny Committee.

## 3.31 Wider scope requirements (continued)

### Climate change

#### Risks identified in Audit Plan

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Question	Clackmannanshire Council's position
1. What targets has the body set for reducing emission in its own organisation or in its local area?	The Council, within its Interim Climate Change Strategy, sets out its overall targets for the Council to reach net zero greenhouse gas emissions by 2040 at the latest and has set interim targets for each year leading up to that. For the Clackmannanshire area, the Council agreed to a target of net zero greenhouse gas emissions by 2045 in line with the Scottish Parliament target.
2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	The Council unanimously passed a motion in August 2021 declaring a climate emergency and agreed to develop a comprehensive Climate Change Strategy.  An Interim Climate Change Strategy was approved in August 2022, at which time it agreed its approach to further development of that strategy including the creation of a Climate Emergency Action Plan. A consultation process on the Strategy and Action Plan has recently ended, with a view to being formally approved by the Council in early 2024.

## 3.32 Wider scope requirements (continued)

### Climate change (continued)

Question	Clackmannanshire Council's position
<p>2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets? (continued)</p>	<p>The Strategy has been developed based on the following strategic themes, with Action Plans in place against each theme:</p> <ul style="list-style-type: none"><li>• Energy, Heat and Buildings;</li><li>• Low carbon transport;</li><li>• Waste, Recycling and the Circular Economy;</li><li>• Biodiversity, carbon storage and agriculture;</li><li>• Adaption, planning and organisational capacity; and</li><li>• Economic Development and Sustainable Procurement.</li></ul> <p>The Council has recognised that the plans are ambitious but are needed if Scotland is to meet its climate change goals. It is essential that a clear monitoring system is in place to track progress with the agreed accounts and ensure the Council is transparent about the gaps and challenges that exist in achieving its targets.</p> <p>Audit Scotland's publication <a href="#">Scotland's councils' approach to addressing climate change   Audit Scotland (audit-scotland.gov.uk)</a>, recommends that plans should include detailed route maps that set out:</p> <ul style="list-style-type: none"><li>• Interim targets to track progress towards longer-term targets;</li><li>• How and to what extent individual actions will contribute to emissions reductions;</li><li>• Costs and budgets for the intended actions, gaps in financing and intended actions to secure funding;</li><li>• How actions to reduce emissions might have co-benefits for, or impact on, adaption actions; and</li><li>• A clear timetable for reviewing actions and publishing update reports on progress.</li></ul> <p>The Council plan to follow this guidance once it has completed its action plan.</p>



## 3.33 Wider scope requirements (continued)

### Climate change (continued)

Question	Clackmannanshire Council's position
3. How does the body monitor and report progress towards meeting its emissions targets internally and publicly	<p>In approving the Interim Strategy in August 2022, the Council establishment of a Climate Emergency Board and community-focused Climate Change Forums.</p> <ul style="list-style-type: none"><li>• The <b>Climate Emergency Board</b> has members from each political party and senior officers from across the Council and is accountable for the operational delivery of the Action Plan, the updated Strategy and emission reduction targets. The Board is chaired by an elected member from the Administration who is the Council spokesperson for environment and net zero.</li><li>• Five <b>Climate Change Forums</b> have been set up to facilitate engagement with communities and promote sustainability across the county.</li></ul> <p>In accordance with the Climate Change (Scotland) Act 2009, the Scottish Government Statutory Order from 2015 and the 2020 Climate Change Duties Amendment Order, the Council submits data annually which is published on the Sustainable Scotland Network website.</p>
4. Has the body considered the impact of climate change on its financial statements?	<p>Given the early stages of development the Climate Change Strategy and Action Plan, no specific consideration has been given to the impact of climate change on the financial statements. Climate change is, however, considered as part of the budget setting process and in particular the capital programme, with £519,000 specifically identified within the 2023/24 capital programme as being “investment in net zero”.</p> <p>Areas that may need to be considered in the future could include the useful economic lives of assets, new provisions or new sources of uncertainty.</p>

## 3.34 Wider scope requirements (continued)

### Climate change (continued)

Question	Clackmannanshire Council's position
5. What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	Potential impact could be around Property, Plant and Equipment balances, provisions, contingencies and new estimation uncertainties as well as the budgetary implications of the Plan.
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is consistent with those financial statements?	<p>The Council has included reference to climate change in the Management Commentary under "Sustainability and Climate Change" and sets out the work that has taken place with the Strategy development and governance arrangements with hyperlinks provided to further details.</p> <p>As the Council's Action Plan and monitoring arrangements are further developed, we would expect this disclosure to increase in future years to provide more detail on progress, risks and mitigating action.</p>

