



Fife Council

2022/23 Annual Audit Report to the Council and the Controller of Audit

November 2023



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Key messages

Financial statements audit

Audit opinion	Our independent auditor's report is unqualified in all regards.
Key audit findings	<p>The Council had appropriate administrative processes in place to prepare the annual accounts and the supporting working papers.</p> <p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>
Audit adjustments	<p>The Council updated the financial statements for all the potential audit adjustments identified during the audit process.</p> <p>We also identified some disclosure and presentational adjustments during our audit, all of which have been reflected in the final set of financial statements.</p>
Accounting systems and internal controls	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Council's processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we include these in this report. No material weaknesses or significant deficiencies were noted.</p>

**Fife Council
Charitable
Trusts**

Our independent auditor's report on the Fife Council Charitable Trusts Annual Report & Financial Statements is unqualified.

We have no matters to report regarding the adoption of the going concern basis.

The Council had appropriate administrative processes in place to prepare the financial statements and the supporting working papers.


We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.

The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

We identified no audit adjustments or unadjusted audit differences.

No material weaknesses or significant deficiencies were noted.

Wider scope

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	Auditor judgement	
	Effective and appropriate arrangements are in place	
	The Council has appropriate arrangements in place for financial management and the use of resources.	
	The Council reported a surplus outturn position in 2022/23. 92% of approved savings were delivered. Service underspends were reported, primarily due to recruitment challenges and underspent grant funding. The Council applied financial flexibilities in 2022/23 in respect of the re-profiling of debt repayments on PPP contracts. This has resulted in a benefit to the Council of £43.576million which will be used to support its Capital Plan review.	
	The Council reported slippage of approximately 8% on its capital programme for 2022/23; incurring c. £189million of capital spend.	

Financial Sustainability

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

Auditor judgement

Risks exist to the achievement of operational objectives



In recent years, the Council has managed its budget without needing to make significant cuts to service but the financial outlook continues to be extremely challenging. Significant change will be needed to safeguard the financial sustainability of the Council.

The Council recognises there is an opportunity to bring forward change proposals that can be delivered in a staged way to address the financial challenge. Significant work on change has been advanced in 2022/23 and this will continue with proposals being considered by the Council during 2023/24. These are likely to be around people, place, digital and productivity.

The Council's Capital Investment Plan 2023-33 was approved by the Council in June 2023. There has been a significant increase in both expenditure and funding within the Capital Investment Plan since the time of the last review in February 2021. This reflects provision for significant levels of construction inflation, added investment pressures and a review of all funding options. The capital plan was assessed as being affordable at the time of approval, however it was recognised that challenges may arise in future years given reduced funding and the challenge of affordability beyond the level of investment proposed.

The Council has recognised that the HRA budget is also under considerable financial pressure with increased costs due to high inflation, staff salary increases, increasing stock figures, and other pressures and faces a high level of financial risk.

Vision, Leadership and Governance

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

Auditor judgement

Effective and appropriate arrangements are in place



Appropriate arrangements are in place to oversee the delivery of the Plan4Fife and internal audit has committed to undertake a review of the governance arrangements in place to support delivery of the new Plan4Fife, including performance management and reporting arrangements as part of their 2023/24 audit plan.

Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Council and Committees continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.

Use of Resources to Improve Outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Auditor judgement

Pace and depth of improvement needs to extend further



Improvement work underway needs to extend further to fully demonstrate compliance with the Accounts Commission Statutory Performance Information Direction; in particular, the timeliness in performance reporting and demonstrating best value.

The Council's revised performance framework and approach to performance reporting was published in December 2022, following a reset post-pandemic. The focus of the revised framework was to reinstate and improve the accessibility, regularity and comparability of performance information available to the public. While the framework provides an improved approach to performance reporting, more time is needed for that to be fully implemented.


Best Value

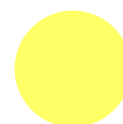
Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure Best Value.

Our work in 2022/23 considered the following areas:

- Best value assurance report follow up and implementation of a risk based approach based on consideration of the themes of best value;
- Service improvement and reporting;
- Thematic reviews.

Overall based on the work performed we have concluded that pace and depth of improvement in the performance of the Council in meeting its best value duties is adequate but further work is required by the Council to produce timely performance information which demonstrates service improvement.

Best Value Assurance Report – follow up	Auditor judgement Pace and depth of improvement are adequate	
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Progress continues to be made against all of the recommendations and one has been completed in 2022/23.

The outstanding recommendations have been integrated into “business as usual” monitoring through the Recovery and Renewal Leadership Board, Change Boards, service improvement planning and performance reporting to relevant scrutiny committees.

Agreed approaches to address the recommendations have been confirmed and detailed work continues to support these agreed approaches.

Service improvement and reporting

Auditor judgement

Pace and depth of improvement needs to extend further



On review of the information made available to the public on the Council's performance at the time of the audit we did note that the timing of publication of information could be improved. On this basis, we have not reported a summary of service performance in this section of the report.

The Council has published performance information in line with its performance framework including Plan4Fife Ambitions Reporting and annual Service Performance Report.

The 2022 annual review of progress against ambitions was published in May 2023. The annual public performance report is being reinstated and will be published in November 2023.

The decision to reinstate the annual LGBF report was taken in May 2023 and will be implemented from 2024 onwards. LGBF benchmarking is also incorporated into Service Annual Performance Reports and the Council has a section on its website pointing to LGBF information online.

Current service performance reports are online and relate to the period 2021/22. The performance framework timetable requires annual reports to be available by the end of November each year. This timetable reflects the availability of data and the summer recess through which Scrutiny Committees do not meet. In year performance monitoring and reporting is developing through quarterly service performance tracking and reporting against the recovery and reform priorities however much of this is for internal use. Further consideration should be given to the timetable and approach to make performance information available closer to the period that it refers to.

**Thematic review:
Leadership of the
development of new local
strategic priorities**

Auditor judgement

Risks exist to the achievement of operational objectives



Our findings from the review highlighted that we are satisfied that the Council has appropriate arrangements in place to demonstrate Best Value under each reported area of the 2022/23 thematic review. However, we acknowledge that the Council are undergoing development of several key arrangements to demonstrate best value which has meant that we were unable to conclude on our judgements in relation to the effectiveness of the pace and depth of improvement. We will continue to monitor the progress that the Council makes on the development and implementation of their ongoing developments including:

- Review of the Council's organisational structure to ensure it is fit for purpose to deliver the key priorities and ambitions as set out in the Plan4Fife
- Plan4Fife refresh 2024
- Development of 3 year change plans which support the wider ambitions outlined in the Plan4Fife
- Review of areas where the Council's decentralised structure could be expanded
- Development of a revised approach to elected members on-going professional development and training. This includes consideration of the identification and expansion of mandatory areas of training

Definition

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas and reporting our findings on Best Value. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



Introduction

The annual audit comprises the audit of the annual accounts, and the wider-scope and Best Value audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Standards, Audit and Risk Committee at the outset of our audit. We have not made any subsequent changes to the risks outlined in that plan.

Responsibilities

The Council is responsible for preparing its annual accounts, including financial statements which show a true and fair view, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.



Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual accounts audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
<p>Financial statements</p>	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	<p>The annual accounts were considered and approved by the Standards, Audit and Risk Committee on 9 November 2023.</p> <p>Our independent auditor's report is unqualified in all regards.</p> <p>We received the unaudited annual accounts and supporting papers of a good standard in line with our audit timetable. Further information and revisions were provided promptly where required.</p> <p>Our thanks go to the Fife Council staff for their assistance with our work.</p>
<p>Going concern basis of accounting</p>	<p>When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Council's functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Council.</p>	<p>We reviewed the financial forecasts for 2023/24. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Council will continue to operate for at least 12 months from the signing date. Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
<p>Opinions prescribed by the Accounts Commission:</p> <ul style="list-style-type: none"> • Management Commentary • Corporate Governance Statement • Remuneration Report 	<p>We plan and perform audit procedures to gain assurance that the Management Commentary, Corporate Governance Statement and the audited part of the remuneration report are prepared in accordance with:</p> <ul style="list-style-type: none"> • statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary); • the Delivering Good Governance in Local Government: Framework (Corporate Governance Statement); and • The Local Authority Accounts (Scotland) Regulations 2014 (remuneration report) 	<p>We have concluded that:</p> <ul style="list-style-type: none"> • the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with relevant statutory guidance. • the information given in the Corporate Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework. • the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept; or the financial statements are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit. 	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Standards, Audit and Risk Committee in March 2023. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Council. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider the significant risks for the audit that had the greatest effect

on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the ‘Key Audit Matters’), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the financial statements is not modified with respect to any of the risks described below.

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
<p>Significant risk description</p>	<p>Management of any entity 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.</p> <p>Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement: Very High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgement</p> <p>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals.

Risk area	Management override of controls
	<ul style="list-style-type: none"> • Tested high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with the Council’s journals policy. • Gained an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
<p>Key observations</p>	<p>We did not identify any indication of management override of controls from our audit work. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.</p>

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue recognition
<p>Significant risk description</p>	<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed, inherent risk on every audit unless it can be rebutted.</p> <p>The presumption is that the Council could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>In respect of council tax income, non-domestic rates, housing rents and non-ring fenced government grants, however, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate these revenue streams. The risk of fraud in relation to revenue recognition is however present in all other revenue streams.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <p>Revenue (occurrence / completeness): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated the significant income streams and reviewed the controls in place over accounting for revenue. • Considered key areas of income and obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
<p>Key observations</p>	<p>At the planning stage of our audit we concluded that the revenue recognition risk was present in all material revenue streams except for council tax income, non-domestic rates, housing rents and non-ring fenced</p>

Key risk area	Fraud in revenue recognition
	<p>government grants. Our conclusion remained the same throughout the audit.</p> <p>Based on the audit work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements.</p>

Key risk area	Fraud in non-pay expenditure recognition
<p>Significant risk description</p>	<p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <p>Non-pay expenditure (occurrence / completeness): High Accruals (existence / completeness): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and expenditure around the year end.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated the significant non-pay expenditure streams and reviewed the controls in place over accounting for expenditure. • Considered the Council's key areas of expenditure and obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Tested accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key risk area	Fraud in non-pay expenditure recognition
Key observations	Based on the audit work performed, we have gained reasonable assurance on the completeness and occurrence of expenditure and we are satisfied that expenditure is fairly stated in the financial statements.

Key risk area	Valuation of land and buildings (key accounting estimate)
Significant risk description	<p>The Council carries out a rolling programme of revaluations to ensure all property, plant and equipment required to be measured at fair value is revalued at least every five years.</p> <p>Council dwellings are valued by the District Valuer using the beacon method which aggregates the vacant possession value of each unit of housing stock based on the value of a beacon or sample property. A full revaluation exercise is completed every five years, with the exercise to be undertaken in 2022/23. In interim years the values of beacon properties are updated to reflect key factors including changes in rental prices.</p> <p>Other land and buildings are held at fair value and revalued as part of the five-year rolling programme. In addition, indices are applied to all assets held at Depreciated Replacement Cost (DRC) to reflect market changes within the year.</p> <p>Investment properties are valued annually at fair value, in line with the Code.</p> <p>There is a significant degree of subjectivity in the measurement and valuation of property, plant and equipment. This subjectivity and the material nature of the Council's asset base represents an increased risk of misstatement in the annual accounts.</p> <p>Inherent risk of material misstatement:</p> <p>Land & Buildings (valuation): Very High</p>

<p>Key risk area</p>	<p>Valuation of land and buildings (key accounting estimate)</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Councils are required to revalue investment properties annually and property, plant and equipment with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Considered the basis on which the valuation is carried out and the challenged the key assumptions applied. • Tested the information used by the valuer to ensure it is complete and consistent with our understanding. • Ensured revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct. • Evaluated the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.
<p>Key observations</p>	<p>Valuers</p> <p>Valuations are carried out by internal and external valuers and formally communicated to the Council through valuation reports. We have gained assurance that the carrying value of assets in the audited annual accounts is in line with the valuation reports.</p> <p>External valuers valued the Council's full portfolio of council dwellings as at 31 March 2023. Internal valuers valued a proportion of all other asset classifications held at fair value (approximately 20% on a rolling basis) as at 1 April 2022, with an uplift being applied to all depreciated</p>

