

Fife Council

Annual report on the 2012/13 audit



Prepared for Members of Fife Council and the Controller of Audit
October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

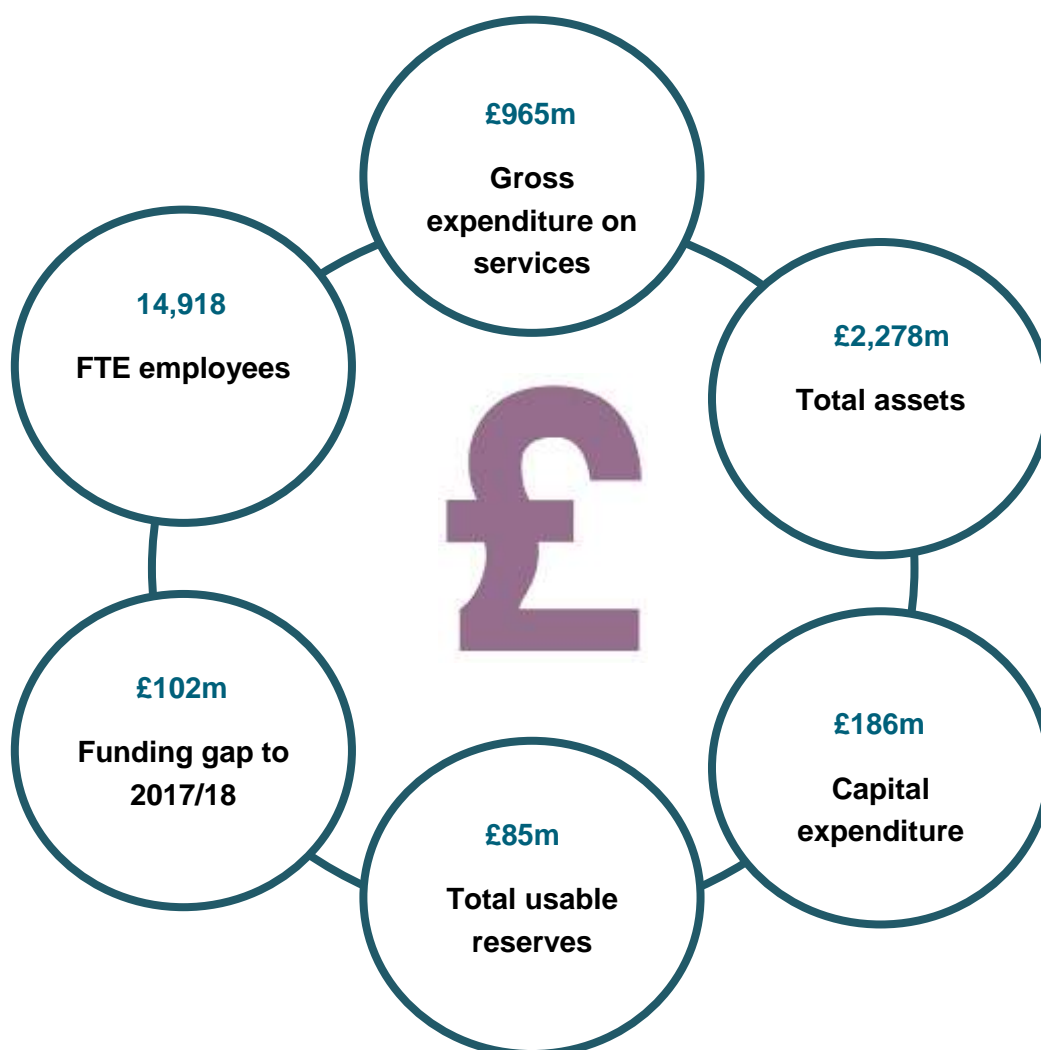
Key messages	4
2012/13 audit findings	4
Outlook.....	5
Acknowledgements	6
Introduction	7
Financial statements	8
Audit opinion	8
Accounting issues	9
Outlook.....	12
Financial position	13
Financial results	13
Capital investment and performance 2012/13	16
Treasury management	18
Financial planning to support priority setting and cost reductions	18
Outlook.....	20
Governance and accountability	22
Corporate governance.....	22
Prevention and detection of fraud and irregularities.....	26
Standards of conduct and arrangements for the prevention and detection of corruption..	27
Welfare Reform	27
Outlook.....	27
Best Value, use of resources and performance	29
Management arrangements	29
Overview of performance in 2012/13.....	31
Scotland's Public Finances: Addressing the Challenges - follow up.....	32
National performance reporting	33
Assurance and improvement plan update 2013-16.....	34
Outlook.....	34
Appendix A: audit reports	35
Appendix B: action plan	36

Key messages

2012/13 audit findings

This report summarises the findings from our 2012/13 audit of Fife Council (the council). As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance. This report sets out our key findings.

We have given an unqualified opinion on the financial statements of the council and its group for 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date.



Financial position

The financial position is more favourable than was anticipated when the original 2012/13 budget was set. The Foreword by the Executive Director Finance and Resources reports a general fund surplus for the year of £17 million and an overall underspend of £7 million against budget. The surplus for the year has increased the general fund balance to £79.5 million as at 31 March 2013.

The general fund balance includes earmarked commitments of £32.7 million, including £15 million set aside for reforming Fife's public services which aims to fund exceptional redundancy costs and one-off costs arising from major change initiatives. The remaining unallocated general fund balance of £46.8 million (6% of annual budgeted net expenditure) exceeds the target range of 2% of the annual budgeted net expenditure as set out in the council's reserve strategy. The Executive Director Finance and Resources highlights the continuing demands that will be placed on balances given the potential costs of workforce change, equal pay financial uncertainties and other pressures.

Governance arrangements

Overall the council's governance arrangements in 2012/13 were soundly based. No material weaknesses were identified in the accounting and internal control systems during our audit, although we agreed some areas for improvement with management.

New decision making structures were approved by the Council in 2012/13 and these have recently been reviewed to consider their effectiveness. Further changes are to be made to the structures as a result of the review.

Best value and performance

The council has begun the re-introduction of its self evaluation tool, the Fife Excellence Model (FEM), with the roll out launched in May 2013. A corporate self assessment and Improvement Programme will begin in November 2013 and will provide a key input into the Corporate Improvement Programme for 2014-17.

The council is refining its service planning and performance processes to provide improved alignment with corporate priorities. Covalent is being updated to reflect the new Council Plan outcomes and to incorporate benchmarking information. The Council Management Team has also directed that an action plan be produced to achieve improvements in its public performance reporting arrangements.

Outlook

Scotland's public bodies will continue to face increasing demand and cost pressures for their services in the foreseeable future. The council is faced with a significant funding gap forecast at £102 million over the next four years and as with other councils, will have to review its future priorities and make difficult decisions on service provision just to balance the budgets in future years. For longer term financial sustainability the council will have to identify recurring

savings rather than rely on short term fixes such as using reserves to bridge gaps. This position continues to create uncertainty over the council's ability to maintain service levels and deliver outcome targets, however the council shows an understanding of the financial challenges it faces and is effectively planning to minimise the risks. Senior officers and members also demonstrate ownership of financial plans which they scrutinise before approval.

In addition, the public reform agenda is gathering pace, including the introduction of the Welfare Reform Act which is resulting in the biggest changes in the UK welfare system in 60 years. The council have been proactive in informing the local population of the changes to the welfare system and providing advice. However, management have advised us that arrears levels are expected to increase as a result of welfare reform.

Acknowledgements

The co-operation and assistance given to us by officers during the audit is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Fife Council (the council). The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Standards and Audit Committee as soon as possible after the formal completion of the audit of the financial statements. Audit is an essential element of accountability and the process of public reporting. Reports should be available to the other stakeholders and the public, where appropriate.
5. This report will be published on our website after consideration by the Council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the corporate governance statement and the remuneration report. Auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the 2012/13 financial statements give a true and fair view of the state of affairs of the council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Executive Director Finance and Resources has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit to be brought to members' attention.

