AUDIT SCOTLAND

Fife Council

Annual report on the 2013/14 audit

Prepared for the members of Fife Council and the Controller of Audit

October 2014

Contents

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Key messages

Financial statements	• We have given an unqualified auditor's report on both the Fife Council and the Fife Council Charitable Trusts' 2013/14 financial statements.
Financial position	• The general fund balance has increased by £7.8 million to £85.0 million, of which £31.1 million is uncommitted. • The council reported an underspend of £7.8 million against its budget. • Financial management remains strong.
Governance & accountability	• The council had sound governance arrangements in place. • Systems of internal control operated effectively during 2013/14. • The council has an effective internal audit function and sound anti-fraud and corruption arrangements.
Best Value, use of resources & performance	• The council has a framework in place for monitoring and reporting performance against strategic priorities but are developing new arrangements for strategic and service planning and performance management from 2014/15 to reflect the changing needs of the council. • The council's annual performance report highlighted improving performance in 2013/14.
Outlook	• The council faces rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective partnership working will be essential to make the best use of available resources as well as continued strong governance and leadership.

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of Fife Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.

2. We have also given an unqualified audit opinion on the 2013/14 financial statements of the Fife Council Charitable Trusts, registered charities audited under the provisions of the Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).

3. Problems with implementation of the Enterprise Resource Planning financial management system in 2014/15 have not yet been resolved and these could impact on the system of internal control and the 2014/15 financial statements.

Financial position

4. The council reported a surplus of £117.66 million on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code of practice on local authority accounting in the United Kingdom 2013/14 (the Code), the council increased its general fund balance by £7.8 million to £85.0 million.

5. The council delivered an overall underspend of £7.8 million in 2013/14. An overspend of £16.0 million was incurred against service budgets in the year (primarily due to overspends of £13.3 million within the Social Work Directorate and £7.8 million within the Environment Enterprise and Communities Directorate) which was offset by £23.8 million of savings arising from corporate underspends, including loan charges and sums set aside for contingencies.

6. The general fund balance includes earmarked commitments of £53.9 million. The remaining unallocated general fund balance of £31.1 million (4% of annual budgeted net revenue expenditure) meets the target minimum balance of 2% of the annual budgeted net expenditure as set out in the council's reserve strategy.

7. The council has identified a funding gap ranging from £3.5 million for 2015/16, rising to £77.2 million in 2017/18. The council aims to deliver these savings through its service reform programme as well as requiring services to make additional savings of 1.5% per annum from 2014/15 to 2016/17.

Governance and accountability

8. In 2013/14, the council had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. The council had an effective internal audit function and effective systems of internal control.

Best Value, use of resources and performance

9. The council has a strong focus on performance management and has a sound framework for monitoring and reporting performance against the council's priorities.

10. The council is developing a different approach to strategic and service planning and performance management arrangements to meet its changing needs and it is expected that this will further improve its ability to demonstrate best value.

Outlook

11. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

12. This report is a summary of our findings arising from the 2013/14 audit of Fife Council.

13. Our responsibility, as the external auditor of Fife Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

14. The management of Fife Council is responsible for:
    - preparing financial statements which give a true and fair view
    - implementing appropriate internal control systems
    - putting in place proper arrangements for the conduct of its affairs
    - ensuring that the financial position is soundly based.

15. This report is addressed to the members of Fife Council and the Controller of Audit and should form the basis of discussions with the Standards and Audit Committee. This report will be published on our website after it has been considered by Fife 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.

16. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are shown at Appendices I and II. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

17. Appendix IV 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 "Management action/response".

18. We recognise that not all risks can be eliminated or even minimised. What is important is that Fife Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

19. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

20. The co-operation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements

Net service budget expenditure £674.3m

- Service Outturn £690.3m
- Service Budget Overspend £16.0m

Planned capital expenditure £162.6m

- Outturn Capital spend £155.6m
- Capital Underspend £7.0m

Planned usable reserves £88.0m

- Outturn usable reserves £90.6m
- Increase in usable reserves over 2012/13 £8.1m

Savings target £28.9m

- Actual savings achieved £22.0m

Audit opinion

21. We have given an unqualified opinion that the financial statements of Fife Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.

Other information published with the financial statements

22. Auditors review and report on other information published with the financial statements, including the foreword, the corporate governance statement and the remuneration report. We have

nothing to report in respect of these statements.

Legality

23. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

Group accounts and going concern

24. 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.