Key risk area	Valuation of land and buildings (key accounting estimate)
	<p>replacement cost (DRC) properties to reflect market movements as at 31 March 2023.</p> <p>A roundtable event was hosted by Audit Scotland in February 2023 which covered key issues in relation to the valuation of non-current assets in local government. One of the actions of the roundtable exercise was that the asset valuation date should be 31 March rather than 1 April. We encourage the Council to review their valuation cycle dates, in line with the Audit Scotland roundtable recommended actions, to reduce the risk of the carrying amount of assets in the balance sheet at the year-end differing materially from the current value at that date.</p> <p style="text-align: right;">Recommendation 1</p> <p>We considered the instructions and information provided to the valuer and performed procedures to confirm the accuracy and completeness of the information. All property, plant and equipment required to be carried at fair value has been appropriately revalued as part of the five-year rolling programme.</p> <p>In accordance with ISA (UK) 500 - Audit Evidence we have considered the competence, capability and objectivity of the professional valuer and did not identify any items which gave us cause for concern over the suitability of the valuer.</p> <p>Review of assumptions</p> <p>We confirmed that the basis of valuation for assets is appropriate based on their usage and that the assumptions applied appear reasonable. Overall, the valuation movements were in line with our expectation.</p> <p>Assets valued on a DRC basis are revalued on a five year rolling programme, with an uplift applied yearly at 31 March to reflect market movements. For DRC assets that were revalued in the year, we set an expected market movements to pinpoint assets that had revaluation movements not in line with our expectations, representing areas of a risk of material misstatement. For assets where movements were outside of our expectation, we reviewed the inputs to the DRC calculations and deemed these as reasonable.</p>

Key risk area	Valuation of land and buildings (key accounting estimate)
	<p>For all DRC assets that had an uplift applied, we confirmed that the percentage increase has been applied correctly to the asset cost, with no issues identified. We also confirmed that the percentages used were in line with market data.</p> <p>Assets valued on an existing use value (EUV) and fair value (FV) basis are also revalued on a five year rolling programme unless there are significant changes made to the asset. As the assets are valued at 1 April, there is the risk that the value of these assets could have materially changed at the year end. The valuers provide an assurance report to the finance team at the year end detailing any significant movements and changes to these assets which require reflecting in the year end asset values.</p> <p>For EUV and FV assets that were revalued in the year, we set an expected market movements to pinpoint assets that had revaluation movements not in line with our expectations, representing areas of a risk of material misstatement. We did not identify any such assets.</p> <p>For EUV and FV assets that had not been revalued in the year we used available market data to assess the market movements that have taken place from the last revaluation date to assess the risk of material misstatement. We identified a total variance from expected market movements of £11.8million. As this is below our performance materiality level, we concluded that the carrying value of these assets is not materially misstated.</p> <p>Council dwellings are valued using the beacon method which aggregates the vacant possession value of each unit of housing stock based on the value of a beacon or sample property. An adjustment factor is applied to the asset's unrestricted value to reflect the lower rent yield from social housing compared to market rates. A full revaluation exercise is completed every five years, with the last exercise undertaken in 2022/23.</p> <p>As part of our audit work, the appropriateness of the adjustment factor was considered. The adjustment factor was 40.30% which we deem to be reasonable based on the evidence available.</p>

Key risk area	Valuation of land and buildings (key accounting estimate)
	<p>The Council applies component accounting to land and buildings. The Council’s accounting policies reflect that the building component of an asset is separated into further components primarily to those with a carrying value of over £10million. This methodology is deemed to be reasonable.</p> <p>Impairment</p> <p>The Council has developed appropriate procedures for assessing whether there has been an impairment which takes cognisance of a range of sources of information. This includes:</p> <ul style="list-style-type: none"> • Any changes in condition per the conditions surveys performed as part of the five year rolling programme. • Confirmation from finance business partners as to whether any assets have been damaged or demolished in year. <p>No indication of material impairment was identified, which is consistent with our testing.</p> <p>Disclosure of Estimation Uncertainty</p> <p>IAS 1 ‘Presentation of Financial Statements’ requires entities to disclose assumptions made about the future and other major sources of estimation uncertainty, specifically those that present a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. Disclosures should include the nature of the assumption or estimation uncertainty and the sensitivity of the carrying amounts to the methods, assumptions and estimates underlying their calculation.</p> <p>The Council has identified the valuation of property, plant and equipment as a major source of estimation uncertainty. At our request, management have included further disclosures within the audited annual accounts on key assumptions made when determining the valuation of all assets held at fair value and their sensitivities.</p>

Key risk area	Pension asset / liability (key accounting estimate)
<p>Significant risk description</p>	<p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability.</p> <p>There is a risk that the assumptions used are not appropriate.</p> <p>Inherent risk of material misstatement:</p> <p>Pensions (valuation): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Reviewed the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreed the disclosures in the financial statements to information provided by the actuary.

Key risk area	Pension asset / liability (key accounting estimate)
	<ul style="list-style-type: none"> Considered the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.
<p>Key observations</p>	<p>The IAS 19 actuarial report for the Council identifies a pension surplus (or pension asset) of £435.993m. Accounting standards require the Council to review the pension surplus and only recognise the lower of the surplus or an ‘asset ceiling’. The Council commissioned its actuary to provide an asset ceiling calculation which reported a negative asset ceiling and therefore in the financial statement a £nil asset has been reported. Limiting the recorded pension asset to £nil, resulted in a £435.993million audit adjustment in the financial statements.</p> <p>This is a significant change to the prior year’s pension liability of £531.427million and is mainly driven by a significant increase in discount rate assumption between the years. An increase in the discount rate decreases the value of future pension obligations substantially which, when combined with no significant movement in the value of pension investments, results in a pension surplus outcome.</p> <p>We are satisfied that we have obtained reasonable assurance over the disclosures in the financial statements relating to the reported financial position.</p> <p>We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.</p> <p>We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 - <i>Audit Evidence</i>. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.</p>

Key risk area	Financial instruments: fair value measurement (key accounting estimate)
<p>Significant risk description</p>	<p>The Council maintains significant debt and investment portfolios. The Council measures its financial instruments at fair value or amortised cost or, where no reliable measurement exists, measured at cost.</p> <p>Fair values are categorised by their level in the fair value hierarchy:</p> <ul style="list-style-type: none"> • Level 1 – fair value is derived from quoted prices in active markets for identical assets or liabilities • Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability • Level 3 – fair value is determined using unobservable inputs <p>For level 1 and level 2; the Council’s valuations are supported by independent expert advice. For level 3, there is the potential for management to use their judgement to influence the financial statements.</p> <p>Inherent risk of material misstatement:</p> <p>Investments and borrowings (valuation): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>As noted above, whilst for fair values assessed at level 1 and level 2, valuations are supported by independent expert advice, for level 3, there is the potential for management to use their judgement to influence the financial statements.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated and reviewed the controls in place over accounting for financial instruments. • Considered the Council’s material financial instruments and obtained evidence that these have been appropriately valued at 31 March 2023 including challenge of fair value classification.

Key risk area	Financial instruments: fair value measurement (key accounting estimate)
	<ul style="list-style-type: none"> Reviewed management experts and external investment managers. Reviewed the disclosures within the annual accounts to ensure they are consistent with supporting information.
Key observations	<p>Level 1 / 2</p> <p>Levels 1 and 2 comprise loans, including PWLB loans, and investments held within money market funds, sovereign / supranational debt and local authority loans.</p> <p>For those loans and investments assessed as level 1/2 the Council's valuations are supported by expert advice from its treasury management advisors. We obtained evidence during our audit over the values assigned to those loans and investments and where appropriate third party confirmation over the values. We evaluated the competence, objectivity and capability of management's experts in line with the requirements of ISA (UK) 500 Audit Evidence' and concluded that use of the experts was appropriate.</p> <p>Level 3 – PPP / NPD liabilities</p> <p>Level 3 predominantly comprises the Council Public Private Partnerships (PPP) and Non-Profit Distribution (NPD) contracts. Valuations are based on a financial model prepared by management.</p> <p>We considered the appropriateness of the models, ensuring that the assumptions, inputs and disclosures are reasonable. We considered whether the models and resulting transactions were in line with accounting standards.</p> <p>Based on the audit work performed, we have gained reasonable assurance over the valuation of the PPP / NPD liabilities at year end and are satisfied that the liabilities are fairly stated in the financial statements.</p>

Other risk factors

Common Good

Local Authorities are required to administer common good funds under section 15 of the Local Government (Scotland) Act 1994. The purpose of common good funds is to provide benefit to the population of the area either through the disbursement of funds, securing assets for on-going use for the population or contributing to specific local projects/initiatives.

The Common Good Fund stands separately from the Council's annual accounts and has been described as "the ancient patrimony of the community".

During 2022/23, a surplus of £0.818million was reported on the common good fund. Overall useable revenue common good funds stood at £5.668million as at 31 March 2023.

During our 2022/23 audit of the Common Good fund annual accounts, we noted the following:

Common Good Asset Registers

Local Authorities have a statutory responsibility, per Part 8 of the Community Empowerment (Scotland) Act 2015, to establish, maintain and publish a register of all property held by them for the common good. The Council has met all statutory deadlines set by this act in the establishment, consultation and publication of a common good register.

We reviewed the requirements of the Community Empowerment (Scotland) Act 2015 along with related Scottish Ministerial guidance. We noted that the Council is compliant with this guidance.

The Council's common good register was published for consultation in July 2019 and members of the public were able to provide feedback on the register until September 2019.

The guidance required the Council to publish a first draft of the register within 6 months of the consultation period closing. The first post-consultation draft of the register was published on the Council's Common Good Webpage in March 2020.

The register has remained on the website for the period and the Council has provided updates over representations received.

The common good register at 31 March 2023 is publicly available on the Council's website and has no outstanding representations.

As part of audit work in 2022/23, we noted a difference of £1.607million between the published common good register and the fixed asset register used to populate the accounts. Movements in Common Good heritable properties in the year including assets transferred to Common Good and revaluation movements were not fully passed onto the team maintaining the published register which meant the common

good register was not up to date at 31 March 2023. We recommend that going forward, the Council regularly reconciles the published common good asset register to the fixed asset register used to populate the accounts to ensure the published register remains up to date.

Recommendation 2

Common Good Long Term Assets

As part of the planning stage of the audit we concluded that there were no accounting estimates made by management and which were determined key to the common good fund. However, as part of fieldwork we revised our assessment and identified asset valuations as a key area where management use estimates.

Our audit work consisted of reviewing the keys areas for any indication of bias and assessing whether the judgements used by management are reasonable.

We gained assurance that the asset valuation as at 31 March 2023 is materiality appropriate. Our conclusions on the appropriateness of judgements used by management in the valuation of assets is described under our 'valuation of land and buildings' identified significant risk at the assertion level. There are no additional findings on the valuation of common good assets.

Following a full review of Common Good heritable property assets, from 1 April 2014 Common Good entered into an arrangement with Fife Council to manage various land and buildings assets which are used and actively management by the Council but whose ownership was confirmed as Common Good.

The assets, at a value of £166.951million, were recognised as Property, Plant and Equipment on the Council's balance sheet at 31 March 2023 with a corresponding finance lease liability.

On review of the arrangements in place between the Council and Common Good funds, we concluded that the substance of the transaction was not appropriately reflected in the Common Good accounts. At our request, an audit adjustment was made to recognise the assets under these arrangements as a long term debtor at an amount equal to the net investment in the lease. A long-term lease debtor is reported on the Common Good balance sheet in the audited accounts (£163.221million).

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Council and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Council and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality for the group financial statements was £15.8million and the Council’s financial statements was £15.8million. On receipt of the 2022/23 unaudited financial statements, we reassessed materiality and updated as set out in the table below. We consider that our updated assessment has remained appropriate throughout our audit.

	Group £million	Council £million
Overall materiality for the financial statements	18.5	17.5
Performance materiality	13.875	13.125
Trivial threshold	0.250	0.250

Materiality

Our assessment is made with reference to the group and Council’s gross expenditure. We consider this to be the principal consideration for users of the annual accounts when assessing financial performance of the Council and its group.

Our assessment of materiality equates to approximately 1% of gross expenditure as disclosed in the 2022/23 unaudited annual accounts.

We apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.

We apply separate materiality levels to Common Good (£645,000) and the Non-Domestic Rate Income Account (£4.163million).

Performance materiality	<p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
Trivial misstatements	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

Group audit

The Council has group arrangements which requires consolidation of a range of subsidiaries, associates and joint ventures. The group structure is detailed within the Council's annual accounts.