Going concern and group accounts

12. The council has prepared the financial statements on the assumption that both the council and its group can continue to operate as a going concern in future.
13. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations. For the purpose of consolidation and incorporation within the group accounts the council has included five trust companies as associates (Fife Sports and Leisure, Arts and Theatres, Fife Coast and Countryside, Fife Golf and Fife Cultural) and the Common Good Fund and Charitable and Trust Funds.
14. The overall effect of inclusion of all of the council's associates, the Common Good Fund and Charitable and Trusts Funds on the group balance sheet is to increase both reserves and net

assets by £12 million. The group balance sheet as at 31 March 2013 discloses an excess of liabilities over assets of £241 million (2011/12 £535 million) due to the accrual of pension liabilities in accordance with International Accounting Standards.

15. For a number of years the group financial statements have reported a net liability due to the impact of accounting for Police and Fire Pensions. The council has given consideration to this and deem it appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding policy of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, the funding policy seeks to ensure that these are met over the long term.
16. Police and Fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013 from which point the pension liability is removed from the council's balance sheet.

Corporate Governance Statement

17. As part of our annual audit we review the disclosures made in the Corporate Governance Statement included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement.
18. We are satisfied that the disclosures in the Corporate Governance Statement are in line with the guidance contained in the CIPFA publication *Delivering Good Governance in Local Government*. Also, we are satisfied with the adequacy of the process put in place to obtain the necessary assurances for the Corporate Governance Statement.

Remuneration report

19. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

Accounting issues

20. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). Overall we are satisfied that the council prepared the 2012/13 financial statements in accordance with the 2012/13 Code.

Accounts submission

21. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. The working papers provided were of a good standard and council staff provided support to the audit team during our fieldwork.

Presentational and monetary adjustments to the unaudited accounts

22. A number of presentational and monetary items were identified for adjustment during the course of our audit. These were discussed with senior finance officers who amended the financial statements.
23. A number of unadjusted errors were also identified. As is normal practice these errors were reported to the Executive Director Finance and Resources and included within our ISA 260 Report submitted to the Standards and Audit Committee on 26 September 2013. These unadjusted errors net to zero and as a result have no impact on the general fund balance or the net liability.

Pension costs

24. Fife Council is a member of the Fife Council Pension Fund which is a multi-employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet.
25. The valuation as at 31 March 2013 provided by the scheme's actuaries increased the council's share of the deficit from £1,291 million last year to £1,599 million this year. The £308 million increase is due to the low level of interest rates and the fall in the discount rate which is aligned to government bonds.
26. The scale of the movements in the council's pension liability over the last 5 years, arising from the annual valuation, can be seen in Exhibit 1 below:

Exhibit 1: Movement in pension liability 2008/09 - 2012/13

	2008/09	2009/10	2010/11	2011/12	2012/13
	£ million	£ million	£ million	£ million	£ million
Net pension liability	826	1,517	1,116	1,291	1,559

Source: Fife Council audited financial statements

27. It is important to note however that this additional liability does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

Equal pay

28. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay and are dissatisfied with the council's proposed resolution or compensation can elect to have a case heard before an employment tribunal.

29. Similar to other local authorities, the council has received a number of claims for compensation and currently has a provision of £4.5 million included in its accounts to cover these costs. The ultimate cost to the council remains uncertain and it is likely that resolution of the issue may take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer.

Refer to Action Point No. 1

Asset de-commissioning costs - landfill site

30. The council currently owns two landfill sites at Ladybank and Lochhead. Authorities have an obligation to undertake restoration and aftercare work of landfill sites at the point where they commence depositing refuse in the site and therefore are expected to recognise a provision under 'International Accounting Standard 37 Provisions, contingent liabilities and contingent assets'. It is also appropriate for the council to capitalise the costs of restoration as an associated asset, and charge depreciation over the economic useful life of the asset.
31. Prior to 2012/13, the council had earmarked £1.5 million of its general fund balance, rather than recognise a provision and the associated expense. However, based on the estimated cost of aftercare provided by an independent consultant in February 2013, officers have increased the earmarked portion of the general fund balance to £3.2 million and agreed to reconsider whether a provision should be created during 2013/14. We have reported the absence of the provision and the capitalisation of the costs as unadjusted differences in our ISA 260 Report to Those Charged with Governance, however the net effect of the adjustments is nil. We do not consider the omission to be material to the accounts.

Refer to Action Point No. 2

Council house valuation

32. Prior to 2012/13, the council valued its housing stock based on existing use value - social housing (discounted cash flow approach). However, mandatory guidance issued by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) in October 2010 requires all councils to value their housing stock based on existing use value - social housing (beacon approach) at its next valuation and by 2015/16 at the latest.
33. The council revalued its council dwellings in 2012/13 under the revised basis and this resulted in a significant increase in valuation to £707 million, a revaluation increase of £549 million. We reviewed the accounting treatment of the increase and found it to be properly accounted for.

Related party transactions

34. The Code requires the council to disclose all significant related party transactions in a note to the financial statements. The council does not have a formal process in place to ensure that all transactions are adequately disclosed. It is good practice for the council to have a process in place to obtain formal assurances from both members and senior officers on related party transactions occurring during the year. This would support the officer responsible for

preparing the note and provide both the Executive Director Finance and Resources and the auditor with further assurance that the disclosures are complete.

Refer to Action Point No. 3

Whole of government accounts

35. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack to support its 2012/13 WGA return to the Scottish Government on 4 October 2013, after the deadline of 30 August 2013. We have been advised that technical issues with the WGA pack contributed to the delay. We received the completed WGA return from the Scottish Government on 8 October and it is currently being audited for submission of the audited return to the Scottish Government in due course.

Outlook

36. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. One of the proposals is for a committee whose remit includes audit or governance, to formally meet by 30 September to consider approval of the statement of accounts. Before approval, the relevant parts of the statements require to be signed and dated. We shall liaise with the council to agree a timetable for 2013/14.
37. From 2013/14, all registered charities where the local authority is the sole trustee will be required to be audited by independent auditors, due to the interaction of section 106 of the Local Government (Scotland) Act 1973 and the Charities Accounts (Scotland) Regulations 2006 as amended (the 2006 Regulations).
38. Fife Council currently has 78 charities which would fall to be separately audited. Councils that have not made any progress in reducing the number of registered charities using the reorganisation provisions of the charities legislation might want to consider doing so in order to reduce the number of separate audits required. Councils may also wish to consider whether they can use the connected charities provisions in the 2006 regulations to reduce the number of separate reports and accounts required to be submitted to the Office of the Scottish Charity Regulator (OSCR).

Refer to Action Point No. 4

Financial position

39. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
40. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
41. This section of our report summarises the financial position and outlook for the organisation.

Financial results

42. As recorded in the comprehensive income and expenditure statements, the council incurred net expenditure of £568.6 million on the provision of public services and had an accounting surplus of £294.8 million in 2012/13. However, this includes certain elements of income and expenditure, including the exceptional credit of £224 million on the revaluation of council houses, that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there was an increase in the general fund balance of £17 million.