25. Fife Council has accounted for the financial results of four associates, the Common Good Fund and the Charities and Trust Funds in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £11.6 million. The net assets of the group (£518 million) increased by £759 million, mainly due to the transfer of Police and Fire functions on 1 April 2013 and the removal of the associated pension liabilities from the group accounts.

Accounting issues arising

Presentational and monetary adjustments

26. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the financial statements. The effect of these adjustments was to increase net assets by £6.1 million. The more significant changes related to:

- The inclusion of assets of £7.6 million for the first time in the value of Heritage Assets, representing the insurance valuation of the museum collections as a fair value of these assets
- The inclusion of a liability for a provision of £2.6 million for landfill aftercare, net of the capitalisation of costs for the associated landfill asset of £0.8 million (further detail is noted at paragraphs 30 -31 below).

27. In addition, a small number of other unadjusted errors totalling £0.4 million were identified during the course of our audit. Management has chosen not to adjust for these errors on the grounds that they are not material to the financial statements.

Whole of government accounts

28. 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 for audit by the deadline. This has been audited and the audited return submitted to the Scottish Government.

Report to those charged with governance

29. We presented our report to those charged with governance (ISA 260) to the Standards and Audit Committee on 26 September 2014. The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The key points are set out in the following paragraphs.

30. **Accounting for obligations relating to landfill sites:** Under *IAS 37 Provisions, contingent liabilities and contingent assets* authorities ought to recognise that they have an obligation to undertake restoration and aftercare work on landfill sites at the point where they commence depositing refuse in the site. It is also appropriate to capitalise such costs with the associated asset. In 2012/13 the council earmarked £3.2 million from its general fund balance for the restoration of two landfill sites, rather than recognise a provision and the associated expense and did not capitalise the expenditure.

31. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) recently issued guidance on Asset Decommissioning Obligations which supports the recognition of the provision and associated expense. However, the council had not accounted for the obligation in this way, nor had it capitalised the expenditure. Management subsequently amended the financial statements to recognise the liability and associated asset.

32. **Common Good:** A property asset was identified in 2013/14 which had not previously been included in the Common Good Balance Sheet. This asset was subsequently sold for £0.4 million in 2013/14. The accounting treatment adopted for the recognition and sale of the asset was not in accordance with proper accounting practice and management subsequently amended the financial statements to correct this error. We raised the issue of the initial omission of the asset with management and emphasised the importance of the completeness of the Common Good fixed asset register. Management have advised us that a review of common good assets is ongoing and will be completed in 2014/15.

33. **Long Term Investments:** The council is party to an Employment Land joint venture with Scottish Enterprise, with the council's share valued at cost at £1.1million. The Code of Practice only allows 'unquoted equity investments' to be disclosed at cost and even then only where "reliable fair value cannot be established". In our view this investment should be revalued to fair value. Management have agreed to review the valuation of the investment in 2014/15.

The audit of charities financial statements

34. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.

35. Auditors of registered charities' statement of accounts have responsibilities to:

- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

36. Fife Council prepared a single set of Fife Council Charitable Trusts financial statements for 50 charities registered under section 106 (s106) of the 2006 Regulations, using the connected charities provisions (section 7) for charities with shared management. We have given an unqualified opinion on these financial statements.

37. The audit of the Fife Council Charitable Trusts financial statements proved very challenging in this, the first year of the audit. As a result of the number of issues identified during the audit, a separate report to those charged with governance was prepared and submitted to the Standards and Audit Committee on 26 September 2014. Issues identified included:

- The financial statements had not been presented in accordance with the Charities Statement of Recommended Practice (SORP), indicating an absence of management review
- Two charitable trusts, accounting for a significant proportion of the transactions and balances in the unaudited financial statements were not s106 charities and should have been excluded from the financial statements
- The financial ledger and the supporting working papers were not structured in a manner which enabled ready identification of the s106 charitable trusts (information on s106 trusts and non-s106 charitable trusts was not separated)
- Governance documentation was not always available to allow us to ensure that the activity of the trust was within the trust’s powers.

Refer Action Plan Point 1

Outlook

38. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards adopted in 2014/15 include:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities
- IAS 28 Investments in associates and joint ventures.

39. These standards affect the group financial statements and include a change to the definition of control. This is likely to require a reassessment of the group boundary and potentially further consolidations and disclosures.

Refer Action Plan Point 2

40. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Standards and Audit Committee. This can take place following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the Standards and Audit Committee by 30 September with publication on the council's website by 31 October.

41. Highways assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should ensure it is planning ahead to allow full compliance with the Code.