The Council prepares group financial statements in addition to its own financial statements, as required by the CIPFA Code, as there are material differences between the Council and group figures.

As group auditors under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and regarding the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The table below sets out the components within the group.

As set out in our External Audit Plan we did not identify any components to be significant in the context of the group audit: We revisited our assessment, following receipt of the unaudited accounts and our assessment remained the same.

Component	Significant	Level of response required
Fife Integration Joint Board	No	Analytical
Fife Coast & Countryside Trust	No	Analytical
Fife Cultural Trust	No	Analytical
Fife Golf Trust	No	Analytical
Fife Sports & Leisure Trust	No	Analytical
Cireco (Scotland) LLP	No	Analytical
Fife Resource Solutions LLP	No	Analytical
Business Gateway Fife	No	Analytical
Fife Council Charitable Trusts	No	Analytical

Analytical - the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

As part of our audit, we reviewed the consolidation entries made within the group accounts, confirmed those entries back to the financial statements of the group bodies and evaluated any significant adjustments made to align the accounting policies.

An audit adjustment was made in respect of the accounting treatment for pension assets and where an asset ceiling calculation had been obtained. An adjustment was made to reflect the lower of the pension surplus and asset ceiling calculation.

For the following bodies; a pension surplus was reported in their Actuarial Reports; however those bodies did not request an asset ceiling calculation and reported a £nil balance in their accounts:

- Fife Coast & Countryside Trust
- Fife Golf Trust
- Business Gateway

The combined total of pension assets for these 3 bodies was £5.209million. As the value is below our materiality levels we did not request asset ceiling calculations be obtained and the group financial statements were not adjusted for these amounts.

Audit differences

The Council updated the annual accounts for all potential audit adjustments identified during the audit process.

We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these in this report. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We did not identify any significant control weaknesses during our audit.

Follow up of prior year recommendations

We followed up on progress in implementing actions raised by the predecessor auditor in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 3.

Other communications

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Council.

The accounting policies, which are disclosed in the financial statements, are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall we concluded that for those key accounting estimates they were balanced and appropriate.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Standards, Audit and Risk Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting the Council. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

The Local Authority Accounts (Scotland) Regulations 2014

As part of our audit we reviewed the Council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 101 as they relate to the annual accounts.

Overall we concluded that appropriate arrangements were in place to comply with these Regulations.

Written representations

We presented the letter of representation to the Executive Director of Finance and Corporate Services to sign at the same time as the financial statements were approved.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received.

Fife Council Charitable Trusts

The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment.

¹ Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

The Council’s charitable trusts are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit. Each registered charitable trust has required a full audit since 2013/14.

There are 43 Charitable Trusts, 30 of which are Settlement Trust Funds. Financial statements are all 43 registered charities have been prepared using the connected charities provision.

Audit opinion

Our independent auditor’s report on the Fife Council Charitable Trusts Annual Report & Financial Statements is unqualified.

We have no matters to report regarding the adoption of the going concern basis.

The Council had appropriate administrative processes in place to prepare the financial statements and the supporting working papers.

Significant risks at the financial statement level

We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
<p>Significant risk description</p>	<p>Management of any entity 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.</p> <p>Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement: Very High</p>

Risk area	Management override of controls
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgement</p> <p>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals. • Tested high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with the Trusts’ journals policy. • Gained an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
<p>Key observations</p>	<p>We have not identified any indication of management override of controls. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.</p>

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue recognition
<p>Significant risk description</p>	<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed inherent risk on every audit unless it can be rebutted.</p> <p>The presumption is that the Trusts’ could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Income recognised in the Trusts’ accounts is investment income and support service income (with corresponding expenditure). Investments are managed by Janus Henderson Investors. Given the nature of this income we rebutted this risk.</p>

Other communications


On receipt of the 2022/23 unaudited financial statements, we reassessed materiality and kept it at the same levels as reported in our External Audit Plan. We consider that our assessment has remained appropriate throughout our audit.

The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

We identified no audit adjustments or unadjusted audit differences.

No material weaknesses or significant deficiencies were noted.

Wider Scope

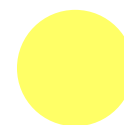
<p>Financial Management</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>Auditor judgement</p> <p>Effective and appropriate arrangements are in place</p> 
	<p>The Council has appropriate arrangements in place for financial management and the use of resources.</p> <p>The Council reported a surplus outturn position in 2022/23. 92% of approved savings were delivered. Service underspends were reported, primarily due to recruitment challenges and underspent grant funding. The Council applied financial flexibilities in 2022/23 in respect of the re-profiling of debt repayments on PPP contracts. This has resulted in a benefit to the Council of £43.576million which will be used to support its Capital Plan review.</p> <p>The Council reported slippage of approximately 8% on its capital programme for 2022/23; incurring c. £189million of capital spend.</p>

Financial Sustainability

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

Auditor judgement

Risks exist to the achievement of operational objectives



In recent years, the Council has managed its budget without needing to make significant cuts to service but the financial outlook continues to be extremely challenging. Significant change will be needed to safeguard the financial sustainability of the Council.

The Council recognises there is an opportunity to bring forward change proposals that can be delivered in a staged way to address the financial challenge. Significant work on change has been advanced in 2022/23 and this will continue with proposals being considered by the Council during 2023/24. These are likely to be around people, place, digital and productivity.

The Council's Capital Investment Plan 2023-33 was approved by the Council in June 2023. There has been a significant increase in both expenditure and funding within the Capital Investment Plan since the time of the last review in February 2021. This reflects provision for significant levels of construction inflation, added investment pressures and a review of all funding options. The capital plan was assessed as being affordable at the time of approval, however it was recognised that challenges may arise in future years given reduced funding and the challenge of affordability beyond the level of investment proposed.

The Council has recognised that the HRA budget is also under considerable financial pressure with increased costs due to high inflation, staff salary increases, increasing stock figures, and other pressures and faces a high level of financial risk.

Vision, Leadership and Governance

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

Auditor judgement

Effective and appropriate arrangements are in place



Appropriate arrangements are in place to oversee the delivery of the Plan4Fife and internal audit has committed to undertake a review of the governance arrangements in place to support delivery of the new Plan4Fife, including performance management and reporting arrangements as part of their 2023/24 audit plan.

Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Council and Committees continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.

Use of Resources to Improve Outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Auditor judgement

Pace and depth of improvement needs to extend further



Improvement work underway needs to extend further to fully demonstrate compliance with the Accounts Commission Statutory Performance Information Direction; in particular, the timeliness in performance reporting and demonstrating best value.

The Council's revised performance framework and approach to performance reporting was published in December 2022, following a reset post-pandemic. The focus of the revised framework was to reinstate and improve the accessibility, regularity and comparability of performance information available to the public. While the framework provides an improved approach to performance reporting, more time is needed for that to be fully implemented.

Financial management

Financial performance

The 2022/23 Comprehensive Income and Expenditure Statement shows that the Council spent a total of over £1billion on the provision of public services and recorded an accounting deficit on the provision of services of £63.609million. The accounting deficit is partly technical as it includes elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting (the Code), and which are subsequently adjusted to show their impact on statutory Council reserves.

The key measure of performance in the year is the movement in the Council's general fund balance. Following the required adjustments, the net impact on the general fund is an increase of £33.241million to £216.054million. In total, cash backed (useable) reserves held by the Council increased by £26.582million in the year to £238.716million.

Movement in the Council's useable reserves per the Annual Accounts 2022/23

	2022/23 £million	2021/22 £million	Movement £million
General Fund	216.054	182.813	33.241
Housing Revenue Account (HRA)	7.380	7.005	0.375
Insurance Fund	14.423	16.571	(2.148)
Capital Fund	0	0	0
Capital Grants and Receipts Unapplied	0.859	5.745	(4.886)
Total useable reserves	238.716	212.134	26.582

Source: Fife Council Annual Accounts 2022-23

The increase in general fund balance comprises:

- An overall surplus of £72.460million against the 2022/23 budget (this comprises an underspend of £27.542million against budget within Service Expenditure, an underspend of £47.895million on loan charges and an overspend on corporate budgets of £2.977million)
- Transfers from other statutory reserves of £4.303million

- Less £43.523million of budgets transferred from balances brought forward and used in year

The unallocated General Fund was £37.007million as at 31 March 2023, an increase of £5.250million from the previous year. This is equivalent to 3.74% of budgeted net revenue expenditure² (2021/22: 3.42%). The Council's policy is a minimum of 2% of annual turnover over a three-year period.

The remaining balance of £179.047million is either earmarked or committed for specific purposes including:

- Earmarked balances (£134.516million): includes significant commitments which underpin the investment in the capital plan (£68.124million), principally Service Concessions totalling £43.576million and CFCR contributions £24.548million. In addition, there are commitments for Covid-19 funding of £35.776million, and Scottish Government specific funding of £9.066million.
- Commitments (£44.531million): includes £18.000million for changing demographics, £10.000million for Change Programmes and £8.000million contribution from balances as agreed during the 2023-24 Revenue Budget process.

Details of the make-up of these balances are shown in note 6 to the annual accounts.

Revenue performance against budget

The final outturn position on the General Fund for 2022/23 shows a surplus of £72.460million compared to the balanced budget set at the outset. This surplus has been set aside in reserves.

Savings of £0.565million were planned to be delivered during 2022/23 of which £0.517million (92%) were delivered. Where there is a shortfall in savings achieved against target, services are required to implement these saving in the following year, or identify and implement alternative savings to contain expenditure with budget.

There are two significant contributory factors in the context of the level of underspend:

1. Service Underspends (£27.542million)

Service expenditure underspent as a result of reduced costs in certain areas of service provision, predominantly Education and Children's Services, and underspent specific grant funding. All Directorates are experiencing challenges in recruiting staff and this has contributed to the underspends reported.

² Net revenue expenditure comprises net service expenditure £925.318million and Loan Charges & CFCR of £64.142million as per the 2022/23 approved budget.

The budget strategy for 2023/24 onwards will mean that this level of service underspend will not continue in future years as the future service budgets have been reduced by around £22million.

2. Service Concession Arrangements

In response to the COVID-19 pandemic and the financial challenges being faced by Local Government, the Scottish Government introduced a range of financial flexibilities, one of which centred around the profiling of debt repayments charged to the General Fund for PPP contracts.

The revised accounting guidance allows the Council to account for the cost of the repayment element over the life of the assets – 40 years as opposed to the contract period of 25 years. This approach is deemed to be prudent as it matches the expenditure profile to the consumption of the assets over time. Doing so reduces the cost per annum as the debt is accounted for over a longer period of time, but the total amount paid remains the same over the new repayment life.

The benefit identified for Fife Council amounted to £43.576million which will be used to support the Capital Plan Review.

Covid-19 financial impact

The additional net costs associated with COVID-19 were estimated to be in the region of £16million in 2022/23. Specific funding was identified for most of these costs leaving the remainder of £3.1million being funded from Service underspends. As time has passed, the Council is finding it increasingly difficult to identify costs that are as a direct result of COVID-19, given the consequences and subsequent impacts in relation to the cost of living crisis and inflationary factors.

Costs as a legacy of COVID-19 may continue into future years and assumptions have been made as to the possible impacts for both 2023/24 and 2024/25, with commitments recognised against balances to mitigate costs in those years. Loss of income has been identified as a particular challenge and may take several years to recover. This will continue to be reviewed, however, it is likely that in the future, services will need to manage any residual cost impacts within the budget available to them. This will be subject to consideration when setting the budget in the future.

Housing revenue account (HRA)

During the year, the HRA made a surplus of £0.375million and the HRA Fund balances increased from £7.005million to £7.380million. The HRA experienced similar inflationary pressures as the General Fund which significantly increased costs in repairs and maintenance, energy, and insurance. As a result of increased costs the planned revenue contribution to the HRA capital plan was reduced by £8.067million (budgeted contribution was £29.327million). If this situation continues over the coming years, this will have an impact on the affordability of the HRA capital

programme. After taking into account current commitments totalling £4.875million the level of uncommitted HRA Fund balances is £2.505million.

Capital Expenditure

Capital Expenditure for 2022/23 was £189.362million, a variance of £17.392million (8.41%) against budget. Comparable expenditure for the previous 3 years was £163.805million (2021/22), £138.473million (2020/21) and £163.805million (2019/20).

Full detail of material capital expenditure variances was regularly reported to the Cabinet Committee and the relevant Scrutiny Committees.

Treasury management

The Council has a treasury management strategy which ensures that all decisions taken on treasury management give primary importance to minimising and managing potential risk.