Budgetary control

43. The Foreword by the Executive Director Finance and Resources reported a general fund revenue account surplus of £17 million in the year against a budgeted surplus of £10 million. This equates to an underspend of £7 million in the year, of which £1.4 million is service related with the remainder relating to centrally held budgets for legislative obligations, feasibility studies and unallocated items. The main reasons for the net service underspends are as follows:

Education Services (devolved school management): budget balances carried forward from 2011/12 and reduced employee costs due to shortages in supply teachers and teacher vacancies contributed to a net underspend of £3.6 million against budget

Finance and Resources: increased Housing and Council Tax Benefit subsidy of £1.7 million

Corporate Services: reduced employee costs through not filling posts in advance of early retirements and reduced supplies and services costs resulted in a £1.5 million underspend against budget

Police Services: Salary savings from delayering senior officer ranks, staff vacancies and reduced overtime, additional income for the provision of 'mutual' resources for the Olympic Games, combined with a £1 million budget carry forward contributed to an overall underspend of £2.3 million

Social Work Services: pressure due to increased activity in children's residential care, homecare and externally commissioned packages for adults and older people and delays in realising anticipated savings resulted in an overspend of £3.3 million. An overspend of £4.5 million had been projected at November 2012, following which a report was submitted to the Executive Committee in January 2013 setting out the reasons for the projected overspend and the management action identified to reduce the level. This was followed up with a further report to the Executive Committee in March 2013

Environment, Enterprise and Communities: An overspend of £3.7 million was primarily the result of unanticipated workforce change costs in the Asset and Facilities Management Service, Enterprise, Planning and Protective Services and Homelessness Service, together with increased homelessness voids and repairs and reduction in income.

Financial position

44. Exhibit 2 shows the balances in the council's funds at 31 March 2013 compared to the previous year. The council's funds at 31 March 2013 totalled £85 million, an increase of £18.1 million on the previous year.

Exhibit 2: Usable reserves

Description	31 March 2012	31 March 2013
	£ million	£ million
General Fund	62.5	79.5
Housing Revenue Account	1.6	1.9
Capital Receipts Reserve	1.1	0.4
Insurance Fund	1.7	3.2
Total Usable Reserves	66.9	85.0

Source: Fife Council audited financial statements

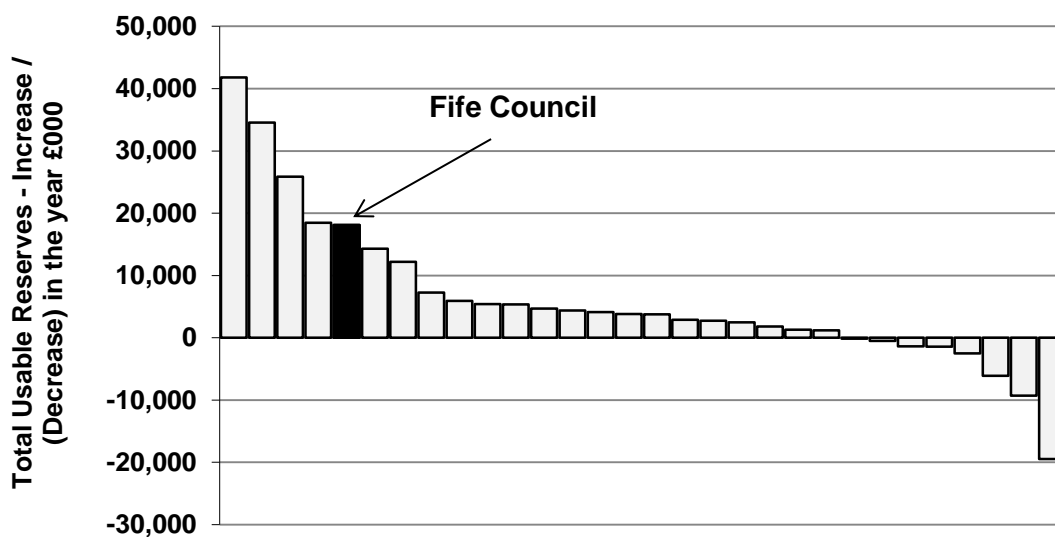
45. The general fund reported a net surplus for 2012/13 of £17 million, increasing the general fund balance to £79.5 million as at 31 March 2013. This balance includes earmarked commitments of £32.7 million leaving an unallocated general fund balance of £46.8 million (6% of the annual budgeted net expenditure). The unallocated balance exceeds the target range of 2% of the annual budgeted net expenditure as set out in the council's reserve strategy to meet unforeseen circumstances or risks. This is the second year in a row that the unallocated

balance exceeded the target range of 2% and there may be merit in re-assessing the council's reserves policy to reflect the difficult financial environment.

Refer to Action Point No. 5

46. The earmarked balances and commitments of £32.7 million is an increase of £17.8 million on the earmarked balances held as at 31 March 2012. The increase balances predominantly relate to new earmarked balances of £15 million for Reforming Fife's Public Services and £5 million for Fife Youth Job Contract. Amounts held under the budget carry forward scheme have reduced significantly from £6.1 million to £1.4 million.
47. The overall increase in total usable reserves in 2012/13 is consistent with the picture across the majority of Scottish local authorities, as demonstrated in Exhibit 3 below. The council's usable reserves have increased by £18.1 million (27.1% on the previous year), which is well above the median for all Scottish councils. This indicates a stable financial position going forward into 2013/14.

Exhibit 3: Movement in total usable reserves including earmarked, uncommitted and capital funds

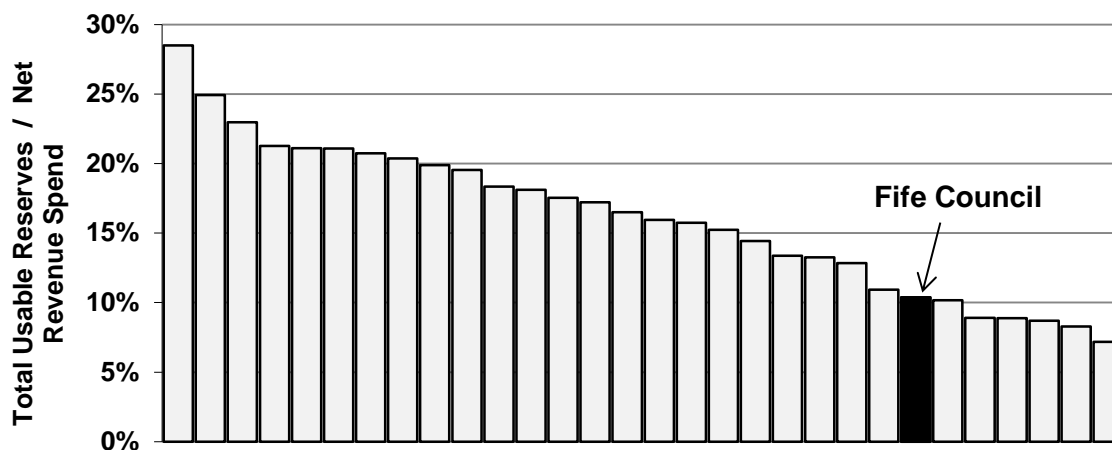


Source: Scottish councils' unaudited 2012/13 financial statements

48. Although the useable reserves have increased significantly in 2012/13, the Executive Director Finance and Resources continues to state in his foreword to the Annual Accounts, that balances remain under pressure given the potential costs of future workforce change, equal pay, financial uncertainties and other pressures. He also refers to the increased commitments on the general fund balance for the Reform of Fife's Public Services which will fund exceptional redundancy costs and one-off costs arising from major change initiatives.
49. The need for caution in the use of the council's reserve balances is supported by Exhibit 4 below which presents the council's usable reserves position in relation to net revenue spend

for the year in comparison to other Scottish councils. This highlights that the council has a lower ratio in comparison to the majority of Scottish councils.

Exhibit 4: Total usable reserves carried forward as a proportion of net revenue spend



Source: Scottish councils' unaudited 2012/13 financial statements

- 50. The council is continuing to follow a strategy of building up balances to provide a sustainable level in anticipation of reduced funding levels and increased financial risk and as at September 2013 was anticipating a projected net surplus of £4.2 million for 2013/14 to further bolster the general fund balance.