42. The council is currently encountering problems with the implementation of the new Enterprise Resource Planning (ERP) financial management system. These problems have caused delays in the production of financial information from the system and have resulted in the council using more data sorting and estimating outwith the ERP system to produce financial monitoring reports. If these issues are not resolved there could potentially be an impact upon the production of the 2014/15 financial statements. There may also be an adverse impact on the wider financial control framework.

Refer Action Plan Point 3

Financial position

43. The council reported a surplus of £117.66 million on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, the council increased its general fund balance by £7.8 million.

Budgetary Control

44. The council achieved a net surplus of £7.8 million. The surplus was achieved despite significant overspends in the provision of services which totalled £16.0 million (2.4% of net revenue budget), which were largely due to overspends of £13.2 million in Social Work and £7.8 million in Environment, Enterprise and Communities, offset by underspends in other services.

45. Key variations in performance against budget include:

- Social Work Services overspend of £13.2 million, mainly due to overspends on purchased placements for children (£7.1 million) and home care (£4.2 million) and the non-achievement of savings in reshaping the social work programme (£5.7 million), offset by the release of funds from the Older People Change Fund budget (£2.9m) and other underspends across the Service (£2.4m)
- Environment, Enterprise and Communities Services overspend of £7.8 million, mainly due to an overspend of £2.4 million on Asset and Facilities Management Services.

46. The £16.0 million overspend in the services' budgets was off-set by £23.8 million of underspends in non-services budgets including loan charges underspend of £12.0 million (mainly due to re-phasing of the capital plan and changes to borrowing strategies) and contingency budget underspends of £10.4 million (arising from lower levels of spending against funding made available and set aside for Welfare Reform, extreme weather and inflation).

Refer Action Plan Point 4

Usable Reserves

47. Usable reserves are part of a council's strategic financial management and councils will often have target levels of reserves. As shown in Exhibit 1, the overall level of usable reserves held by the council increased by £8.1 million compared to the previous year and totalled £90.6 million.

Exhibit 1: Usable reserves

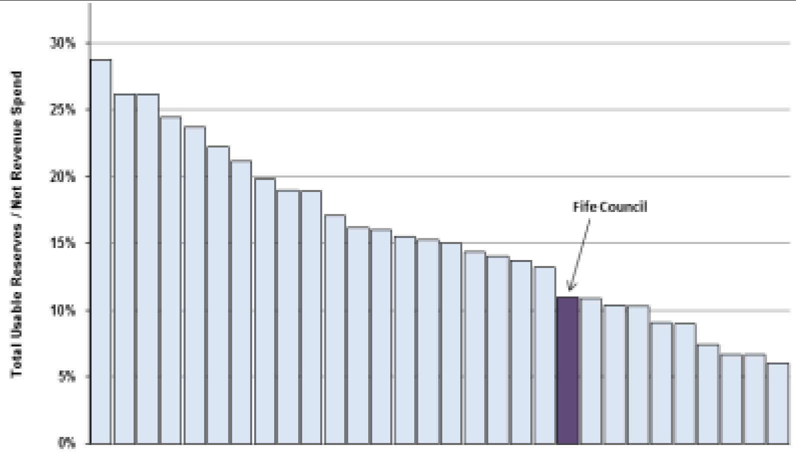
Description	31 March 2013 £ million	31 March 2014 £million
General Fund	77.1	85.0
Housing Revenue Account	1.8	2.0
Insurance Fund	3.2	3.6
Capital Receipts Reserve	0.4	Nil
Total Usable Reserves	**82.5**	**90.6**

Source: Fife Council Annual Accounts 2013/14

48. The Executive Director, Finance and Corporate Services 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.

49. Exhibit 2 below, which presents the council's usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents) supports the need for caution in the use of the council's reserve balances as this exhibit highlights that the council has a lower ratio in comparison to the majority of Scottish councils.

Exhibit 2: Total Usable Reserves carried forward as a proportion of net revenue spend



Source: Scottish councils' unaudited 2013/14 financial statements

50. Within the council's general fund balance of £85.0 million, £53.9 million has been earmarked or committed for specific purposes, including support to Social Work during transition (£13.8 million), Reforming Public Services (£8.7 million), Windpower (£6.2 million) and an Education Infrastructure Fund (£6.0 million). The remaining unallocated balance is £31.1 million, or 4% of the net revenue budget (2012/13: 6%), which is in line with the council's policy of maintaining uncommitted reserves at a minimum of 2% of net service expenditure over the medium term.