As noted previously, during 2022/23, the Council applied the revised accounting guidance for the treatment of Service Concession arrangements which has the impact of spreading the cost of the principal repayments across the life of the asset, generating both a retrospective benefit and annual benefit in the immediate term.

This has a positive impact on the balances position which will be utilised to fund the capital investment plan. As this is an accounting benefit, and there is no actual cash benefit, the use of the benefit to support capital expenditure will require to be managed through the Council's Treasury Management approach and daily cash flow arrangements. The Capital Financing requirement will increase as a result of the re-profiled principal repayments as repayments will take longer to be made.

Systems of internal control

We have evaluated the Council's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

We did not identify any significant weaknesses in the Council's accounting and internal control systems during our audit.

Prevention and detection of fraud and irregularity

The Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption.

We have reviewed the arrangements and concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

National fraud initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

The most recent NFI exercise commenced in 2022. The Council continues to work through the findings.

Overall, the Council's arrangements with respect to NFI are satisfactory but we will follow up completion of the work as part of our 2023/24 audit.

Financial sustainability

Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Extract from External Audit Plan - Financial sustainability

The Council's financial planning is underpinned by its Medium Term Financial Strategy (MTFS). The latest MTFS, reported in February 2023, is projecting provisional cumulative budget gaps of £11.505million, £33.198million, and £55.598million for 2023/24, 2024/25, and 2025/26 respectively.

The Council reviewed its budget planning assumptions in February 2023 to reflect the publication of the Local Governance Finance Settlement and the financial challenges impacting on the external environment which the Council operates in. The revised budget gap assumptions applied increased pay, pension and general inflation cost pressures. The emerging and uncertain impact of cost pressures on the Council's finances and ability to deliver services in a sustainable manner remains a significant challenge and risk.

The MTFS contains a commitment from the Council to develop a corporate change programme to support Directorates in redesigning its services with the aim to drive out savings and efficiencies in the short term. The Council has a significant reserves balance (£27.492million uncommitted balance at January 2023) but has acknowledged that these cannot be utilised as a sustainable solution to close the medium term budget gap. The Council recognises that bridging gaps of this magnitude will require major changes to services and how they are delivered and have committed to a focus on service redesign to address the financial challenge from 2024/25 onwards.

The Local Government Finance circular 10/2022 confirmed that local authorities can utilise financial flexibility whereby the capital repayment element of service concessions can be accounted for over the expected useful life of the asset instead of the contract period. The Council has recognised that through utilising this flexibility, this would produce a benefit by increasing General Fund balances by £39.700million with annual savings that vary between £1.800million and £5.000million for ten years to 2032/33. The Council's utilisation of the service concession financial flexibilities has been incorporated into the MTFS reported in February 2023

Our detailed findings on the Council's financial framework for achieving long term financial sustainability are set out below.

Financial landscape

In the last 3 years the Council has significantly underspent on its general fund revenue budget. Services have moved from an overspend position of around £8million in 2019/20 to an underspend of £28million in 2022/23. The Council's Budget Strategy adopted for 2023/24 builds upon this position and service budgets have been realigned, underspends used, and staff vacancy factors increased to balance the budget. This was considered by the Council as a one-off opportunity and going forward it will have to take hard decisions in order to balance the budget.

The level of funding that the Council receives from the Scottish Government for its core activities is likely to reduce given the commitments that are in place and the financial challenge that exists nationally. Higher inflation exasperates the challenge as any increase in costs will need to be managed internally within the Council with the scope to also increase council tax, fees and charges. The Council is actively developing change plans to address the financial challenge. The Medium-Term Financial Strategy (MTFS) and the budget assumptions used in February 2023 have been updated based on all known intelligence and an updated budget gap was reported to Cabinet Committee in September 2023.

The Council recognises there is an opportunity to bring forward change proposals that can be delivered in a staged way to address the financial challenge. Significant work on change has been advanced in 2022/23 and this will continue with proposals being considered by the Council during 2023/24. These are likely to be around people, place, digital and productivity.

There is still a level of uncertainty as a consequence of the economic crisis. Inflationary pressures, increasing demand for services and the constraint of funding from the Scottish Government could increase the scale of the financial challenge the Council has to deal with. The Council's MTFS and financial Risk Register are used to support future budget decisions.

Consideration is also being given to other pressures the Council is facing, for example, equal pay claims, achieving savings, and strategic growth. The core budget is where the main concern and risk exists going forward. The level of reserves that the Council holds provides a means to address financial pressures on a one-off basis but there is a risk of over reliance being placed on using these for recurring expenditure, so exit strategies will need to be clear at the time of commitments.

The Council is considering all options to reconfigure services and potentially use alternative operating models to provide services in a different, more cost-effective way to ensure best value. This will be integrated into the strategic change work that is being undertaken around people and place. The new Chief Executive is also considering the senior leadership arrangements for the Council.

Source: Fife Council 2022/23 Annual Accounts, Management Commentary

2023/24 revenue budget

In February 2023 the Council set a balanced revenue budget for 2022/23 based on a 5% increase in Council Tax rates.

The revenue budget for 2023/24 was set using a different approach from previous years. As prior years' outturn positions had been favourable, a short-term strategy was considered and the budget gap reduced by realigning budgets with recurring underspends, substituting some funding streams for core funding and the approach to budgeting for vacancy management was changed to take account of the actual vacancy level being experienced over recent years. In doing so, no savings proposals from services were required.

The Council has recognised, however, that this approach is not without risk and has reflected this in its financial risk register with the risk being carried corporately rather than at a service level.

The Council applied the statutory financial flexibility over the repayment of debt on service concession arrangements to reduce the budget gap for 2023/24. £8million of uncommitted general fund balances were also used to close the residual budget gap as well as provide for one-off investment to deal with inflationary pressures and the current cost of living crisis.

As part of the process for setting the 2023/24 revenue budget, a full review of the commitments against balances was carried out. Commitments were updated to reflect the funding strategies associated with the Capital Plan review and re-phased to reflect expenditure forecasts. Commitments were also updated to reflect the Council decision to use £8million for the revenue budget and £17million to support capital investment.

As reported to the Cabinet Committee in September 2023, changes have been made to the revenue budget that was approved in February 2023. These changes relate to previous commitments made against general fund balances being allocated to the relevant service budgets. The current budget as at August 2023 was £1,000.522million (February 2023: £975.670million).

The 2023/24 forecast outturn suggests an overspend of £0.645million. The report, however, does highlight items which skew the reported position; with the final impact on the level of general fund balances to be a forecast reduction of £6.813million.

After taking account of all earmarked balances and commitments, the level of uncommitted balances is expected to be £13.241million which equates to 1.3% of the revenue budget. The Council's policy on uncommitted general fund reserves is to maintain a level of 2% balances over a rolling three year period which means that the level can dip below the 2% level provided it returns to 2% within three years.

The Council has no plans, at this stage, to restore balances, given the early stage in the financial year and the assumption that forecasts tend to improve over the year. The outcome of the ongoing pay negotiations is still uncertain, however, the Council

note that there could be a positive impact on the outturn position. This is being kept under review.

Medium term financial outlook

The Council has a Medium-Term Financial Strategy (MTFS) which is regularly reviewed and is relied upon when planning for the future.

Following the publication of the Scottish Government's updated Medium Term Financial Strategy, the Council took the opportunity to review the principles and assumptions contained in its MTFS and consider the impact on those planning assumptions and its planned approach to achieve a sustainable and balanced budget.

Since the approval of the budget in February 2023, the Council reported an indicative budget gap of £23.5million for 2024/25, rising to £45.9million for 2025/26 and £59.5million for 2026/27. The assumptions and baseline figures were revised and reported to Cabinet Committee in September 2023.

The main changes in the budget planning assumptions are detailed below:

Budget Assumptions for the MTFS	Assumption Applied	Assumptions in February 2023 approved budget	Built into the revised scenarios in September 2023
Council Tax	Council Tax increase of a minimum of 3% and will be reviewed annually.	3% increase	No change
Government Grant	In line with grant levels provided in the Local Government Finance Settlement	Flat line (in cash terms) – 0%	No change
Pay Awards	In line with agreed pay settlements for all bargaining groups	2.5% for all employee groups	3% for all employee groups 2024/25. 2.5% from 2025/26.
Non-Pay Inflation	Reflecting significant contracts	3%. 2.5% from 2026/27.	2.5% inflation (based on uncertainty and risk surrounding OBR forecasts) Energy costs have an approximate increase of 16% for 2024/25

Budget Assumptions for the MTFS	Assumption Applied	Assumptions in February 2023 approved budget	Built into the revised scenarios in September 2023
Demographic Growth		0%	No change
Health and Social Care Grant Reduction	As per the requirements of the finance circular taking recognition of grant received	0%	No change

Source: Budget 2024-27 Update; Cabinet Committee 7 September 2023

Recognising the difficulty in accurately forecasting the future, the Council presented three scenarios to Cabinet Committee:

1. Positive scenario – 1% increase in government grant
2. Central scenario – assumes flat cash
3. Least positive scenario – 1% decrease in government grant

For planning purposes, the Council presented the impact based on the central scenario, and in line with the MTFS, plan for a 3% council tax increase.

	2024/25	2025/26	2026/27
	£m	£m	£m
Central scenario – assumes flat cash government grant	21.9	43.5	67.3
Annual 3% council tax increase	(5.8)	(11.7)	(17.8)
Revised budget gap	16.1	31.8	49.5
Indicative budget gap following approval of budget in February 2023	23.5	45.9	59.5

Source: Budget 2024-27 Update; Cabinet Committee 7 September 2023

In recent years, the Council has managed its budget without needing to make significant cuts to service expenditure but the position going forward is now much more challenging.

In June 2023, a report was presented to Cabinet Committee which set out a basis for organisational change in the Council over the medium term. Proposals are due to

the be presented later in 2023. Additional options to close the budget gap are being explored, such as, improvements in productivity including digital enhancements, potential policy options, flexibilities around conditional grant funding and a review of fees and charges.

The Council Executive Team (CET) is considering the change planning requirements and are developing three year Change Plans aligned to the Council's strategic intent and ambitions. Proposals are being prepared with a focus on short-term savings for 2024/25 alongside further proposals for service redesign over the three year planning period.

The financial outlook continues to be extremely challenging and significant change will be needed to safeguard the financial sustainability of the Council.

Capital plans

The Council has developed a 10-year rolling capital programme that is reviewed every two years. The Capital Investment Plan 2023-33 was approved by the Council in June 2023.

There has been a significant increase in both expenditure and funding within the Capital Investment Plan since the time of the last review in February 2021. This reflects provision for significant levels of construction inflation, added investment pressures and a review of all funding options. The plan will be funded by various funding streams, with the balance sourced from borrowing from the Loans Fund.

The capital plan was assessed as being affordable at the time of approval, however it was recognised that challenges may arise in future years given reduced funding and the challenge of affordability beyond the level of investment proposed.

Underpinning the review and development of the plan is a Capital Strategy. The Capital Strategy has been refreshed and updated and takes a whole organisation approach to reflect the current aims and ambitions of the Council in the current economic climate. The Capital Strategy aligns the relationship between the Treasury Strategy and Capital planning. In recognition of the refreshed Plan4Fife and the Council's ambitions, the strategy outlines the investment priorities aimed at meeting those ambitions. The strategy notes that investment in existing assets is required to realise the Council ambitions and continue to provide services in a sustainable and affordable manner. The strategy is a live document and is kept under review and refreshed in line with any changes to the Council's overall priorities and objectives.

2023/24 forecast outturn position

The approved capital investment plan for 2023/24 represented total expenditure of £288.496million; covering both general fund and HRA. The current total expenditure budget for the financial year is £304.911million; following updates to take account of slippage from the prior year, re-profiling and increased grant income received. The Council estimates it will deliver £286.579million indicating slippage of £18.332million. The level of projected expenditure represents continued progress on the delivery of a wide range of capital projects. Major capital investment by the Council continues, however, there is still a level of uncertainty associated with the speed of delivery and future costs.

Housing Revenue Account

The Council has recognised that the HRA budget is also under considerable financial pressure with increased costs due to high inflation, staff salary increases, increasing stock figures, and other pressures and faces a high level of financial risk. In setting the 2023/24 budget; the Council faced a £8.333million budget gap which was met through a 5% rental income increase and a reduction in the capital financed from current revenue (CFCR) budget. The level of rental income impacts on the capacity of the HRA to borrow to fund investment into future policy decisions, maintain the ability to continue to build new council houses as part of the Affordable Housing Programme and improve houses to the current energy efficiency standard in future years. A rental increase of 5% or above was required in 2023/24 to keep the baseline plan in a position of medium risk and support future policy decisions.