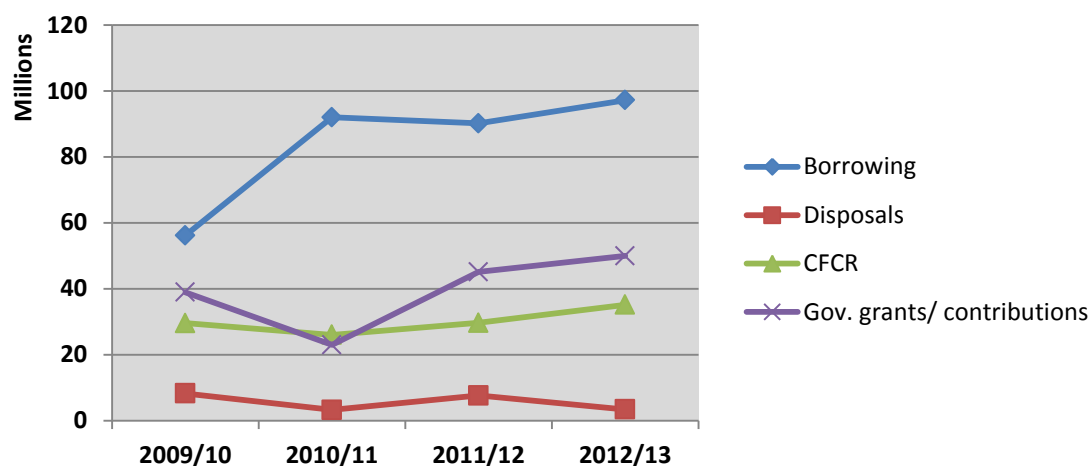
Capital investment and performance 2012/13

- 51. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions and aims to ensure that capital investment plans are prudent and sustainable. The Executive Director Finance and Resources reviews the capital financing requirement on an annual basis and reports to members on a series of prudential indicators outlined in the Prudential Code. The performance against these indicators is reported to members and to the public via the financial statements. This helps the council to plan its capital investment prudently and to demonstrate to the public that its capital plans are sustainable.
- 52. The initial estimated capital expenditure level approved by the Executive Committee in February 2012 was set at £223.7 million. Following a number of adjustments, including a re-profiling of the capital programme, the estimated 2012/13 capital expenditure was revised to £203.6 million. In 2012/13 the council spent £185.7 million on capital projects, with £55.8 million spent on the council's housing programme and the remaining £129.9 million spent on other general fund services. Significant items of capital expenditure included £26.2 million on new schools at Auchmuty High School and Dunfermline High School, £21.9 million on the

Michael Woods, Carnegie and Kirkcaldy Sports and Leisure Centres and £9.9 million on the construction of an Anaerobic Digestion Plan at Lochhead Landfill Site.

53. Set against the revised estimated capital expenditure of £203.6 million, this resulted in slippage of £17.9 million including £2.6 million for delays by the contractor in completing the Sports and Leisure Centres, £3.5 million programme management delays on high rise blocks at Broomhead and £1.1 million work on the Bankhead South Salt Facility. The slippage has been carried forward to 2013/14.
54. Despite this slippage, at £185.7 million, the council once again incurred its highest ever level of expenditure in 2012/13 (an increase of 8% over 2011/12), although capital investment levels are planned to fall from 2013/14 onwards.
55. Exhibit 5 shows the sources of finance for capital expenditure in 2012/13. The graphical presentation shows the downward trend in funding from disposals and an increase in funding from government grants and other contributions and capital financed from current revenue (CFCR). The council has also needed to increase its borrowing, albeit by less than planned due to slippage in some capital projects. The recent increases in government grant funding cannot be relied upon to continue as the Scottish Government faces the challenges of reductions in its own budget.

Exhibit 5: Sources of finance for capital expenditure 2009/10 - 2012/13



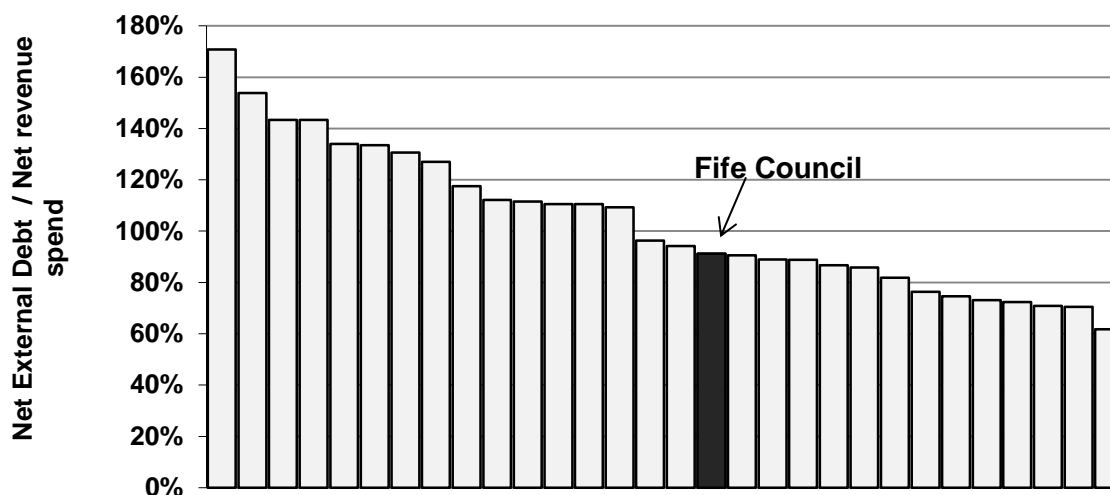
Source: Fife Council Annual Accounts 2009/10 to 2012/13

56. Looking forward the council has approved a ten year capital programme for 2013 to 2023 with £922.6 million of investment. The programme is front loaded with £704.2 million (76%) planned for the first five years. Major investments over the period include Scottish Housing Quality Standards (SHQS) works of £221.2 million, investment in affordable housing of £112.5 million, the purchase of vehicles and equipment at £40 million, provision of the new Madras College at £39.5 million and roads maintenance infrastructure works of £37.7 million.

Treasury management

57. The council's level of borrowing in 2012/13 has increased, however the council's net external debt as a proportion of net revenue spend remains lower than most other Scottish councils (refer exhibit 6). At 31 March 2013 the council had total borrowings of £677.3 million (2011/12 £635.7million), the majority of which is at fixed rate.

Exhibit 6: Net external debt as a proportion of net revenue spend



Source: Scottish councils' unaudited 2012/13 accounts

58. In the continuing period of economic instability interest rates on investments remain low resulting in the council receiving £0.8 million in investment income in the year (2011/12: £1 million). The situation is unlikely to change in the near future. Borrowing rates also remain low and have been relatively stable over the last three years. As a result interest paid over the period has remained relatively consistent with £36.5 million paid in 2012/13 (2011/12: £35.2 million).
59. In 2012/13, the council took out £59 million of new long term borrowing, of which £12 million was required to repay maturing loans. The council did not undertake any rescheduling of existing debt in 2012/13.

Financial planning to support priority setting and cost reductions

60. In the current economic environment, the council continues to face significant financial pressures. The council has reviewed its funding levels and has identified a funding gap of £7.4 million for 2014/15, rising to £25.3 million by 2015/16, £68.4 million by 2016/17 and £102.4 million by 2017/18. This position continues to create uncertainty over the council's ability to maintain service levels and deliver outcome targets, however the council shows an understanding of the financial challenges it faces and is effectively planning to minimise the risks.