#### **Deloitte view – Climate change**

Clackmannanshire Council has a comprehensive Climate Change Strategy with ambitious targets in place and reporting annually in accordance with the regulation and legislation. Clear governance arrangements are in place with the Climate Emergency Board, and good links in place to involve communities in the decision-making process. It is essential that as detailed actions plans are developed, the Council is transparent about the gaps and challenges that exist in achieving its targets.

## 3.35 Wider scope requirements (continued)

### Cyber risk

Area	Management actions	Impact on Clackmannanshire Council's Annual Accounts	Impact on our audit
Cyber risk	<p>Clackmannanshire Council recognises cyber risk as part of its Corporate Risk Register across a number of risk areas, including the following:</p> <ul style="list-style-type: none"> <li>• Information not managed effectively; and</li> <li>• IT system failure.</li> </ul> <p>As part of the Internal Audit programme for 2022/23, a review was due to be carried out of IT and Information Security Governance. This has been subsequently carried forward to the 2023/24 internal audit programme. While this delay has not impacted on the internal auditor's overall opinion for 2022/23, given the Strategic Risk for the Council and the wider risk of cyber-attacks across the public sector, it is important that this review is progressed as planned in 2023/24 to assess the appropriateness of the cyber security arrangements in place.</p> <p>The Council is investing in ICT infrastructure as part of its Digital Transformation Strategy. A report on cyber security compliance is scheduled, however, recent global issues increased the risk reported on the Corporate Risk Register and work is ongoing around security and improving staff and public awareness.</p>	<p>The Annual Governance Statement includes an update on areas for improvement contained within the 2021/22 AGS, which included an update on the Digital Transformation Delivery Plan.</p>	<p>We have obtained an understanding of the business and its internal controls in relation to cyber including assessing the maturity and coverage of the entity's cyber risk management programme.</p> <p>We obtained an understanding of the relevant laws and regulations in relation to the entity.</p>

## 4.1 Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Accounts.
- Our internal control observations
- Other insights we have identified from our audit.

### The scope of our work

Our observations are developed in the context of our audit of the Annual Accounts.

We described the scope of our work in our audit plan.

### Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

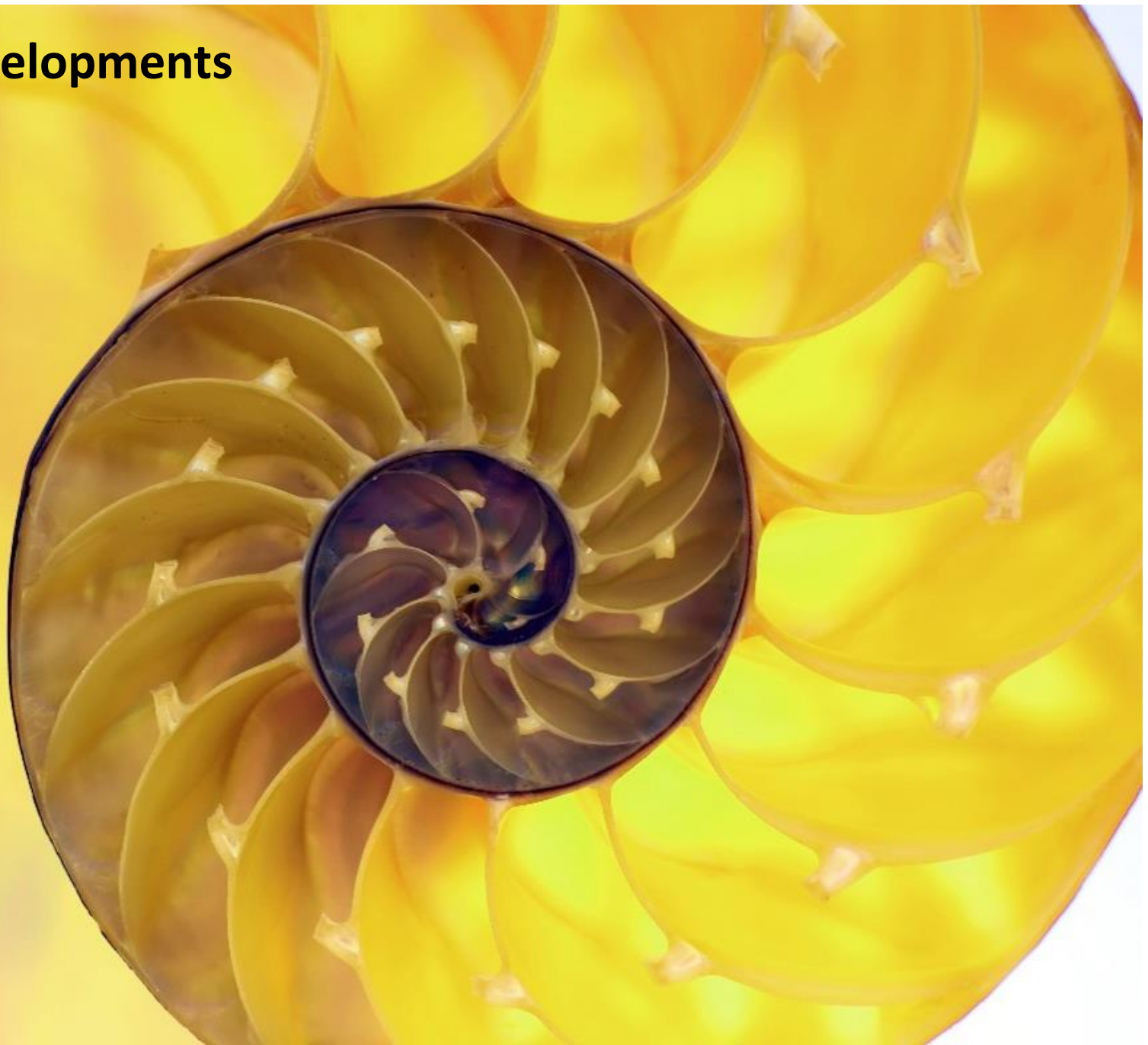
We welcome the opportunity to discuss our report with you and receive your feedback.



**Deloitte LLP**

Glasgow | 16 August 2024

## Sector developments



# 5.1 Sector developments

## Local Government Overview 2023

### Background and overview

In August 2020, the Accounts Commission agreed a strategic medium-term approach to reporting on the impact of the Covid-19 pandemic. This approach committed to producing a series of annual overview reports over a three-year period. This report:

- is the third and final overview report in the series
- builds on the previous reports in the series and examines:
  - how has the pandemic affected councils and their performance?
  - what are the current and future challenges facing local government?
  - how well placed are councils to deal with the current and future challenges?
- draws on findings from the financial bulletin, considering these in the context of the wider overview.

The findings of this report are drawn from 2021/22 annual audits, performance and best value audit work carried out during 2022 and from specific research and analysis of available data and intelligence.

### Next steps

The Council should consider each of the recommendations on the next page and incorporate into plans where not already considered. The full report is available through the following link: [Local Government in Scotland 2023](#)

## Local government in Scotland

Overview 2023



ACCOUNTS COMMISSION

Prepared by Audit Scotland  
May 2023

# 5.2 Sector developments

## Local Government Overview 2023

### Key messages

- Finances and resources - Budget constraints and increasing cost pressures are putting councils' finances under severe strain.
- Community needs and inequalities - The pandemic has affected performance across all service areas. There are signs of growing backlogs and declining performance in some service areas.
- Collaboration - The scale of the challenges ahead means that radical change is needed. It is only by working more collaboratively that councils and their local partners, communities and the third sector will be able to provide sustainable local services and deliver a significant programme of national reform to tackle issues such as climate change, child poverty and inequalities.
- Leadership - Leaders must think radically and make fundamental changes to how councils operate in future, building on the collaborative and innovative ways of working many demonstrated during the pandemic.
- Workforce - Increasing workforce challenges, including a competitive labour market and high sickness absence levels, are putting councils under continued pressure.