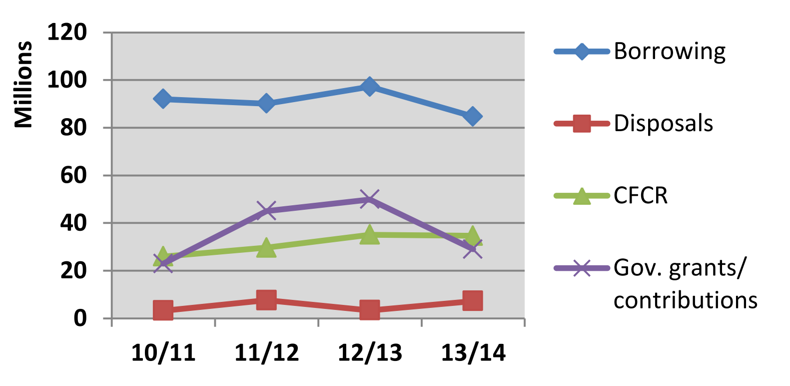
Capital investment and performance 2013/14

51. Total capital expenditure for 2013/14 was £155.6 million, with £47.1 million spent on the council's housing programme and the remaining £108.5 million spent on other general fund services, including £37.4 million on the Scottish Housing Quality Standard (SHQS) programme, £15.1 million on the Building Fife's Future Programme (schools) and £7.9 million on roads maintenance. After a sustained period of growth in capital expenditure up to 2012/13, expenditure under the Capital Investment Plan for 2013/14 reduced by 16.2%.

52. A report providing an update on the capital investment plan was submitted to the Executive Committee on 17 June 2014 (as at March 2014), reflecting an underspend of £7.0 million on the 2013/14 capital programme. This is a reduction of the level of £17.9 million in 2012/13. The main area of slippage relates to the flexible working project which has a reported underspend of £2.0 million which has been carried forward into the 2014/15 capital programme.

53. Capital expenditure for 2013/14 was funded as shown at Exhibit 3 below:

Exhibit 3: Sources of finance for capital expenditure 2010/11– 2013/14



Source: Fife Council Annual Accounts 2010/11 to 2013/14

54. Government grants and contributions have reduced significantly since 2012/13, mainly due to the absence of grants and contributions of £23.1 million which were received in 2012/13 for specific projects for Auchmuty High School and Halbeath Park and Choose. The requirement to borrow also reduced as a result of the reduced capital investment plan for 2013/14.

55. Going forward, the council plans to invest £778.8 million in capital projects during the period 2014-2023, with 53% of the planned expenditure due within the next two years. Significant capital investments will include £88.7 million on schools, £27.0 million on care for older people and £184.1 million on SHQS.

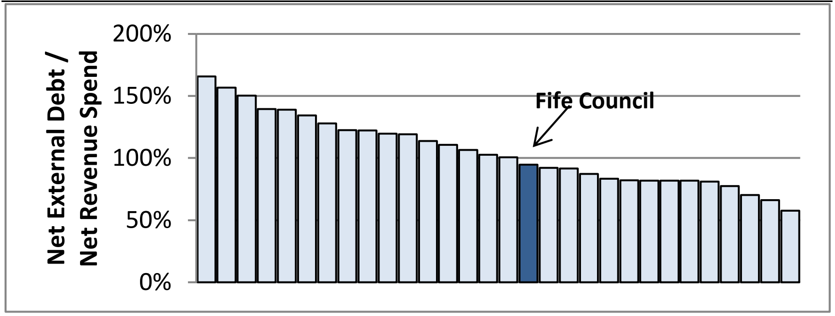
Treasury Management

56. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set-a-side to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.

57. The council's level of net external borrowing has increased from £677.3 million as at 31 March 2013 to £728.6 million as at 31 March 2014, the majority of which are at a fixed rate of interest.

58. As shown in Exhibit 4, the council's net external debt as a proportion of net revenue stream continues to remain in the middle range relative to other Scottish councils.

Exhibit 4: Net external debt as a proportion of net revenue spend



Source: Scottish councils' unaudited accounts 2013/14

59. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils, including Fife Council.

60. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in December 2014.

Outlook

61. In February 2014 the council approved a budget of £760.4 million for 2014/15 as well as giving indicative levels of expenditure for a further three financial years until 2017/18. An estimated spending gap of £3.6 million in 2015/16, rising to £77.2 million in 2017/18 was reported to the Executive Committee in September 2014. This position continues to create uncertainty over the council's ability to maintain service levels and deliver outcome targets. The Officer/Member Budget Working Group is currently considering options for addressing the gap and proposals will be presented to Members in November 2014.