61. Since 2010, the council has had a Corporate Improvement Plan (CIP) in place which aims to modernise services while delivering savings to contribute to the gap caused by the funding reductions. Key strands of the CIP include property rationalisation (supported by increased mobile and flexible working), customer management and service delivery changes. All of this is underpinned by a workforce reduction programme which aims to deliver significant savings to the council, while maintaining the staff skills to meet the modernised agenda.
62. A CIP progress update has recently been reported to the Environment, Finance & Corporate Services Scrutiny Group and notes that a number of the programmes within the Corporate Improvement Plan are entering their final year, with completion dates planned for March 2014. Any projects which are likely to follow on will be scoped and all projects will be assessed before the end of the year and closure or extension plans put in place.
63. Services have been asked to present further savings proposals to reduce the anticipated funding gap but in addition, targeted strategic reviews have been put in place to identify further savings through increased efficiencies within the council. Six strategic reviews have been identified covering a review of the school estate, transportation, shared support services, procurement, waste management (creation of an Arms Length External Organisation) and office rationalisation.
64. The savings from services and the strategic reviews are not anticipated be sufficient to fully bridge the funding gap and further savings will be required. The member/officer Budget Strategy Group are actively considering proposals for further savings.

Workforce reduction

65. The council remains committed to a programme of planned workforce reduction as part of a council-wide programme of improvements and efficiencies to mitigate the impact of projected budget reductions. The council is building up its reserves to help meet future workforce change costs.
66. The workforce change strategy relies partly on voluntary redundancies and early retirements, although every effort is made to mitigate this through vacancy management, employee turnover, natural retirements etc. The estimated workforce reduction over the period 2011 to 2015 has been re-assessed at 1,985 full time equivalent posts. Of these 1,240 employees had already left the council's employment up to 2011/12 with a further 230 employees leaving in 2012/13.
67. The number of approved applications represents a significant reduction on previous years. The decision to approve applications is likely to become tougher as the workforce shrinks and the potential impact on service delivery is amplified. The council needs to ensure that these decisions demonstrate value for money and must carefully consider the impact on service delivery.
68. During our 2011/12 annual audit report we noted that the workforce reductions were being managed at a service level and that there was scope for a more corporate approach to staff reductions. Work to understand the corporate implications for the workforce is underway as

part of the council's new approach to workforce planning. This work will supplement existing Service/ Directorate focussed activities and aims to provide a robust evidence base for developing future strategies to ensure the workforce is appropriately skilled and deployed to meet current and future priorities.

Outlook

2013/14 budget and beyond

69. The council is facing a funding gap of £102 million over the period to 2017 and needs to make efficiencies and costs savings to sustain its financial position in the longer-term. Many of the more readily achievable savings will have already been made and it will be a significant challenge for the council to identify recurring savings going forward. There are difficult decisions ahead.
70. The Audit Scotland report *Responding to challenges and change: An overview of local government in Scotland 2013 (March 2013)* highlights the pressures faced by councils in terms of resources and demands on services (see Exhibit 7 below). These pressures are not going to abate and this means that councils may have to make difficult decisions about prioritising services and allocating resources in order to balance their budgets.

Refer to Action Point No. 6

Asset decommissioning - open cast mines

71. Following insolvency proceedings raised against Scottish Coal Company Limited in April 2013, the council has become responsible for the restoration of open-cast mining sites at Westfield, St Ninians and Blair House. The council has a number of bonds and legal agreements in place to mitigate against the cost of the restoration and has concluded that there is no financial risk to the council. The council plans to monitor this risk going forward and we shall monitor this activity in 2013/14.

Exhibit 7: Demand and resource pressures on local government in Scotland



Source: *Responding to challenges and change: An overview of local government in Scotland 2013*

Governance and accountability

72. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
73. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance, including audit committees, in monitoring these arrangements.
74. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
75. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

76. In May 2012, Fife Council introduced a revised corporate governance framework focused on a Full Council supported by an Executive Committee, two scrutiny committees (the Education, Social and Communities Committee and the Environment, Finance and Corporate Services Committee) and 6 Policy Advisory Groups.
77. The Corporate Governance Statement contained in the 2012/13 financial statements highlights the new executive model of decision making and noted that a formal review of the structure would take place in the summer of 2013, based on engagement, devolution, scrutiny and best value criteria. All elected members and senior officers were invited to contribute to the review and the outcome of the review was reported to the Full Council in September 2013.
78. The review has identified a number of suggested improvements to the arrangements and actions being taken forward include the creation of a short-life working group to review how the Full Council operates, extending the membership of the Executive Committee, clearer separation of the executive and scrutiny functions and review of Policy Advisory Groups to provide a better focus on their policy development role.
79. The Standards and Audit Committee is also a key part of the council's governance framework. Its remit includes risk management, consideration of the adequacy of the council's control

environment, approval of the Internal Audit strategy and consideration of audit plans and reports. The composition of the committee is in line with best practice and members provide good levels of challenge on subject matters.

Internal control

80. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work is also informed by their assessment of risk and the activities of internal audit.
81. As part of our audit we reviewed the high level controls within the council's key financial systems. The findings from this work were reported to management in June 2013.
82. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Areas where key control improvements could be made have been discussed with management and have been included in an action plan.
83. A key element of our work on internal controls is the extent of reliance that we place on the work of internal audit in terms of International Standards on Auditing 610 (Considering the work of internal audit). The findings from our review of internal audit (Audit and Risk Management Services) were reported in our Annual Audit Plan in February 2013 and we concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.
84. The annual assurance report presented by the Audit and Risk Management Services Manager to the Standards and Audit Committee concluded that "a medium/high level of control exists and that reasonable assurance can be placed on the adequacy and effectiveness of the Council's systems of Corporate Governance and internal control system in the year to 31 March 2013".

Partnership working

85. The Scottish Government and COSLA reviewed community planning and Single Outcome Agreements in 2012 following which they published their 'Statement of Ambition'. It makes clear that significant changes to improve community planning are needed to respond to the challenges of reducing public finances while demand for services increases.
86. The Audit Scotland report *Improving community planning in Scotland (March 2013)* concluded that partnerships have not been able to show that they have had a significant impact on delivering improved outcomes across Scotland. It is too early to determine whether some of the initiatives being implemented in Fife will help deliver efficiencies to support the council's financial position.

87. Partnership working between Fife Council and NHS Fife has been in place for a number of years through the work of the Partnership Management Group and the Health and Social Care Partnership. In response to the Government's adult health and social care integration initiative, arrangements were put in place in 2012, including the introduction of a Joint Integration Programme Board underpinned by six work stream groups, with the intention of having appropriate structures in place to deliver on the initiative as soon as the legislation is in place. The partnership and members receive regular reports on progress on the ongoing work in Fife on Adult Health and Social Care Integration.
88. In April 2013, the joint Integration Programme Board made recommendations to the council's Executive Committee and the NHS Fife Board to establish a Shadow Health and Social Care Joint Board, to lead the change process through to the establishment of a statutory partnership once the new legislation is enacted (expected from April 2014).
89. New arrangements were put in place with Fife Council's Executive Director Social Work and Lead for Health appointed as the Interim Director of Health and Social Care Partnership in April 2013, reporting to the Chief Executives of both organisations. An indicative integrated budget totalling £291 million (£137 million from the board and £154 million from the council) has been identified. This indicative budget is a starting point and will be subject to further review as service integration evolves.
90. The stated focus of these new arrangements is to drive forward the adult health and social care integration agenda consistent with Scottish Government policy and to lead the development of new models of care to deliver improved outcomes and more efficient and effective services for the people of Fife. This is a very challenging agenda for public sector organisations.