### Recommendations (relevant to Councils)

- Councils need to set out medium- to long-term financial plans that detail: (1) how they will make recurring savings and reduce reliance on reserves to fill budget gaps (2) how council resources are targeted to achieve their long-term policy and performance priorities.
- Councils should be more transparent with the public about scale of service demand, the extent of backlogs and changes to eligibility criteria necessary to ration access to services and any impact this has on unmet need. Councils should have a clear plan for strengthening their use of data to understand needs, make decisions and direct resources. This includes equalities data, and learning from those with lived experience.
- Councils need to maximise the potential of collaboration by demonstrating they are: (1) working with other councils, the wider public sector and the third sector to redesign and provide services (2) involving service users and local communities in the redesign of services.
- Councils' leaders need to invest time and capacity in thinking radically about their future operating model, and: (1) be open and clear with communities and staff about the need for change, what that means for future service delivery and involve communities in making difficult decisions (2) set out a clear vision for their long-term policy and performance priorities, and how it will be delivered and monitored (3) work with the Scottish Government to rebuild an effective Relationship.
- Councils need to improve workforce planning to effectively develop and deploy their existing workforce. This includes: (1) building the capacity, skills, strategic thinking and comprehensive workforce data needed for effective workforce planning (2) updating workforce plans to reflect new models of service delivery and ways of working.



## 5.3 Sector developments

### The State of the State report 2022/23 – From the pandemic to a cost of living crisis

#### Background and overview

The 11<sup>th</sup> edition of Deloitte and Reform's report on the UK public sector was launched in November 2022. Since 2012, we have aimed to create an annual snapshot of what's happening across government and public services to serve as an evidence base for informed discussion.

This year's State of the State finds public attitudes deeply affected by the cost of living crisis, pessimistic for the future and passionate about climate change.

After years of reacting to crises, the latest State of the State report finds officials across the public sector eager for reform and calling for bold decisions about the future of government and public services.

Some key messages:

- The public are split on the right balance between taxes, borrowing and public spending;
- The public's message to government: deal with the crises, but don't neglect net zero;
- Our survey data found that the Scottish and Welsh Governments, as well as the NHS, are among the most trusted parts of the public sector but trust has slipped overall;
- Public sector leaders are eager for reform and calling for bold decisions about the future of government and public services.



#### Next steps

The full report is available at [The State of the State 2022/23 \(deloitte.com\)](https://www.deloitte.com/uk/en/issues/public-sector/state-of-the-state-2022-23.html)



# 5.4 Sector developments

## Audit Scotland: Local Government Budgets 2024/25

### Background and overview

Scotland's councils are facing a significant gap in the money needed to deliver local services and the money they have available. This means councils will have to make increasingly difficult decisions about how councils are run, how they can deliver services and what services can continue.

#### Key Messages:

- In real terms, the 2024/25 Scottish Budget allocation of total revenue funding to local government has increased by 5.7 percent, however funding remains constrained as most of the increase is directed funding to deliver Scottish Government priorities and agreed pay deals.
- At the time of setting budgets, councils identified a difference of at least £585 million between their anticipated expenditure and the funding and income they expect to receive (the 'budget gap') for 2024/25, representing an estimated 3.5 per cent of councils' total revenue budget.
- Councils have had to make difficult budget setting decisions for 2024/25, and most worked with their communities to inform or consult on the challenges faced.
- Budget setting processes vary across councils, partly reflecting differences in organisational structures and local priorities.

### Next steps

The full report is available at [Local Government Budgets 2024/25 \(Audit Scotland\)](#)

Briefing

## Local government budgets 2024/25



## 5.5 Sector developments

### Audit Scotland: Delivering for the future – why leadership matters

#### Background and overview

Each year the Commission selects a particular thematic area of Best Value to focus on, recognising the risks and challenges councils face. The theme this year is the 'Leadership of the development of new strategic priorities'.

The Commission reported that councils are operating in a complex and increasingly volatile environment, which requires strong leadership from councils to make difficult decisions about where and how to spend highly pressured resources.

#### Next steps

The full report is available at [Delivering for the Future \(Audit Scotland\)](#)



## 5.6 Sector developments

### Audit Scotland: The important role of a CFO

#### Background and overview

As the challenges across the public sector intensify, the role of CFOs is increasingly in the spotlight. As CIPFA highlight, with existing frameworks on governance and decision-making being pushed to their limits, with public services becoming more complex, the CFO is expected to take an active leadership role, not just within the finance function, but across their organisation, sector and public services as a whole.

When budgets tighten, Audit Scotland highlight that often corporate, or 'back office' functions face the hit, to avoid immediately impacting front line services. Against this background, it is important that in the pursuit of back-office efficiencies, the effectiveness of the financial function is not put at risk.