In recognition of ongoing Cost of Living challenges affecting tenants, a motion for officers to consider the financial impact on the HRA of both a rent freeze and a partial rent freeze for 2023/24 was approved at Cabinet Committee in September 2022. It was subsequently agreed to consult with tenants on rental increases of between 0% to 3% for 2023/24. During the period from September 2022 to consideration of the HRA budget in February 2023, however, the anticipated recurring pressures continued to rise which meant it was not possible to close the budget gap based on the rental increases which had been consulted on.

The Cost of Living (Tenant Protection) (Scotland) Act 2022 introduced a temporary rent freeze from October 2022 to March 2023. The Scottish Government subsequently confirmed that the rent freeze for the social sector expired in February 2023. COSLA issued a Statement of Intent which confirmed that local authorities' commitment to keeping rent increases in April 2023 to an average of no more than £5 a week. The Council's approved rental increase for 2023/24 is in line with this Statement of Intent.

To address the 2023/24 budget gap, the Council approved a reduction in the level of capital financing from current revenue (CFCR), which results in an equivalent reduction in capital funding. This is a short-term measure and the Council recognises this is not sustainable in the medium to long term as this would adversely impact on the level of capital investment that is affordable.

The Council has forecast a budget gap for the next two years as follows:

	2024/25	2025/26	Cumulative impact
	£m	£m	£m
Budget gap	8.577	8.044	16.621

2023/24 forecast outturn position

As a result of significant pressures across the HRA, it is projected that CFCR will need to reduce by £6.676million to offset overspends across the HRA. As a result of the reduced level of HRA CFCR, an increased level of HRA borrowing may be required to fund the capital programme in year. HRA borrowing is projected to overspend by £10.252million with £6.997million being attributable to the reduced CFCR. The remainder relates to advancements of capital projects in year. The consequences of this on the HRA are currently being considered.

The forecast position for the HRA is a withdrawal from balances of £1.904million. This withdrawal from balances is used to support specific projects approved by members. This includes investment into Estates Management, Disability Adaptations and an increase to the CFCR. The level of HRA balances, allowing for all commitments, is £2.506million which is in line with the Council's policy to maintain uncommitted balances of 2% of Net Rental Income.

Vision, leadership and governance

Plan4Fife

Fife Council set out its vision and ambitions in its ten-year local outcomes improvement plan (LOIP), 'Plan4Fife', which was first published in November 2017. The Plan4Fife 2017 - 2027 was developed through the Fife Partnership and is the first combined partnership and council plan. A LOIP Development Group was established to oversee the development of the Plan4Fife and partners were involved in agreeing outcomes, actions and performance measures.

The Plan was reviewed and a three-year update, 'Plan4Fife Recovery and Renewal', was agreed in August 2021. As well as being the three-year update of the Plan4Fife, the updated Plan is also Fife's recovery and renewal plan following the COVID-19 pandemic.

As part of an overall community wealth building approach, the Plan sets out three recovery renewal priorities:

1. tackling poverty and preventing crisis;
2. leading economic recovery, and
3. addressing the climate emergency.

The priority themes: Opportunities for All; Thriving Places; Community-Led Services; and Inclusive Growth and Jobs have been translated into thirteen "ambitions", with addressing the climate emergency added. The recovery and renewal priorities are being taken forward in the context of the ambitions for Fife.

Four Strategic boards oversee the progress against the ambitions: Leading Economic Recovery, Tackling Poverty and Preventing Crisis, Addressing Climate Emergency and Community Wealth Building. Each of the community planning partners in Fife has committed to these and are responsible for planning, scrutinising, and reporting on performance and delivery to the partnership, the public and other key stakeholders.

Area Committees have responsibility for the development, delivery and monitoring of the Local Community Plans (LCPs). LCPs are developed through strategic assessments and consultation with community groups in order to reflect the local needs and opportunities alongside the challenges and ambitions set out in the overarching Plan4Fife. During 2023, work has been ongoing to update the LCPs to reflect the Council's recovery and renewal priorities, post pandemic position and Plan4Fife.

We are satisfied that appropriate arrangements are in place to oversee the delivery of the Plan4Fife. Internal audit has committed to undertake a review of the governance arrangements in place to support delivery of the new Plan4Fife,

including performance management and reporting arrangements as part of its 2023/24 audit plan.

Leadership

The Chief Executive, Steve Grimmond, retired in June 2023. Ken Gourlay was appointed as the new Chief Executive in July 2023 and previously held the role of Executive Director, Enterprise & Environment within the Council Executive Team (CET). Arrangements were in place such that the respective Chief Executives provided assurance over the governance arrangements and system of internal control over the full period.

The Council's senior leadership team (CLT) is a mature team comprising officers with many years' experience, who are skilled leaders and professionals. Each Council Directorate is headed by an Executive Director who, together with the Chief Executive and the Director of Health and Social Care, collectively form the Council Executive Team (CET). The CET is supported by the CLT.

The Council has experienced a level of turnover, predominantly in the CET. Recruitment has taken place for an Executive Director of Place, following the appointment of the former Executive Director to the post of Chief Executive. The new postholder will take up their position in December 2023. One other Executive Director has retired and a Head of Service has moved to a new role in another Council. Temporary arrangements have been agreed for both roles pending a decision on the organisation's future structure.

Following the Local Government elections in 2022, the Council delivered a comprehensive induction process for all elected members, which was well received. A councillor information hub has been created on the intranet to provide a central bank of resources, including induction material for councillors to consult. Some of the training sessions were recorded so members can revisit those training sessions in their own time.

In addition, regular development sessions were held for elected members in 2022/23. The online development sessions held in 2023 covered areas including:

- Debt/Benefits training
- Code of Conduct refresher
- Media Training
- Registers of interest refresher

From review of the development sessions, we have concluded that it provides elected members with the information and platform to continue to discharge their responsibilities effectively. However, development sessions and training areas are not all mandatory and work is ongoing for the Council to identify and expand on mandatory areas of training to provide to elected members.

The Code of Conduct for Councillors forms the basis of the principles and values for elected members. The Member/Officer protocol was revised to reflect the recently updated Code of Conduct and administration changes. The Council has recognised an opportunity to revisit its protocol to ensure it continues to remain up to date and widely accessed.

Effective working relationships exist between senior officers and elected members with positions of responsibility. The Chief Executive meets regularly with the Leader of the Council and the leaders of other political parties. The Chief Executive, Executive Directors and service managers also meet regularly with Cabinet spokespeople about their portfolios.

Various structures promote collaborative working between elected members and officers. These include the formal area committee work programme, ward meetings (including mega ward meetings in City of Dunfermline and Kirkcaldy Areas), elected member workshops, development of Local Community Plans and directing spend of decentralised budgets on priorities such as community recovery fund, anti-poverty, roads and transportation.

Outside of formal committee meetings, elected members are regularly briefed on major projects, developments or issues that arise. Services run workshops to raise awareness of important pieces of work or to engage local members at the early stages of a project, for example on decentralisation work.

Governance arrangements

Following the Local Government elections in May 2022, the Council adopted a new system of governance based on a Cabinet structure. The Cabinet Committee is responsible for strategic policy decisions and membership of the Cabinet comprises the Leader of the Council (Chair), six strategic spokespersons and ordinary members up to a total of 21 members. To drive forward the strategic direction of the Council, ensuring the governance framework is operating as intended, the new governance structure is also supported by four Council service area themed scrutiny committees:

- Education Scrutiny;
- Environment, Transportation & Climate Change Scrutiny;
- Finance, Economy & Corporate Services Scrutiny;
- People & Communities Scrutiny; and
- Standards, Audit & Risk.

The Council also operates a decentralised structure based around seven Area Committees. This type of governance structure allows the Area Committees to focus on specific local area issues and opportunities and have delegated responsibility for some revenue and capital budgets.

The Council has committed to further review areas where the decentralised structure could be expanded. This work is ongoing and includes a review of services including Housing, Green space and Property and Facilities Management to identify ways to improve consistency in how different service areas work with local areas.

Cabinet and Committee meetings

During 2022/23, the Council and Committee meetings adopted a blended approach and meetings have continued to be live streamed and available to the public in the archive. The Council has been able to maintain its regular schedule of Council and Committee meetings.

Through our review of committee papers we are satisfied that there continues to be effective scrutiny, challenge and informed decision making through the financial period.

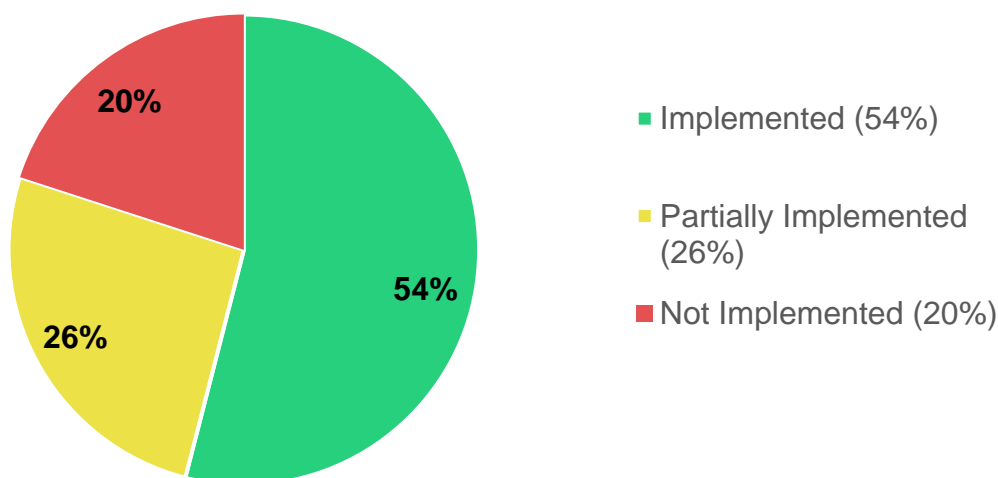
Risk management

Well-developed risk management arrangements help councils to make effective decisions and secure better use of resources. The Council's Standards, Audit and Risk Committee is responsible for monitoring the effectiveness of the risk management arrangements in place with updates on the Strategic Risk Register and information surrounding further developments to the Council's risk management arrangements being presented on a six-monthly basis.

The Standards, Audit and Risk Committee in this role is supported by the Risk Management Strategy Group (RMSG) which continued to meet quarterly during 2022/23 to provide oversight of the Council's risk management arrangements. Activities undertaken by the RMSG in 2022/23 to further strengthen the Council's risk management arrangements have included a review of the Risk Management Policy and Strategy in April 2022 and November 2022, establishment and review of the Council's risk appetite and coordination of the management of strategic risks.

In November 2022, work was reinstated to refresh and strengthen the Council's approach to Risk Management. It was recognised that the Council needed to address the remaining relevant recommendations contained within the Zurich Health Check Report (presented in 2021/22) and, consequently, these were incorporated, along with other related areas for improvement, into a new Council Risk Management Improvement Plan (RMIP). Implementation of the RMIP is managed and monitored by the RMSG, CET and SARC. The most recent progress report presented to the June 2023 Standards, Audit and Risk Committee meeting highlighted that good progress is being made in addressing the improvement plan recommendations. As detailed in the exhibit below, 54% of recommendations were fully implemented, 26% partially implemented and 20% were not implemented.

Progress against Risk Management Improvement Plan



Source: Risk Management Update- June 2023

Internal audit

The Council's internal audit service is an independent assurance function that provides an opinion on the Council's framework of governance, risk management and control. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of the work of internal audit.

The Chief Internal Auditor's Annual Opinion for the year ended 31 March 2023 stated that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control.

Following the Public Pound

The Council uses a number of arm's-length external organisations (ALEOs) to provide services on its behalf. While the ALEOs are responsible for the delivery of services, the Council remains responsible for the public money it provides to the ALEOs and the quality of services the ALEOs provide. The Council needs to hold ALEOs to account for their use of public funds and should have sufficient governance arrangements in place to do so.

The Council's People & Communities Scrutiny Committee is presented with annual reports which are used to scrutinise the future direction of each ALEO, service performance, including progress against service level agreements, and any emerging issues. Through our review of the committee papers, we are satisfied that

there has been effective scrutiny, challenge and informed decision making through the financial period.