Information and Communications Technology (ICT) Service Review follow up

91. In June 2011 the previous external auditors issued a report on their review of Information Technology (IT) Service and Support Management in Fife Council. The report included 40 recommendations for improvement.
92. Reviews of the progress against the recommendations were carried out by both Audit and Risk Management Services and ourselves as external auditors in 2011/12 and satisfactory progress was reported on both occasions.
93. Since then we have carried out a further review of progress up to August 2013 and found that all agreed actions are substantially complete. However, while recognising the progress that has been made we would emphasise that the actions taken will take some time to become embedded in the normal procedures of IT Services. It will be the responsibility of the ICT Governance Board and ICT management going forward, to monitor the progress the IT Service is making in delivering its strategic objectives and carrying out its operations.

Public Services Network

94. The council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. For example, the council shares benefits information with the Department of Works and Pensions, while Social Work and Education Services exchange information with the police, the Criminal Justice Partnership and Children's Hearings.
95. The Government Secure Intranet (GSI) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
96. From November 2012 all applicants had to apply to connect to PSN which means complying with the stricter PSN code of connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations.
97. The council's initial application was not successful and it continues to work with Cabinet Officer Assessors to progress the transition to PSN. As there is a risk of interruption to the existing data-sharing arrangements, we would anticipate that the council would wish to consider business continuity and the reversion to paper transfer for a period.

Refer to Action Point No. 7

ICT Partnership

98. The council has recognised that it faces a number of challenges in its ICT service provision. The main challenges are in developing new skills and delivering suitable solutions in a changing technology environment quickly and efficiently.
99. In December 2012 the council entered into a 4-year ICT and Change Partnership agreement with Capgemini. The aim of the Partnership is to ensure that the council has the right capability and capacity to meet the challenges it faces.
100. The Partnership identified five initial work streams: desktop transformation; support for the iTrent human resources processes; procurement benefits management; provision of an Enterprise Resource Planning (ERP) solution replacing some of the older legacy systems used for financial management; and support for the Shared Support Services Project.
101. We have been advised that details of the desired skills transfer have not yet been determined but will be discussed at the October Partnership board. In the first instance skills transfer will focus on those skills needed to support the ERP solution, which is due to go-live at the start of the 2014/15 financial year.
102. As the Partnership did not come into effect until the start of 2013, the costs incurred in the 2012/13 financial year have been restricted to start-up costs and initial expenditure on desktop transformation of £0.02 million. For 2013/14 however, the projected costs are £4.6 million of which the majority of costs relate to the implementation of the ERP solution. The cost/benefit

of the Partnership arrangements, including the success of the skills transfer, will need to be closely monitored.

Refer to Action Point No. 8

Prevention and detection of fraud and irregularities

103. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Fife Council has a range of measures in place to prevent and detect fraud, inappropriate conduct and corruption including an anti-fraud and corruption policy and response plan, a whistleblowing policy and codes of conduct for members and staff. Standing Orders and Financial Regulations are also in place, which assist in the prevention of fraud and irregularities.
104. The council's internal audit function has a formal programme of work which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.
105. Overall, we have concluded that the council's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

106. Fife Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. It allows public bodies to investigate matches and if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
107. NFI is co-ordinated by Audit and Risk Management Services, although services are responsible for the initial investigation of data matches. The most recent data matching exercise collected data from participants in October 2012 with matches identified in January 2013 for follow-up.
108. The current NFI data exercise identified 22,841 data matches for Fife Council. This was reduced to 2,909 by the application of recommended NFI filters. This amount was then disaggregated into high, medium and low quality matches. Good progress has been made in the investigation of these data matches with 1,935 matches investigated to date. Potential overpayments of £0.07 million have been identified as a result of 4 cases of suspected fraud and 21 errors.
109. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Standards of conduct and arrangements for the prevention and detection of corruption

- 110. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial regulations. Auditors consider whether bodies have adequate arrangements in place.
- 111. We have concluded that the arrangements for the prevention and detection of corruption in Fife Council are satisfactory.
- 112. The council has an Anti-Fraud and Corruption Policy which includes reference to all relevant policies and procedures aimed at preventing fraud and corruption. The council also has codes of conduct for both members and officers which cover a number of areas including gifts and hospitality, expenses and allowances, use of council resources and tendering.

Welfare Reform

- 113. The Welfare Reform Act 2012, as reported last year, represents the biggest reform of the UK welfare system for 60 years. Members receive regular reports on the potential impact of welfare reform on its communities and services. Some changes have already taken place since April 2013 particularly for those of working age.
- 114. The council has established a welfare reform chief officers group which is tasked with providing direction on the changes and impacts of welfare reform to the both the council and its customers and has employed an independent consultant to help prepare for the council's participation in local service support framework pilots (alongside the Department of Works and Pensions) to explore the framework for managing claims following the introduction of Universal Credit.
- 115. The council has introduced communication mechanisms for Welfare Reform which includes programmes of 'webchats', promotion posters leaflets with key messages and 'signposts' and a Welfare Reform Information helpline. The council has also set up a dedicated website portal which provides information on welfare reform to customers.

Outlook

- 116. Welfare reform will continue for the foreseeable future and from October 2013 the Universal Credit will start to be rolled-out nationally. Welfare reform is expected to lead to rising levels of arrears and potentially to a growing homelessness problem. This is also likely to increase the demand for social work services and put greater pressure on the council's resources. It is important therefore that the council continues to monitor the situation closely and develop efficient and effective strategies to address any emerging issues.
- 117. Rent arrears have been increasing in Fife. In 2012/13 arrears increased by 18% to £5.1 million (2011/12: £4.4 million). Revenue officers estimate that welfare reform could result in a further net increase in arrears of £0.5 million during 2013/14. Officers are actively exploring

ways of tackling the problem through prevention (awareness and education), intervention (support) and sanctions (using all appropriate recovery actions).

Best Value, use of resources and performance

118. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.
119. Additionally, auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
120. Furthermore, as part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
121. This section includes a commentary on the Best Value and performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports and the council's response to these.

Management arrangements

Best Value

122. The first Best Value report in 2009 noted that the council had many of the building blocks in place for achieving best value. Since then the council has implemented an improvement plan to address the findings included within the 2009 report. The nature and timing of any future Best Value audit work will be determined by the outcome of the shared risk assessment performed by the Local Area Network (LAN). At this point in time no Best Value audit work is proposed before 2015/16. However this will be subject to review by the LAN as part of the 2013/14 risk assessment.

Self Evaluation

123. In 2011/12 we noted that the council had agreed to reinstate the use of the Fife Excellence Model (FEM), a self evaluation mechanism based on the Improvement Service's Public

Service Improvement Framework. A less resource intensive method of self-assessments has now been developed and a rolling programme was launched in May 2013.

124. A Corporate Self Assessment and Improvement Programme was approved by the council's Corporate Improvement Board in August 2013 and a Corporate Self Assessment will begin in November 2013 which will provide a key input into the Corporate Improvement Programme for 2014–2017. This Corporate self-evaluation will take place at a strategic level and will allow the council to focus on key priorities and challenges.
125. Maturity models are also scheduled to be employed later in 2013 for key corporate functions including leadership, health and safety, carbon, information governance and service planning. These models will have a set of structured levels that describe the progress of services and provide a roadmap for continuous improvement. Maturity models will be owned by a lead officer who will facilitate their completion and provide challenge to services.