This is an area of interest for Audit Scotland, and in this report it is outlined that they will be taking an interest in auditor conclusions on the resourcing of the finance function as part of their consideration of the 2023/24 annual accounts.



#### Next steps

The full report is available at [The Important Role of a CFO \(Audit Scotland\)](#)

# 5.7 Sector developments

## Audit Scotland: Integration Joint Boards' Finance and performance 2024

### Background and overview

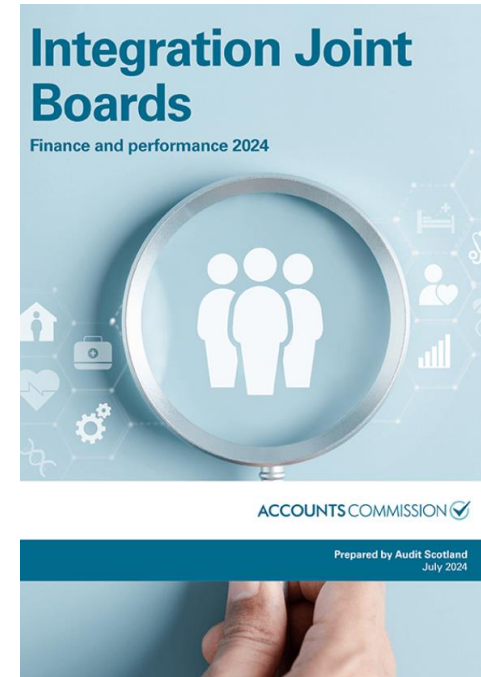
Audit Scotland highlight that community health and social care faces unprecedented pressures and financial uncertainty. The report outlines that community health and social care faces rising unmet need and managing the crisis is taking priority over prevention due to the multiple pressures facing the bodies providing these services.

#### Key messages:

- Audit Scotland have not seen significant evidence of the shift in the balance of care from hospitals to the community intended by the creation of IJBs.
- IJBs operate within complex governance systems that can make planning and decision making difficult, and cannot address the issues across the sector alone.
- The workforce is under immense pressure reflecting the wider pressures in the health and social care system.
- Data quality and availability is insufficient to fully assess the performance of IJBs and inform how to improve outcomes for people who use services with a lack also of joined up data sharing.
- Current commissioning and procurement practices are driven largely by budgets, competition, and cost rather than outcomes for people.

### Next steps

The full report is available at [Integration Joint Boards \(Audit Scotland\)](#)



## 5.8 Sector developments

How collaborative leadership can create solutions to big global issues on government's future frontiers

### Background and overview

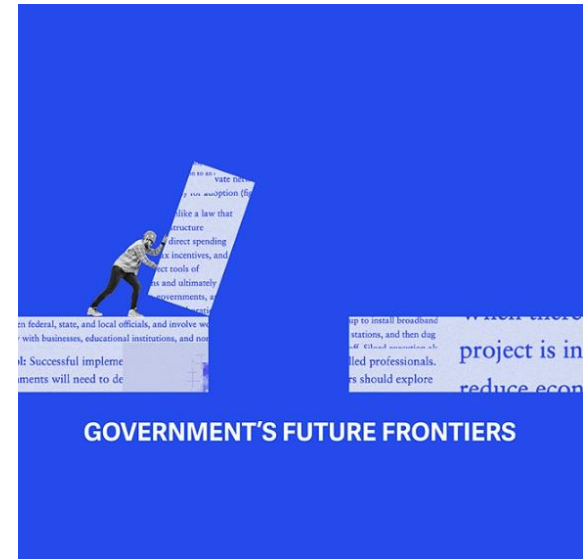
Infrastructure. Security. Health. Technology. The on-the-ground realities of homelessness. The infinite possibilities of space.

These are all big issues, bigger than any one organization can handle alone. Truly tackling the problems and opportunities inherent in these pressing societal concerns could take a concerted effort from all walks of society: Public agencies and private companies, nonprofits and academics, multinational foundations and community activists. But no matter what teams are assembled, government is expected to play a key role in constructing the scaffolding on which solutions are built.

In this publication, Deloitte speak to Bill Eggers and Don Kettl, authors of *Bridgebuilders: How Government Can Transcend Boundaries to Solve Big Problems*. They have more than 75 years of combined experience in the world of public management between them, and they have studies countless efforts to redesign government to make it more agile and responsive.