The Council has committed to review how it works with its ALEOs during 2023/24 to ensure operating arrangements reflect how the relationship between the Council and the ALEO has developed over time. The review of the operating arrangements between the Council and Business Gateway Fife has been completed and work is ongoing to review the operating agreements with the other ALEOs to ensure that they continue to reflect current arrangements.

Use of resources to improve outcomes

Forward looking Plan4Fife arrangements

The Council's ambition is to ensure public services are fit for the future, sustainable and delivered with communities if it is to address inequalities and boost life chances for all. The three recovery and renewal priorities remain the Council's focus. In 2022/23 attention was primarily on exploring its leadership approach to strategic change and reform to help leaders consider the future of services and the changes required to respond to Fife priorities, national shifts, and social and financial pressures.

In the autumn of 2022, a series of Our Fife Leadership Summits were arranged to discuss in detail the vision and priorities, focusing on four strategic change priorities emerging from the plan: no wrong door, working for place, community wealth building and health and wellbeing. Over 100 leaders from across the Council and Fife Partnership were involved at various stages throughout the process. Thematic workshops explored:

- the intent behind our vision for Fife
- our common purpose
- the practical steps we need to take over the next three years to turn that vision into reality

The output from the leadership summits has informed the next phase of change development work for both the Council and the Fife Partnership. Work has been underway to explore how it can harness some of the culture and delivery shifts evidenced during the pandemic and apply those to achieve better outcomes for Communities in Fife.

The Leadership Summits evidenced both an appetite for change together with consensus around its direction. This was the first stage in the process that will lead partnership services through a three-year programme of public service reform – laying the ground for the next Plan4Fife in 2026/27. Work continues to shape the strategic direction for recovery and reform and will be the basis for organisational change in the Council over the medium term.

Change continues to be actioned through the Plan4Fife partnership delivery arrangements. The Council set a balanced budget position for 2023/24 which recognised the need for change activity in future years. Longer term change work is ongoing, building on the Plan4Fife Leadership summits and focused on the themes of community wealth building, place making, no wrong door and health inequality and these summits will form the basis for the Council's future change activity.

All council services are engaged in change planning. Change will focus on place, people, digital and productivity. An approach to advancing change has been agreed

and will progress throughout 2023/24. This change planning work will be supported by “Our People Matter” and the Council’s workforce strategy. Priority areas for action across all directorates have been agreed and workforce planning activity will be a focus of 2023/24 to support change.

Change Plans

The development and implementation of Fife Council’s annual service change plans was paused during the pandemic. These were re-introduced during 2022/23 with a shift of focus to a three-year planning horizon. The Council has acknowledged that the change in approach is to ensure change programme initiatives move away from ‘salami slicing’ and focus on service redesign and transformation in line with the Plan4Fife priorities, the Medium-Term Financial Strategy and workforce plans. The Council is working closely with the Digital Portfolio Board to reflect the expectation that the approach to change will be supported and enabled through increased digitalisation.

The Council is committed to embedding a culture of openness and transparency to the communication of change. This is demonstrated through clear communication channels including continuous engagement with Trade Unions in relation to the direction of travel for people changes, Fife Leadership Summits and Chief Executive blogs to communicate areas of key change.

The Council’s revised approach to change planning is being developed through the following phases:

- Phase 1- Work focused on understanding the current position, wider policy propositions and identifying and prioritising areas to focus change effort. This included digitally enabled productivity, data and insight driven change, potential organisational change linked to the No Wrong Door and place-based delivery/decentralisation ambitions set out in the strategic change priorities in the Plan4Fife. This stage ran from April to June 2023.
- Phase 2- Work is focused on policy and outcome alignment, changes to operating arrangements and digital and data opportunities. This includes work on the business cases behind strategic change and includes significant leadership investment in terms of development, support and challenge. This stage is running from June to September 2023.
- Phase 3 - Work will be focused on outlining and considering proposals for organisational and structural change required to respond to the challenges and opportunities identified in phase 1 and the outline propositions coming through phase 2. The output from this phase is expected to be considered by the Cabinet Committee in November.

We are satisfied that appropriate arrangements are in place to oversee the development of the Council’s three year change plans. However, we acknowledge that the change plans have not been fully developed and as a result we will continue

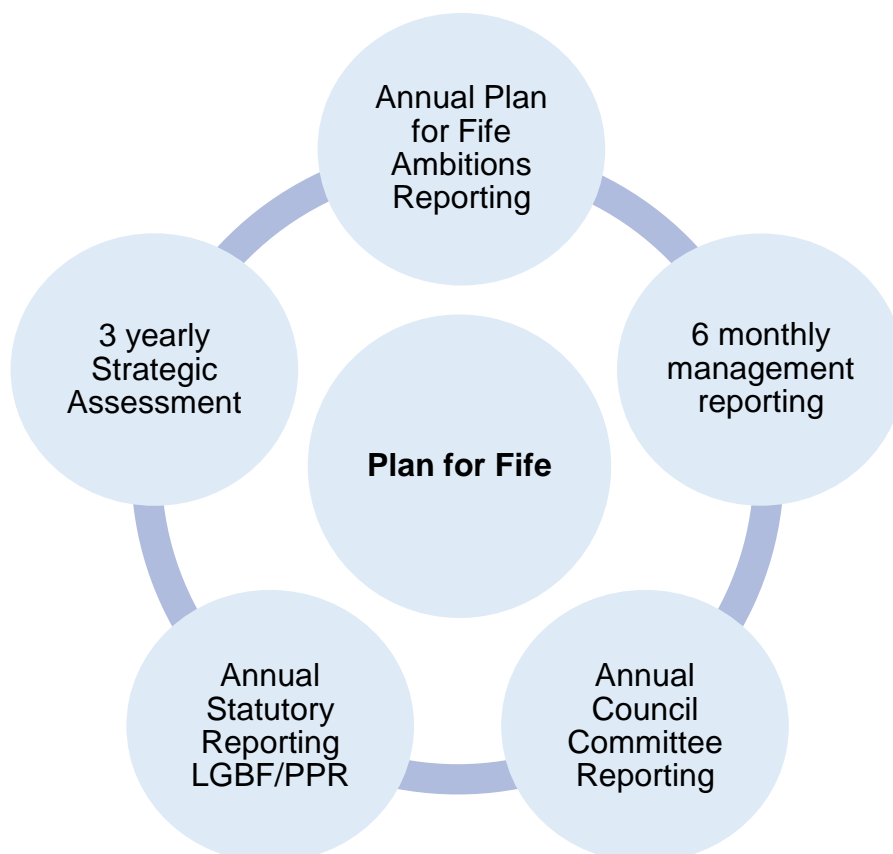
to monitor the implementation and delivery of the change plans to fully assess the impact which these are having on contributing towards transformation and redesign of the Council's services.

Performance Management Arrangements

Performance management framework

A revised performance framework and approach to performance reporting was published by the Council in December 2022, following a reset of the approach post-pandemic. The focus of the revised framework was to reinstate and improve the accessibility, regularity and comparability of performance information available to the public.

The Council's performance framework is used to support delivery of the Council's overarching strategy 'Plan4Fife'. The key components of the performance framework are outlined below:



Plan4Fife Ambitions Reporting

The three-year review of the plan 2021 established recovery and renewal priorities for the current 3-year planning period. It was proposed, at the time, that an annual review of these priorities and ambitions would be required between the 3 yearly state of Fife strategic assessment. The first review was presented to the Fife Partnership Board in April 2023, the mid-point of the 3 yearly assessment. It was based on information as at October 2022.

A consultation exercise was conducted in January 2023 to consider a suite of indicators that best align to the current Plan4Fife ambitions. The consultation asked participants to review the current list of performance indicators and specify if they wished to continue with, or stop, monitoring the indicator, and to propose any alternative indicators as required.

The results of the exercise identified gaps in both the coverage and alignment to outcomes in the current suite of performance indicators. In addition, several new and existing indicators required targets to be set to enable monitoring of performance.

The Council has committed during 2023/24 to build on the performance management improvements made and expand public performance reporting. Ongoing work includes consideration of the frequency of in year performance reporting with more real time data, the role of partnership and delivery boards in monitoring the performance of Plan4Fife indicators and reviewing the effectiveness of Plan4Fife performance indicators.

Local Government Benchmarking Framework (LGBF)

The LGBF shows the performance of Scottish councils compared to the national average for 83 indicators.

The Council has previously published annual LGBF reports. Pre-pandemic, there was a move away from this to integrate LGBF indicators in Service Annual Performance Scrutiny reports. In May 2023, the Council Executive Team decided to reinstate the annual report in addition to the service scrutiny. This provides an overview of Council's position against the LGBF indicators and assesses council-wide opportunities for improvement.

The Council, on the performance section of its website, provide the public with a link to the LGBF benchmarking information on the Improvement Service's website.

Service Reporting

The Council developed separate guidance for Service Performance Reporting in September 2022 which supports the use of performance information to drive continuous improvement, including ambitions within the Plan4Fife and benchmarking data, such as the Local Government Benchmarking Framework (LGBF). The revised approach to Service Performance Reporting is in the form of a standardised service Balanced Scorecard template which is expected to be used by all services to improve consistency and comparison of services across the Council. The templates

are used to inform service Annual Performance Reports which are presented to Scrutiny Committees.

Service Annual Performance Reports presented to Scrutiny Committees are published on the Council's website under the "performance" page. The current service Annual Performance Reports available on the Council's website are for 2021/22 and 2022/23 reports will be published in November 2023. The Council should review its performance timetable to publish performance information closer to the period covered. (refer to Statutory Performance Information section below).

From review of the 2021/22 service Annual Performance Reports, we are satisfied that the updated templates allow for a consistent approach to performance reporting across services. However, we would encourage the Council to further develop the structure of the template and consider the inclusion of 'RAG' ratings for each performance indicator to allow for more clear presentation of trends in performance compared to previous periods.

Recommendation 3

An online community portal is in development to complement the Fife Council website fife.gov.uk, and other partner sites. This will provide content on partnership aims, activities and performance information through a website that is accessible to all customers, stakeholders and employees. As it develops, the portal will provide Fife residents with better coordinated information to allow them to assess the Council's performance and progress in relation to its key priorities, statutory requirements and service delivery, and to signpost them to other relevant services and support.

Future Performance Framework Developments

The Council is committed to taking a continuous improvement approach to performance management and reporting. Performance development activities which the Council has planned to undertake in 2023/24 include:

- Service change plans- to strengthen reporting on change planning in scrutiny reporting as 3 year change plan rolls out;
- Leadership Summits- to undertake the second round of Leadership Summits to review performance against the 3-year Plan4Fife and shape the priorities and targets for 2024-27;
- Process improvement- to develop local performance information to inform and increase Area Committees influence over service and programme delivery; and
- Benchmarking- to undertake earlier discussions on escalation of performance issues informed by LGBF 22/23 return rather than waiting on publication of LGBF data for all Councils next year.

Statutory Performance Information

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 audit responsibilities. In turn, councils have their own responsibilities, under their best value duty, to report performance to the public. The Accounts Commission issued a revised Statutory Performance Information Direction (‘2021 Direction’) in December 2021, which applied for the first time in 2022/23. The 2021 Direction requires a council to report its:

1. performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes
2. own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments

Statutory Performance Indicator 1: Improving local services and local outcomes

The information reported on the Council’s performance page of its website, and in line with its revised performance framework, is the Council’s response to meeting the requirements of SPI1 following the pandemic and the impact that had on data collection, performance monitoring and reporting. This includes links to:

- Strategic documents and plans
- Plan4Fife performance reports
- Service annual performance reports
- Links to the LGBF on the Improvement Service website, Audit and Inspection reports, Best Value reports (as they relate to Fife Council and the wider sector)

On review of the information made available to the public on the Council’s performance we did note that the timing of publication of information could be improved:

Publication on Council website	Performance information based on / Observation
Plan4Fife: Annual Review of Priorities and Ambitions	The 2022 annual review of progress against ambitions was published in May 2023. The annual public performance report is being reinstated and will be published in November 2023.
Service annual performance reports	Current service performance reports are online and relate to the period 2021/22. The performance framework timetable requires annual reports to be available by the end of November each year. This timetable reflects the availability of

Publication on Council website	Performance information based on / Observation
	data and the summer recess through which Scrutiny Committees do not meet. In year performance monitoring and reporting is developing through quarterly service performance tracking and reporting against the recovery and reform priorities however much of this is for internal use. Further consideration should be given to the timetable and approach to make performance information available closer to the period that it refers to.
LGBF	The decision to reinstate the annual LGBF report was taken in May 2023 and will be implemented from 2024 onwards. LGBF benchmarking is also incorporated into Service Annual Performance Reports and the Council has a section on its website pointing to LGBF information online.