Performance management

126. The council is continuing to refine the service planning process to more closely align service plans to the Council Plan objectives and priorities and work is ongoing in this area.
127. The council uses Covalent software to manage its performance information. This is currently being updated to reflect the new Council Plan Outcomes and to incorporate changes to the performance indicators including the SOLACE benchmarking indicators which will form part of the Statutory Performance Indicators.
128. The council and its community planning partners have revised the SOA to reflect the joint Statement of Ambition issued by COSLA and the Scottish Government in 2012. The Scottish Government's Quality Assurance Team has provided the Partnership with constructive challenge and suggestions for improvement in the Community Plan and SOA and this is being incorporated in the Partnership's Improvement Plan. The SOA received Scottish Government approval in August 2013.
129. The Council Management Team has considered a report summarising the findings from Audit Scotland's review of how councils are fulfilling their public performance reporting duties. The Council Management Team has recognised that the council's arrangements could be strengthened and have directed that an action plan be produced to address the areas for improvement highlighted in the Audit Scotland report.
130. The council are in the process of developing an area of the external website which is dedicated to providing information on planning and performance management. When the site is fully developed. It will contain information on the council plan 2017, Fife Community Plan 2012-2020, statutory performance information, benchmarking and audits and inspections by scrutiny bodies.

Overview of performance in 2012/13

Fife Council performance measurement outcomes

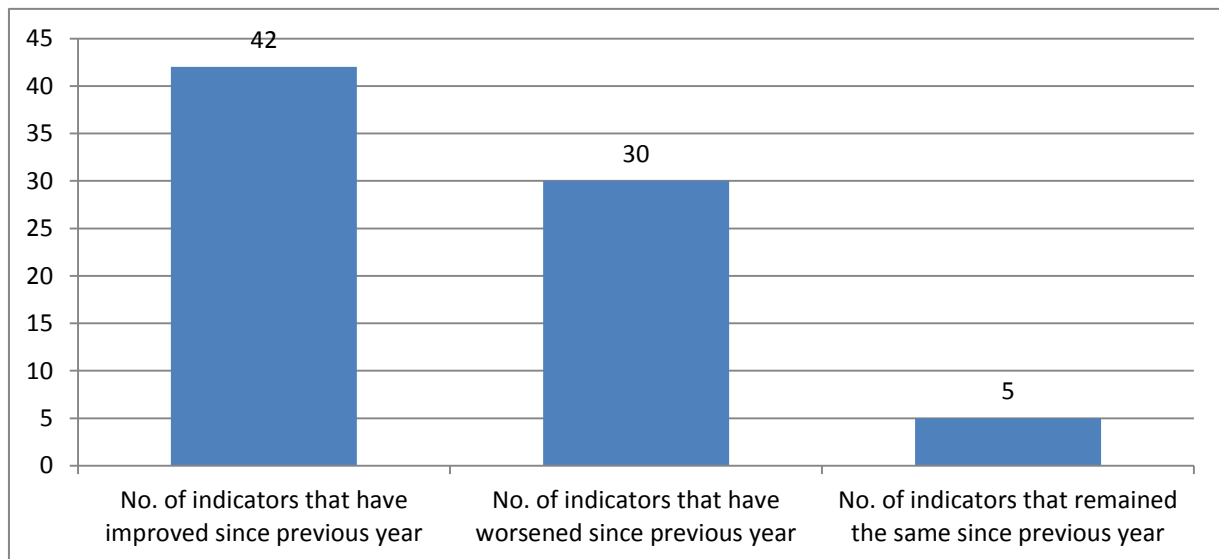
131. The SOA monitoring statement is in the process of being compiled for publication in November 2013. At this time we are unable to comment on progress against the SOA outcomes.

Statutory performance indicators

132. In 2012/13, a total of 25 statutory performance indicators (SPIs) were required to be published by the council. The council published the SPIs by the deadline of 30 September 2013 through the council's website. The SPIs were also reported to the Standards and Audit Committee on 15 August 2013.

133. The report to the Standards and Audit Committee broke down the 25 specified indicators into 108 multiple component parts. Of these the council has determined 31 to be not directly comparable or to reflect information on volume of cases rather than performance. Exhibit 8 compares the 2012/13 results against 2011/12 for the remaining 77 specified indicators.

Exhibit 8: Improvements demonstrated by SPIs



Source: Fife Council SPI Overview Report 2012/13

134. In comparison to 2011/12 improved performance was recorded for indicators including: percentage of public service buildings that are suitable for and accessible to disabled people; percentage of homecare clients receiving a service during evening/overnight; average time between receipt of complaint and attendance on site; and percentage of homeless who are housed into permanent accommodation.

135. Areas where performance was poorer than last year included: cost of collecting council tax per dwelling; number of visits to museums that were in person per 1,000 population; total number of homecare hours provided as a rate per 1,000 population aged 65 and over; and percentage

of current tenants owing more than 13 weeks rent excluding those owing less than £250. The reasons for the deterioration in these performance indicators are varied and not all within the control of the council.

136. Performance indicator information is also reported separately in respect of police and fire services, with performance in both services in 2012/13 showing a general improvement on 2011/12.
137. 2012/13 is the last year that these SPIs will be reported together in their existing format. From 2013/14, the council will be required to report on performance, demonstrating it is securing best value in relation to a range of corporate and service areas.
138. In addition, the council will be required to report its performance against the requirements of the SOLACE benchmark framework. 55 indicators have been selected for this framework, providing information on cost, performance and customer satisfaction for the major service areas of local authorities. These indicators are being incorporated into service scorecards at the council and will form part of the future performance reporting by services.

Scotland's Public Finances: Addressing the Challenges - follow up

139. In August 2011 Audit Scotland issued a report on Scotland's Public Finances: addressing the challenges. As part of our 2012/13 work, we carried out a targeted follow-up review of this report looking at the way that the council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability.
140. Our review highlighted a number of good practices including:
 - Early and active engagement with stakeholders and communities through the budget process on the options for change
 - The council's participation in the SOLACE benchmarking project aimed at identifying areas for driving up improvement, efficiency and productivity
 - Identifying and coordinating a series of strategic reviews of expenditure and continuing with a council-wide improvement programme
 - Members regularly scrutinise the council's financial position through budget monitoring reports and reserve strategy updates.
141. We also noted that from 2013/14, the council has begun to explore the use of priority based budgeting as a mechanism for strengthening the link between the financial plans and the priorities in the Council Plan. The council has set up a pilot in 2013/14 for priority based budgeting within the Social Work Service and the conclusions from this work will be reported to the Executive Committee in December 2013.
142. We have concluded from our work that the council continues to show a good understanding of the financial challenges it faces, and has been proactive in preparing financial plans to manage budget reductions. We have also concluded that senior officials and members demonstrate ownership of financial plans which they scrutinise before approval.

National performance reporting

143. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports of direct interest in 2012/13 are outlined in Exhibit 9 below.

Exhibit 9: A selection of National performance reports 2012/13

- | | |
|--|---|
| <ul style="list-style-type: none"> • Responding to challenge and change - An overview of local government in Scotland 2013 • Improving community planning in Scotland • Major capital investment in councils. | <ul style="list-style-type: none"> • Protecting consumers • Using cost information to improve performance - are you getting it right? • Health inequalities in Scotland • Reducing reoffending in Scotland. |
|--|---|

Source: www.audit-scotland.gov.uk

144. Audit Scotland encourages local authorities to review national reports, consider key findings and assess local performance against them to identify local improvement actions where appropriate. The national reports are often accompanied by a checklist that members and officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's national reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.

Major capital investment in councils

145. The national report *Major Capital Investments in Councils* was published in March 2013. The audit provided a comprehensive review of major capital investment within councils across Scotland. It focused on major capital projects over £5 million and assessed how well councils direct, manage and deliver capital investments.
146. Cases were highlighted in the report which referred to projects in Fife Council including:

Project delays compared to estimates

- Delay in the completion of Carnegie Sports Centre which took 11 months longer to complete than estimated in the contract award.

Projects in progress with increasing costs and delays

- Dunfermline Flood Prevention Scheme where the project had the largest percentage variance in cost of all the case studies compared to the initial estimate. Estimated costs had risen to £24.7 million against initial estimated cost of £9.8million.

147. To supplement the national report, Audit Scotland has published a good practice guide aimed at elected members to assist scrutiny and challenge. A good practice checklist is also available to support project managers in achieving improvements.