### Next steps

The full publication is available at [Government's Future Frontiers \(deloitte.com\)](https://www.deloitte.com/government/publications/government-s-future-frontiers)



# 5.9 Sector developments

## Government Trends 2023

### Background and overview

In the age of discontinuity, governments are moving from hierarchies to networks to enable intragovernment collaboration and nurturing collaborative public-private ecosystems to achieve shared outcomes.

This report outlines nine transformational trends that illustrate governments “bringing down walls” to deliver solutions. The trends outlined are:

- Fluid government workforce models
- Bridging the data-sharing chasm
- Tackling funding silos
- Tailored public services
- Back-office innovations improving mission performance
- Regulation that enables innovation
- Teaming up to deliver whole health
- End-to-end justice
- Security by network

### Next steps

The full publication is available at [Government Trends 2023 \(deloitte.com\)](https://www.deloitte.com/gt2023)





# Appendices



## 6.1.1 Action Plan

The following recommendations have arisen from our 2022/23 audit work:

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Recommendation	Management Response	Priority	Responsible Person	Target Date
<p><b>1. Financial sustainability – budget setting</b></p> <p>The Council should set out within its budget papers any other specific risks that impact on the achievement of a balanced financial position and what mitigating action the Council has planned to manage these risks.</p>	<p>Accepted. Budget papers will continue to include comment around the ability to meet a balanced budget. Budget strategy report includes in year risks such as Pay Award and mitigating actions being taken - essential spend, recruitment to critical posts. Regular out turn reporting is presented to Audit and Scrutiny which includes comment in relation to under/over spends. Any significant forecasted overspend must have a management action plan developed to mitigate the overspend which is then brought back to committee. Other specific financial risks and impacts will be included as they arise.</p>	Medium	Chief Finance Officer/ SM - F&R	Ongoing reporting

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## 6.1.2 Action Plan

The following recommendations have arisen from our 2022/23 audit work:

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Recommendation	Management Response	Priority	Responsible Person	Target Date
<b>2. Financial sustainability – reserves</b> The finance monitoring reports should be expanded to give members an update on progress with the use of the earmarked reserves to ensure that they are being actively monitored and being applied for the purposes intended.	Accepted. We will look to include a specific section that provides a detailed breakdown of earmarked reserves opening balance, used in year to date and the closing balance. This will ensure that members are fully informed about the status of these reserves and can scrutinise the use of the reserves during the year.	Medium	Chief Finance Officer/ SM - F&R	October 2024 (June outturn report 2024/25 and Ongoing reporting)

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## 6.1.3 Action Plan

The following recommendations have arisen from our 2022/23 audit work:

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Recommendation	Management Response	Priority	Responsible Person	Target Date
<b>3. Financial sustainability</b> A Medium-Term Financial Strategy be developed, with clear actions on how financial sustainability is to be achieved. This should follow Audit Scotland's report in June 2014 <a href="https://www.audit-scotland.gov.uk/publications/scotland-s-public-finances-a-follow-up-audit-progress-in-meeting-the-challenges">Scotland's public finances – A follow-up audit: Progress in meeting the challenges (audit-scotland.gov.uk)</a> as a reference.	The Budget strategy is set annually outlining the budget approach for the year to close the gap. This is in line with the current 1 year settlement of Local Government funding which makes up the majority of the Councils income. The gap for the next 3 years is also included in the strategy with assumptions on variable elements. Savings and pressures are prepared over a multi year period to reduce the gap in future years as well as the forthcoming year. We will consider incorporating the recommendations of Audit Scotland's report into future budget strategy reports.	Medium	Chief Finance Officer / SM – F&R	March 2025

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## 6.1.4 Action Plan (continued)

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p><b>4. Financial sustainability - transformation</b></p> <p>More work is required to build the detail behind each project and fully align this to the development of a medium-term financial strategy by:</p> <ul style="list-style-type: none"> <li>a) Adding greater detail about individual projects;</li> <li>b) Setting clear timelines for each project;</li> <li>c) Assess the resources and support required to deliver these projects (taking into account the resources that are already identified); and</li> <li>d) Developing a benefits realisation tracker to assess whether the Council has achieved its aims.</li> </ul>	<p>Accepted. Project details are now captured on a standard template which includes; timelines, project budgets, key risks/issues and interdependencies and transformation. Resource requirements are also reviewed by the project lead sponsor. These updates link back to the 10 agreed corporate priorities and are reported to the Strategic Oversight Group and the Be the Future Board at each meeting. A benefits realisation tracker is also being developed which will be applied to each project. New Business cases will also be reviewed to ensure they capture relevant information going forward.</p>	Medium	SM - Transformation and Capital	December 2024