Recommendation 4

Statutory Performance Indicator 2: Demonstrating Best Value

Statutory Performance Indicator (SPI) 2 in the 2021 Direction is on demonstrating best value; including the Council's assessment of how it is performing against its duty of best value and how it responds to external assessments. On review of the performance information reported on the Council's website, we consider that performance reporting could be further aligned to demonstrate best value. This should include consideration of the following areas:

- The performance webpage includes information and reports on audit and inspection, best value and strategic plans and documents. However, there is currently scope to improve compliance with SPI 2 through publishing information on how the Council has responded to audit assessment and assessment from other scrutiny and inspection bodies of its performance against its Best Value duty.
- The service Annual Performance Reports is one of the main ways the Council provides updates to the public on how it is performing. It is not clear however how the Council has addressed the SPI 2 requirements regarding publishing an assessment of its performance against Best Value responsibilities. We recommend that performance is aligned to the 7 Best Value themes.

Recommendation 5

Climate Change

The Auditor General and Accounts Commission are developing a national programme of audit 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 2022/23 audits, external auditors were required to gather basic information on the arrangements for responding to climate change in each body through completion of a questionnaire.

Fife Council declared a climate emergency in 2019. The Climate Fife strategy sets out the local issues and how these will be addressed. One of the three key priorities within the Recovery and Renewal Plan is "Addressing the Climate Emergency". A new ambition was added as part of the Recovery and Renewal Plan 2021-24 declaring a council and partnership commitment to work towards lower carbon emissions in Fife, in line with national targets.

The targets and actions are set out in Climate Fife. Fife Council provides an annual Public Body Duties Report which is required in compliance with climate change duties established under S44 of the Climate Change (Scotland) Act 2009 and in accordance with subsequent orders.

Best Value

Our work in 2022/23 considered the following areas:

- Best value assurance report follow up and implementation of a risk based approach based on consideration of the themes of best value;
- Service improvement and reporting;
- Thematic reviews.

Overall based on the work performed we have concluded that pace and depth of improvement in the performance of the Council in meeting its best value duties is adequate but further work is required by the Council to produce timely performance information which demonstrates service improvement.

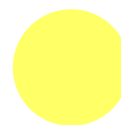
Best Value Assurance Report follow-up

A Best Value review was undertaken on Fife Council in 2018. The Best Value Assurance Report (BVAR) includes recommendations to help the Council address the improvement areas identified during the audit. We have considered progress made by the Council in implementing the recommendations made in the BVAR, as set out in the table below.

The outstanding recommendations have been integrated into “business as usual” monitoring through the Recovery and Renewal Leadership Board, Change Boards, service improvement planning and performance reporting to relevant scrutiny committees.

How well is the council performing?

Overall auditor judgement:



Action	Status	Audit observation
<p><i>The Council should develop a range of delivery plans to support the identified actions and wider ambitions outlined in the Plan4Fife. These actions should be measurable with clear deadlines</i></p>	<p>Ongoing</p>	<p>Four strategic boards oversee the progress against the ambitions: Leading Economic Recovery, Tackling Poverty and Preventing Crisis, Addressing Climate Emergency and Community Wealth Building. Delivery Board plans are in place covering all of the Plan4Fife recovery and renewal priorities and ambitions. These are in the process of being revised and updated.</p> <p>Delivery plan actions are being progressed and monitored by the Plan4Fife Delivery Boards and the relevant strategic partnerships. Delivery Boards report to the Fife Partnership Board and Recovery and Reform Leadership Group. Progress reports on delivery priorities on climate, poverty, economy and community wealth building have been considered by Cabinet over the course of 2022/23.</p> <p>As part of the Plan4Fife refresh in 2024, the Council is looking to align the 10 year Plan4Fife and 3 year Recovery Plan4Fife and how this will impact on the current Delivery Board plans. This work will be informed by the Internal Audit Review of Plan4Fife governance in January 2024.</p>

How well is the council performing?

Overall auditor judgement:



Action	Status	Audit observation
<p><i>The Council should extend its improvement methodology on raising educational attainment in deciles 1-3 to a broader range of young people</i></p>	<p>Complete</p>	<p>During 2022/23, a Risk Prediction Tool was developed that provides: (i) tracking and monitoring data about the risks facing individual learners arising from varied barriers to learning; (ii) improved benchmarking information for cohorts of learners. This is being piloted with schools during 2023/24 as a basis to better inform and support school improvement activity.</p> <p>Data currently available (local data for Fife only) for 2022/23 school year shows a continuing recovery from the Covid pandemic. Data for the most recent cohort of school leavers (2021/22 leavers) shows a significant improvement in initial and sustained destinations and a closing of the gap with national outcomes.</p> <p>The Education Service has finalised its improvement plan for 2023-26. This sets out actions to further develop the work noted above and further improvement actions, to ensure improved educational outcomes and a closing of the attainment gap for those facing barriers to learning.</p> <p>We are satisfied that the Council has a sufficient and appropriate improvement methodology on raising educational attainment through the Education Service improvement plan and performance reporting.</p>

Is the council working well with its partners?

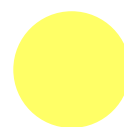
Overall auditor judgement:



Action	Status	Audit observation
<p><i>The Council should work with Fife Health and Social Care Partnership and NHS Fife to accelerate the redesign of adult health and social care services and mitigate medium-term financial pressures.</i></p>	<p>Ongoing</p>	<p>The Partnership’s new Strategic Plan 2023 – 2026 was approved by Fife Integration Joint Board in January 2023, along with an Annual Delivery Plan which will ensure that key strategic priorities are monitored and reported to relevant committees. There is also a Transformation Plan and the PMO (Programme Management Office) who report on agreed priorities, including savings proposals. Work is underway to consider the next stage of the review of the Partnership’s workforce structure with a dedicated plan for a test of change in the Levenmouth area. The Partnership is considering a locality-based model and a staffing structure to accommodate this, and the evidence from the pilot will inform a “blue print” for the future re-design of health and social care services.</p> <p>All Fife partners have a role in redesigning adult services, including internal services such as Business Technology Solution, and Housing Services, and external partners in the third and independent sector. The Partnership’s Medium Term Financial Strategy provides a framework for future work, which will rely on appropriate support from both Fife Council and NHS Fife.</p>

Is the council demonstrating continuous improvement?

Overall auditor judgement:



Action	Status	Audit observation
<p><i>The Council's new programme board should ensure alignment between the aims of the Plan4Fife and service change plans. It should develop a focus on outcomes rather than being led by budget-changes</i></p>	<p>Ongoing</p>	<p>The development and implementation of Fife Council's change plans were re-introduced during 2022/23 with a shift of focus to a three-year planning horizon. Fife Council has acknowledged that the change in approach is to ensure change programme initiatives move away from 'salami slicing' and focus on service redesign and transformation in line with the Plan4Fife priorities, the Medium-Term Financial Strategy and workforce plans.</p> <p>Service change planning is developing in three phases with phase one completed and phase two underway. The output from phase three, in the form of consideration of proposals for organisational and structural change required to respond to the challenges and opportunities identified in phase one and the outline propositions coming through phase two, is expected to be considered by the Cabinet Committee in November 2023.</p>

Service improvement and reporting

On review of the information made available to the public on the Council's performance at the time of the audit we did note that the timing of publication of information could be improved. On this basis, we have not reported a summary of service performance in this section of the report.

The Council has committed during 2023/24 to build on the performance management improvements made and expand public performance reporting. Ongoing work includes consideration of the frequency of in year performance reporting with more real time data, the role of partnership and delivery boards in monitoring the performance of Plan4Fife indicators and reviewing the effectiveness of Plan4Fife performance indicators.

The Council has published performance information in line with its performance framework including Plan4Fife Ambitions Reporting and annual Service Performance Report.

Plan4Fife Ambitions Reporting

The first review of priorities and ambitions, the mid-point of the 3 yearly assessment, was presented to the Fife Partnership Board in May 2023 and is available on the Council's performance webpage. The report, based on October 2022 information, highlighted mixed performance in the delivery of the Plan4Fife ambitions with progress being made which is being offset against the significant challenges which Fife faces, particularly around economic recovery. The annual public performance report is being reinstated and will be published in November 2023.

Local Government Benchmarking Framework

The decision to reinstate the annual LGBF report was taken in May 2023 and will be implemented from 2024 onwards. LGBF benchmarking is also incorporated into Service Annual Performance Reports and the Council has a section on its website pointing to LGBF information online.

An annual LGBF report (2021/22³) was reported to the Council Executive Team (CET) in May 2023. This however was not made publicly available on the Council's performance webpage.

Service Reporting

Current service performance reports are online and relate to the period 2021/22. The performance framework timetable requires annual reports to be available by the end of November each year. This timetable reflects the availability of data and the summer recess through which Scrutiny Committees do not meet. In year performance monitoring and reporting is developing through quarterly service performance tracking and reporting against the recovery and reform priorities

³ LGBF information is published a year after the relevant financial year.

however much of this is for internal use. Further consideration should be given to the timetable and approach to make performance information available closer to the period that it refers to.

Thematic review: Leadership of the development of new local strategic priorities

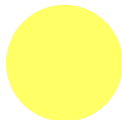

We reported our findings in a separate report to the Council in September 2023. Our overall conclusion is set out below.


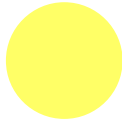
Overall Conclusion


We are satisfied that the Council has appropriate arrangements in place to demonstrate Best Value under each reported area of the 2022/23 thematic review. However, our gradings reflect the point of time of our reporting and how this aligns to the development of several of the Council's key arrangements to demonstrate best value⁴. We will continue to monitor the progress that the Council makes on the development and implementation of its ongoing developments. In particular progress against:

- Review of the Council's organisational structure to ensure it is fit for purpose to deliver the key priorities and ambitions as set out in the Plan4Fife.
- Plan4Fife refresh 2024.
- Development of 3 year change plans which support the wider ambitions outlined in the Plan4Fife.
- Review of areas where the Council's decentralised structure could be expanded.
- Development of a revised approach to elected members on-going professional development and training. This includes consideration of the identification and expansion of mandatory areas of training.

⁴ Our overall judgements have not considered the pace and depth of improvement as part of this review. The Council is currently going through a substantial period of change. We will consider the Council's progress in implementing its change programmes during the course of our appointment and will apply judgement as to the pace and depth of improvement as part of this work.

<p>How clear is the new council vision and its priorities?</p>	<p>Auditor judgement</p> <p>Risks exist to the achievement of operational objectives </p> <hr/> <p>The Council has established a clear vision and ambitions as set out in Plan4Fife; its first combined partnership and council plan.</p> <p>Despite changes in political arrangements following the local government elections in 2022 and the appointment of a new Chief Executive in July 2023, the Council has committed to the vision, priorities and ambitions as set out in the Plan4Fife.</p> <p>The Council and its partners are currently working towards the delivery of the plan for the next three years and preparations for the next ten year plan. During this period the Council will experience a significant amount of change.</p>
<p>How effectively have the views of citizens and communities been reflected in the priorities and decisions taken by the council?</p>	<p>Auditor judgement</p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>The Council’s methods for consulting and involving citizens are appropriate and effective.</p> <p>Community empowerment, wealth and wellbeing are reflected in the strategic priorities underpinning the Plan4Fife. To support these priorities, the Council is continuing to actively seek to design operating models and services that strengthen the community voice and bring decision making into the heart of communities.</p> <p>The Council gives citizens a greater say in budgeting through participatory budgeting and has developed a number of consultation and participation tools including a Local Development Plan, Place Plans and a Fife People’s Panel.</p> <p>The Council has embedded a culture of community engagement where engagement is a continuous process embedded within services instead of being used for specific consultation purposes only.</p>

<p>How effectively do the council priorities reflect the need to reduce inequalities and climate change?</p>	<p>Auditor judgement</p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>The Council’s priorities have a focus on the need to reduce inequalities.</p> <p>The Council declared a climate emergency in 2019. Addressing the climate emergency is a key priority within the Partnership’s Recovery and Renewal Plan 2021-24.</p>
<p>How good are the delivery plans and is there alignment of financial, workforce, asset and digital plans with the council’s priorities?</p>	<p>Auditor judgement</p> <p>Risks exist to the achievement of operational objectives </p> <hr/> <p>Work is ongoing to develop change plans which support the wider ambitions outlined in the Plan4Fife.</p> <p>Change plans were re-introduced by the Council during 2022/23 with a shift of focus to a three-year planning horizon to ensure initiatives move away from ‘salami slicing’ and focus on service redesign and transformation in line with the Plan4Fife priorities. Change programme proposals are in development and are expected to be presented to the Cabinet Committee in November 2023.</p> <p>As the change plans have not been fully developed, we will continue to monitor the Council’s implementation and delivery of these to fully assess the impact which they have on contributing towards transformation and redesign of the Council’s services.</p>

Overall, how effective has the leadership been (political and officer) in setting clear priorities and a sustainable approach to delivering them?	Auditor judgement Effective and appropriate arrangements are in place	
	The Council has in place an appropriate governance framework in place to support member / officer relationships. Member and officer working relationships are effective. The Council is experiencing a period of change at senior leadership level. Work is ongoing to review the organisational structure to ensure it is fit for purpose to deliver the Council's ambitions.	