Assurance and improvement plan update 2013-16

148. The Local Area Network (LAN) of scrutiny partners for the council conducted a Shared Risk Assessment (SRA) and produced an Assurance and Improvement Plan (AIP) update covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the Standards and Audit Committee on 23 May 2013 for information and consideration by members.
149. Based on the results of the LAN's shared risk assessments no areas were identified where scrutiny was required. The AIP did identify four areas where further engagement with the council was required however - a follow up of *"Scotland's Public Finances - Addressing the Challenges"*, a review of workforce planning under *"Reshaping Scotland's Public Sector Workforce"*, a follow up Housing Benefits Performance Audit and a supported self evaluation on the impact on quality of the newly introduced national assessment and care planning instrument in local criminal justice social work services.
150. Progress in these areas is as follows:
- The follow up review of *"Scotland's Public Finances - Addressing the Challenges"* is complete and is covered at paragraphs 139 to 142 of this report
 - The work on *"Reshaping Scotland's Public Sector Workforce"* is currently in progress and is scheduled to be reported in November 2013
 - The follow up Housing Benefits Performance Audit is in progress and should also provide an indication of the impact of welfare reform on the processing and payment of benefits
 - the supported self evaluation of criminal justice social work services is scheduled for the latter part of 2013.

Outlook

151. A best value review of Fife Council is currently planned for 2015/16. This will be a proportionate and focussed audit and will take account of the improvement in some of the areas of uncertainty over the years. No additional scrutiny activity has been identified for Fife Council in the period to 2015/16 but this will be re-assessed, along with the requirements of the best value audit, in the 2013/14 SRA. Any changes to the scrutiny programme will be reported in the 2015-17 AIP.
152. In 2011, the Accounts Commission developed an audit approach for the audit of Community Planning Partnerships. Following initial pilot studies in the autumn of 2012 the approach is being rolled out across the sector. Fife Council has not been selected as one of the sites for the second round of Community Planning Partnership (CPP) audits but will be included for review at a later date.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	20 February 2013	28 February 2013
Assurance and Improvement Plan	4 April 2013	23 May 2013
Internal controls management letter	31 July 2013	15 August 2013
ICT services review	18 October 2013*	7 November 2013*
Report on financial statements to those charged with governance (ISA260)	19 September 2013	26 September 2013
Audit opinion on the 2012/13 financial statements	30 September 2013	26 September 2013 (draft)
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	26 October 2013*	N/A
Report to Members on the 2012/13 audit	18 October 2013*	26 October 2013*

* Planned date for submission

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	29	<p>Equal pay</p> <p>Fife Council has received a significant number of claims for compensation and the ultimate cost to the council remains uncertain.</p> <p>Risk: the liabilities may have an adverse impact on the council's financial position.</p>	<p>Claims against the council will continue to be assessed in light of the tribunal case management process to assess any shift in risk/liability. The council will continue to assess the risk and potential cost of such claims and report any changes to the Chief Executive and members before any officer action.</p>	Head of Human Resources	Ongoing
2	31	<p>Asset decommissioning - landfill sites</p> <p>The council owns two landfill sites for which it is required to make provision for their restoration and aftercare. The council has not made a provision in the accounts for these costs, nor has it capitalised the associated asset.</p> <p>Risk: the treatment is contrary to recognised accounting practice.</p>	<p>At present there is an earmarked reserve to cover the costs of Landfill Aftercare rather than a provision, however a full review of the accounting and disclosure requirements will be undertaken to ensure that these items are accounted for appropriately.</p>	Accounting Team Leader (Accounting and Ledger Control)	31 March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	34	<p>Related party transactions</p> <p>The council does not have a process in place for obtaining formal assurance from members and senior officers on related party transactions.</p> <p>Risk: related party transaction disclosures may be incomplete.</p>	<p>A full review of the disclosure requirements will be undertaken and processes developed to improve the disclosure within the Financial Statements.</p>	<p>Accounting Team Leader (Accounting and Ledger Control)</p>	31 March 2014
4	38	<p>Charity accounts</p> <p>The council currently has 78 charities which, under legislation, and in the absence of rationalisation, would all require to be independently audited in 2013/14.</p> <p>Risk: this may present an increased audit 'burden' with an associated increase in audit fees.</p>	<p>The Council, in discussion with OSCAR, has agreed to the establishment of settlement trusts which rationalises the number of charities and trusts. Therefore there will not be a requirement to audit 78 charities.</p> <p>However, there will be a need to audit the settlement trusts and the remaining charitable trusts which are not part of the settlement trusts. We have agreed to hold discussions with External Audit to explore the audit requirements.</p>	<p>Accounting Team Leader (Accounting and Ledger Control)</p>	31 March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	45	<p>Financial position - Reserves strategy</p> <p>2012/13 was the second year in a row that the uncommitted general reserve balance exceeded the target of 2% of annual net expenditure, as set out in the council's approved reserves strategy. There may be some merit in re-assessing the strategy.</p> <p>Risk: the approved reserves strategy may be insufficient to cover potential future costs.</p>	<p>Given the current financial pressures on councils it is important to hold adequate reserves. These reserves may be called upon to fund, for example, further workforce reduction or spend to save schemes which will lead to an ongoing reduction in revenue costs. The current target of 2% was agreed at a time when the funding of Local Government was more certain. Accordingly it is accepted that the current target of 2% should be reviewed.</p>	Executive Director Finance and Resources	31 December 2013
6	70	<p>Funding gap</p> <p>The council are facing a significant challenge in bridging a funding gap of £102 million over the next four years.</p> <p>Risk: the council may not be able to generate sufficient efficiencies and cost savings to bridge the funding gap and may find itself delivering reduced services.</p>	<p>The purpose of preparing a longer term financial model is to allow time to develop and implement savings proposals. A number of strategic reviews are currently underway and these reviews have the potential to deliver significant cost reductions. In addition services have been requested to bring forward</p>	Executive Director Finance and Resources	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			savings proposals and these proposals are currently being considered as part of the budget process.		
7	97	<p>Public Services Network (PSN)</p> <p>The council has yet to have its application to connect to PSN approved by the Scottish Government.</p> <p>Risk: the council may not be able to share or access data held by other public sector bodies.</p>	<p>The council has established a PSN task force to respond to the areas identified in the PSN health check carried out in October 2013. We are now confident that we can complete all the work needed to meet the 2013 compliance requirements and are checking that those Services directly affected have business continuity plans available in the unlikely case of loss of connection.</p> <p>The impact of the requirements for 2014 and 2015 compliance are being assessed at the moment with an initial briefing issued to CMT.</p>	Head of ICT	<p>PSN connection at the same time as the other Scottish local authorities in January/ February 2014.</p> <p>Work schedule to meet 2014 and 2015 requirements to be established by December 2013.</p>
8	102	<p>ICT Partnership</p> <p>The ICT Partnership did not come into effect until early 2013 and it is too early to determine the cost/benefit of the arrangement, including</p>	<p>The council is managing this risk through the established Partnership Management Board which includes</p>	Head of ICT	<p>Work will be ongoing for the life of the partnership.</p> <p>The agreed</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>the success in delivering the desired skills transfer.</p> <p>Risk: The objectives of the ICT Partnership may not be met and the cost of the Partnership may outweigh the benefits achieved.</p>	<p>members from both the Council and our partners, Capgemini. The Board utilises the Framework Operation Guide (FOG) which facilitates the assessment of benefits against partnership costs.</p> <p>The Partnership Board agreed the following reviews on the 4th October 2013</p> <ul style="list-style-type: none"> • Skills transfer to Council staff within the project delivery processes • Strategic review of progress to deliver the agreed goals and benefits 		<p>reviews should be completed by January 2014.</p>