## 6.1.5 Action Plan (continued)

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p><b>5. Governance – Audit and Scrutiny Committee</b></p> <p>The ASC could be enhanced by:</p> <p>a) allocating provisional times for each item on the agenda to help manage the meetings within the set timeline.</p> <p>b) formalising the arrangement for substitute members with specific expertise within the Committee’s Terms of Reference.</p> <p>c) receiving regular updates from management on progress with the implementation of internal and external audit recommendations.</p>	<p>a) Accepted. This will be discussed with the chair, with implementation.</p> <p>b) Accepted. This will be discussed with the chair.</p> <p>c) Accepted but it is already intended within the current forward plan. An internal audit update went to committee in August 2023, with an undertaking to provide 6 monthly updates thereafter. The external audit reports were intended to be contained in the six monthly AGS progress report. I accept this need to be clearer. i will retitle to AGS and External Audit actions progress report.</p>	Low	<p>a) Strategic Director – Partnership and Performance</p> <p>b) Strategic Director – Partnership and Performance</p> <p>c) Strategic Director – Partnership and Performance</p>	<p>a) 31 March 2024</p> <p>b) 31 August 2024</p> <p>c) 31 March 2024</p>

## 6.2.1 Follow-Action Plan

We have followed up the recommendations made in by the previous auditors. We are pleased to note that four recommendations have been fully implemented as documented below and the remaining four are ongoing into 2023/24.

Recommendation	Management Response	Management update 2022/23
<p><b>1. Finance team capacity</b></p> <p>The council should ensure that the finance team is adequately resourced to prepare a comprehensive set of unaudited accounts and provide the necessary working papers in a timely manner to support the audit process.</p>	<p>Finance management continue to review team capacity and undertake recruitment of permanent staff. Due to a tight labour market, recruiting to vacancies continues to be challenging and a redesign of the Service is underway including the opportunity to offer apprenticeships and/or trainee positions to support future succession planning.</p> <p><b>Responsible officer:</b> Chief Finance Officer <b>Agreed date:</b> Ongoing</p>	<p><b><i>Partially implemented</i></b></p> <p>The recruitment to the Chief Accountant post has been completed and start September 2024. Recruitment for permanent capital accountant is on going.</p> <p>Following the finalisation of the restructure if Revenues, a review of the Finance structure is in progress</p>
<p><b>2. Bank reconciliations</b></p> <p>The council must comply with its own financial regulations and prepare bank reconciliations at least once a month.</p>	<p>Bank reconciliations were completed in a timely manner through the year, however, work to resolve reconciling items led to delays in finalising the reconciliations and passing the information over to External Audit. Regular reviews have been scheduled to ensure progress through the year.</p> <p><b>Responsible officer:</b> Chief Finance Officer <b>Agreed date:</b> 31 March 2023</p>	<p><b><i>Fully implemented</i></b></p> <p>Bank reconciliation are undertaken on a monthly basis. Reconciliations are reviewed regularly by the Corporate Accountant and progress is reviewed in weekly Treasury Team meetings.</p>

## 6.2.2 Follow-up Action Plan (continued)

Recommendation	Management Response	Management update 2022/23
<p><b>3. Non-current asset accounting</b></p> <p>The process for identifying surplus assets, impairment and accounting for revaluations should be strengthened to ensure they can be accurately captured in the financial statements</p>	<p>Finance staff will continue to liaise with internal officers and external valuers to ensure financial statements accurately reflect the non-current asset position.</p> <p><b>Responsible officer:</b> Chief Finance Officer <b>Agreed date:</b> 30 September 2023</p>	<p><b><i>Partially implemented</i></b></p>
<p><b>4. Management commentary and annual governance statement</b></p> <p>The council should review the project plan for the preparation of the unaudited annual governance statement to ensure it is prepared to the appropriate standard and fully supported by audit evidence.</p>	<p>A number of enhancements were made to the Management Commentary and Annual Governance Statement during the audit period. Officers will review both these areas for the 2022/23 accounts.</p> <p><b>Responsible officer:</b> Chief Finance Officer and Monitoring Officer <b>Agreed date:</b> 30 September 2023</p>	<p><b><i>Fully implemented</i></b></p> <p>The officer will continue to monitor this into 2023/24.</p>