Appendices



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Appendix 1: Responsibilities of the Council and the Auditor

Responsibilities of the Council

The Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Executive Director Finance and Corporate Services has been designated as that officer. The Executive Director Finance and Corporate Services is responsible for the preparation of the Council’s annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Area	The Council’s responsibilities
<p>Corporate governance</p>	<p>The Council is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<p>Financial statements and related reports</p>	<p>The Council has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of the financial position of the Council and its group and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. The management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of the Council. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the Council and its financial performance, including providing</p>

Area	The Council's responsibilities
	<p>adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Council is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Council is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The Council is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p>Financial position</p>	<p>The Council is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</p>	<p>The Council has a specific responsibility to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:</p>

Area	The Council's responsibilities
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- The quality of its performance of its functions
- The cost to the body of that performance
- The cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, the Council shall have regard to:

- Efficiency
- Effectiveness
- Economy
- The need to meet the equal opportunity requirements.

The Council should discharge its duties in a way which contributes to the achievement of sustainable development.

In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.

The Scottish Government's Statutory Guidance on Best Value (2020) requires bodies to demonstrate that they are delivering Best Value in respect of seven themes:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality.

The Community Empowerment (Scotland) Act 2015 is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services.

Area	The Council's responsibilities
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Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Council and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

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 broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance



Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes



Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Council's best value arrangements is integrated into our audit approach, including our work on the wider scope areas as set out in this report.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223>

Independence

The Ethical Standards and ISA (UK) 260 require us to give the Council full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we do not have any matters to not in that regard.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been

properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Our period of total uninterrupted appointment as at the end of 31 March 2023 was one year.

Audit and non-audit services

The total fees charged to the Council for the provision of services in 2022/23 were as follows. Prior year charges for the predecessor auditor are also shown for comparative purposes:

	2022/23	2021/22
Auditor remuneration	£392,180	£313,380
Pooled costs	-	£32,400
Contribution to PABV costs	£123,150	£185,250
Audit support costs	£13,540	£16,590
Sectoral cap adjustment	£119,620	-
Total Council audit fee	£648,490	£547,620
Audit of the Fife Council Charitable Trusts	12,000	7,000
Non-audit services	£5,000	2,500
Total fees	£665,490	£557,120

The FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. In 2022/23, we have provided grant certification work to the Council.

Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

To assist the Council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated as follows:

Rating	Assessment rationale
High	An issue that results in a severe impact to the achievement of objectives in the area audited.
Medium	An issue that results in a moderate impact to the achievement of objectives in the area audited.
Low	An issue that results in a small impact to the achievement of objectives in the area audited.

1. Asset valuation dates		High
Observation	<p>External valuers valued the Council’s full portfolio of council dwellings as at 31 March 2023. Internal valuers valued a proportion of all other asset classifications held at fair value (approximately 20% on a rolling basis) as at 1 April 2022, with an uplift being applied to all depreciated replacement cost (DRC) properties to reflect market movements as at 31 March 2023.</p> <p>A roundtable event was hosted by Audit Scotland in February 2023 which covered key issues in relation to the valuation of non-current assets in local government. One of the actions of the roundtable exercise was that the asset valuation date should be 31 March rather than 1 April.</p>	
Implication	<p>There is a risk that the carrying amount of assets in the balance sheet at the year-end differs materially from the current value at that date.</p>	
Recommendation	<p>We encourage the Council to review their valuation cycle dates, in line with the Audit Scotland roundtable recommended actions, to reduce the risk of the carrying amount of assets in the balance sheet at the year-end differing materially from the current value at that date.</p>	
Management response	<p>The Estates Team and Finance Team have been working in collaboration towards asset valuation date of 31 March. This will be implemented in line with the rolling programme of asset valuations and will start to be reflected in the financial statements from 2023-24.</p> <p>Responsible officer: Head of Property Services and Head of Finance</p> <p>Implementation date: 31 March 2024</p>	

2. Common Good Asset Register		Medium
Observation	<p>Our audit procedures highlighted a difference of £1.607million between the published common good register and the fixed asset register used to populate the accounts.</p> <p>On discussion with the finance team and management, movements in Common Good heritable properties in the year including assets transferred to Common Good and revaluation movements were not fully passed onto the team maintaining the published register which meant the common good register was not up to date at 31 March 2023.</p>	
Implication	<p>There is a risk that the common good accounts are misstated.</p>	
Recommendation	<p>We recommend that going forward, the Council regularly reconciles the published common good asset register to the fixed asset register used to populate the accounts to ensure the published register remains up to date.</p>	
Management response	<p>Agree with the recommendation and work will be advanced to review the requirements for publication and amend reconciliation procedures accordingly.</p> <p>Responsible officer: Finance Operations Manager</p> <p>Implementation date: 30 June 2024</p>	

3. Balanced Scorecard Templates		Low
<p>Observation</p>	<p>The Council developed separate guidance for Service Performance Reporting in September 2022 which supports the use of performance information including ambitions within the Plan4Fife and benchmarking data, such as the Local Government Benchmarking Framework (LGBF) in the form of a standardised service Balanced Scorecard template.</p> <p>From review of the Balanced Scorecard templates, we noted that further improvements could be made to the format of the templates to highlight trends in performance. The Council uses RAG ratings when reporting on LGBF and Plan4Fife outcomes. This approach could be extended.</p>	
<p>Implication</p>	<p>If trends detailed in performance reports are not clear and understandable then there is a risk that the information is used incorrectly which could impact on the quality of decision making.</p>	
<p>Recommendation</p>	<p>We would encourage the Council to further develop the structure of the template to include ‘RAG’ ratings for each performance indicator to clarify trends performance compared to previous periods.</p>	
<p>Management response</p>	<p>Agreed, trend data is presented for the current and last 3 years with targets and comparisons presented where applicable and a RAG status would add further clarity.</p> <p>Responsible officer: Head of Policy and Communications</p> <p>Implementation date: From November 2023</p>	

4. Statutory Performance Indicator 1: Improving local services and local outcomes **Medium**

Observation

The Council meets the requirements of SPI1 through the delivery of information online through the Council’s performance page on the website fife.gov.uk and associated news content promoted throughout the year. However, it is noted the performance post-pandemic reset plan implemented in October 2022 is still rolling out and that further improvements to public performance information arrangements are required and underway including the reinstatement of the annual public performance and local government benchmarking reports.

On review of the information made available to the public on the Council’s performance, at the time of the audit, we did note that the timing of publication of information could be improved.

Implication

There is a risk that the Council does not fully comply with the Statutory Direction.

Recommendation

The Council should consider the timing of public performance information again and ensure timely reporting as close to the period under review as possible.

4. Statutory Performance Indicator 1: Improving local services and local outcomes **Medium**

Management response

Current public performance information timetable is dictated by the availability of data, financial information and public scrutiny through formal committees. The most current annual information is available online as soon as that process concludes. Earlier publication could limit the completeness of the reports or compromise the validity of conclusions. In addition, quarter one information is included in the autumn annual reports for the preceding year where data is available. This ensures reports are as up to date as possible.

However, further improvements to the performance management process are planned for 2024/25 and the public performance approach and timetable will be reviewed as part of that. Any opportunities to bring forward annual reporting will be implemented, and further consideration will be given to expanding our in year reporting options online.

Responsible officer: Head of Policy and Communications

Implementation date: November 2024

5. Statutory Performance Indicator 2: Demonstrating Best Value	Medium
<p>Observation</p>	<p>On review of the performance information reported on the Council’s website, we consider that the performance report could be further developed to fully demonstrate compliance with the 2021 Direction as it relates to demonstrating best value. This should include consideration of the following areas:</p> <p>The performance webpage includes information and reports on audit and inspection, best value and strategic plans and documents. However, there is currently scope to improve compliance with SPI 2 through publishing information on how the Council has responded to audit assessment and assessment from other scrutiny and inspection bodies of its performance against its Best Value duty.</p> <p>The service Annual Performance Reports is one of the main ways the Council provides updates to the public on how it is performing. It is not clear however how the Council has addressed the SPI 2 requirements regarding publishing an assessment of its performance against Best Value responsibilities. We recommend that performance is aligned to the 7 Best Value themes.</p>
<p>Implication</p>	<p>There is a risk that the Council does not fully comply with the Statutory Direction.</p>
<p>Recommendation</p>	<p>The Council should consider the observations noted above and further develop its response to compliance with SPI2: Demonstrating Best Value.</p>
<p>Management response</p>	<p>Agreed, this is the first year of reporting under the new best value arrangements and there are improvements to be made. Where services have been subject to audit and inspection, updates can be provided to help residents see how the recommendations made have been implemented and improvements made.</p> <p>Responsible officer: Head of Policy and Communications</p> <p>Implementation date: September 2024</p>

Appendix 3: Follow up of prior year recommendations

We have followed up on the progress the Council has made in implementing the recommendations raised by the previous auditor last year.

1. Methodology applied to year end valuations of land and buildings	
Recommendation	<p>The Council should review identified aspects of its fair value assessment of Non Current Assets at the year end.</p> <p>Although a five-year rolling revaluation programme is permitted per the Code of Audit Practice, significant movements in intervening years may suggest that revaluing each class of assets once every five years is not sufficient and this should be reconsidered, particularly as inflationary pressures are having a significant impact on tender and rebuild prices.</p>
Implementation date	N/A
Complete	N/A

2. Transfers and valuation of Assets Under Construction to operational land and buildings	
Recommendation	<p>Management review of assets under construction and of completed asset transfers should be improved.</p>
Implementation date	30 June 2023
Ongoing	<p>Procedures need further refinement which will be actioned for 2023-24 year end process.</p>

3. Bank reconciliations of the main General Fund account	
Recommendation	The Council needs to implement a sound system of internal control over the Adelante Smart Pay system and prepare frequent and timely reconciliations.
Implementation date	30 September 2023
Ongoing	Development work has continued with the software supplier and automatic matching continues to be enhanced.

4. Cashflow information provided to the actuary	
Recommendation	Management should review figures submitted to the actuary for accuracy and completeness.
Implementation date	31 March 2023
Complete	N/A

5. Dormant charities	
Recommendation	Trustees should consider reorganising the charities through merging or winding them up, particularly when they appear to be failing to meet their charitable aims (e.g. by not disbursing funds).
Implementation date	31 December 2023
Ongoing	A review of the Charitable Trusts has commenced to identify those Trusts which could be merged or wound up. Given the charity law requirements and engagement this is anticipated to run over the next 12- 24 months.

6. Charities – Key Controls	
Recommendation	Trustees should make arrangements to perform sample checks each year to ensure that monies have been appropriately granted and have been used for the purposes intended.
Implementation date	31 March 2023
Ongoing	Sample checks have been carried out in the Levenmouth area with recipients of funds, to confirm these have been used for the purposes intended. This approach will now be rolled out to other areas.

7. Completeness of payments recorded in the ledger and Fife Council Charitable Trust accounts	
Recommendation	A central record of applications should be maintained and reconciled to the ledger on an annual basis to provide assurance over the completeness of payments recorded in the ledger
Implementation date	31 March 2023
Ongoing	<p>All Charitable Trust applications now come through the <u>Fife Grants</u> page and would be stored in compliance with the document retention requirements. These records can therefore be used for reconciliation purposes.</p> <p>A reconciliation process still needs to be put in place and discussions will start on that asap.</p> <p>All approved applications are held by the 7 area administrators – we will collate these into a single point at the financial year end.</p>



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