## 6.2.3 Follow-up Action Plan (continued)

Recommendation	Management Response	Management update 2022/23
<p><b>5. Financial systems of internal control and key supporting documents</b></p> <p>The council must review the control environment and reinstate critical key controls such as timely reconciliations. This should be supported by revised financial management and governance documents that clearly define expectations and responsibilities.</p>	<p>As reported to Council on 6th October 2022, a working group consisting of Officers and Elected Members has been set up to consider and review both the Scheme of Delegation &amp; Standing Orders. These will be presented to Council for approval following completion.</p> <p><b>Responsible officer:</b> Chief Finance Officer and Monitoring Officer  <b>Agreed date:</b> 2023/24</p>	<p><b><i>Partially implemented</i></b></p>
<p><b>6. Prevention and detection of fraud and error</b></p> <p>The council should review and update its anti-fraud arrangements and policies and ensure these are clearly communicated to staff.</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><b>Responsible officer:</b> Senior Manager, Legal &amp; Governance  <b>Agreed date:</b> September 2023</p>	<p><b><i>Partially implemented</i></b></p> <p>A new whistle blowing policy was approved by Council in October 2023, slightly later than planned. A staff training and awareness campaign is now in development, with rollout due to commence in Q4 of 2023/24.</p> <p><b><i>Revised target date:</i></b> 31 March 2024</p>

## 6.2.4 Follow-up Action Plan (continued)

Recommendation	Management Response	Management update 2022/23
<p><b>7. Audit and scrutiny committee</b></p> <p>Officers should keep the revised Audit and Scrutiny committee arrangements under review to ensure there is sufficient time for members to review papers and provide effective scrutiny and challenge.</p>	<p>Officers will monitor this during the year.</p> <p><b>Responsible officer:</b> Extended Strategic Leadership Group</p> <p><b>Agreed date:</b> Ongoing</p>	<p><b>Fully implemented</b></p> <p>The committee undertook a review of its plan between August and October, with the final plan being agreed on 26 October. This will be kept under ongoing review.</p>
<p><b>8. Long-term planning (from 2020/21 Action Plan)</b></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>2021/22 update: Progressing – the council has a clear focus on continuing to develop its longer-term planning.</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><b>Responsible officer:</b> Chief Executive &amp; Director of Transformation</p> <p><b>Agreed date:</b> Ongoing</p>	<p><b>Fully implemented</b></p> <p>Covid recovery is now built into business as usual.</p> <p>Chief Executive continues to provide regular updates to Council on the progress of the BtF programme and the general transformation of service to adapt to the current and future anticipated environment.</p>



## 7.1 Audit adjustments

### Unadjusted misstatements

No unadjusted misstatements have been identified as a result of our audit procedures.

## 7.2 Audit adjustments

### Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

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		Debit/(credit) CIES £m	Debit/(credit) in net assets £m	Debit/(credit) reserves £m	Debit/(credit) Equity £m	If applicable, control deficiency identified
Property Valuation Adjustments	[1]	12	(57.3)	45.3		

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[1] An adjustment was identified in relation to the valuation of Alva Primary and Alva Secondary Schools where the values were subsequently revised downwards in an updated valuation report. This had an impact on the desktop valuation performed on assets not formally revalued in the year, with the total impact being a £57.3m reduction in net assets. This summary shows the impact of both school valuation adjustments and the wider desktop valuation impact. Note that the impact on reserves is to the unusable revaluation reserve.

## 7.3 Audit adjustments

### Disclosures

#### **Disclosure misstatements**

No disclosure misstatements have been noted.

# 8.1 Our other responsibilities explained

## Fraud responsibilities and representations



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

### Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



### Audit work performed:

In our planning we identified the risk of fraud in capital expenditure recognition and management override of controls as a key audit risk.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

### Concerns:

No issues or concerns have been identified in relation to fraud.

## 9.1 Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

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**Independence confirmation** We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and our objectivity is not compromised.

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**Fees** The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

	£
Auditor remuneration	209,500
Audit Scotland fixed charges:	
• Contribution to PABV costs	47,420
• Audit support costs	7,940
• Sectoral cap adjustment	(26,050)
<b>Total expected fee</b>	<b>238,810</b>

Due to additional work being required by Deloitte we will be seeking additional fees. This is currently under negotiation.

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**Non-audit services** In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

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**Relationships** We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

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