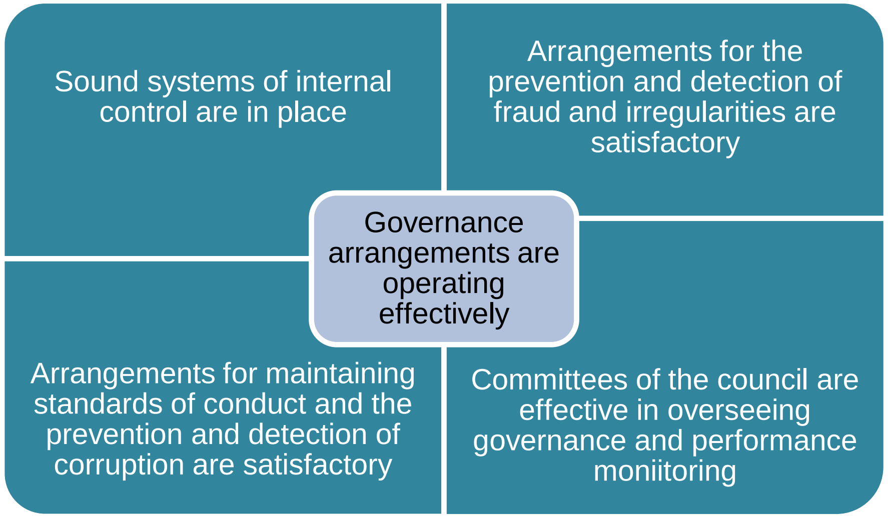
62. The October 2014 financial monitoring report predicts an overall 2014/15 overspend of £5.8 million, comprising of

service overspends of £19.3 million offset by savings on loan charges and contingency balances of £13.4 million (this estimate should be treated with caution due to the absence of robust financial monitoring, due to ERP issues). The service overspends are largely attributable to Social Work services and Education (Children and Families services). The council is seeking to identify measures to contain this overspend within the overall budget.

63. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver services with fewer resources. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Further transformational change may be required as recognised in a report to the Executive Committee on 9 September 2014 in which the Executive Director, Finance and Corporate Services stated that “the status quo is not sustainable in financial terms. In other words we cannot continue to provide the same level of services to the same quality by responding to demand in the same way”.

Refer Action Plan Point 5

Governance and accountability



64. Members of the council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Fife Council and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

65. The corporate governance framework within Fife Council is centred on the full Council which is supported by a number of standing committees, including the Executive Committee, two scrutiny committees and the Standards and Audit Committee.

Executive Committee

Environment, Finance and Corporate Services Scrutiny Committee

Education, Social and Community Services Scrutiny Committee

Standards and Audit Committee

66. Based on our observations and audit work our overall conclusion is that the governance arrangements within Fife Council are operating effectively.

Internal control

67. As part of our audit we reviewed the high level controls in the key financial systems that impact on the financial statements. Our overall conclusion was that Fife Council had sound systems of internal control in place during 2013/14.

Internal audit

68. An effective internal audit service provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. Internal audit services for Fife Council are provided by the council's internal Audit and Risk Management Service (ARMS).

69. We are required by international auditing standards to make an assessment of internal audit. To avoid duplication, we place reliance on internal audit work where appropriate.

70. Our review of internal audit concluded that ARMS operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of ARMS in the accounting systems for the financial ledger, treasury management and council tax billing & collection.

ICT audit

71. The council are introducing a new council-wide approach for the provision of internal shared support services through a service centre model. The Shared Support Services (3S) Programme aims to deliver the model through a range of projects.

72. As part of our 2013/14 audit we have undertaken a review of the management of this change programme and are in the process of drafting a report. The report will be agreed with management prior to issue and we plan to present the report to the Standards and Audit Committee in November 2014.

73. As part of our ICT audit we also conducted a *'Your Business at Risk (YB@R)'* online survey to help inform the council's understanding of staff attitudes, behaviours and working practices towards data handling and information security. YB@R provides a snapshot of whether an organisation's information governance policies are achieving their objectives and can help minimise the likelihood of data loss and the consequent corrective work that would ensue.

74. Although the profile of results demonstrates that there is some information security awareness within Fife Council, it has highlighted a number of areas that should be addressed to improve overall staff awareness of information security. The full results from the survey were submitted to management for detailed review to assist with the improvement of information governance through increased information security awareness within the council.

Arrangements for the prevention and detection of fraud and corruption and maintaining standards of conduct

75. The council's arrangements in relation to the prevention and detection of fraud and irregularities and maintaining standards of conduct overall were satisfactory.

76. 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.

77. Fife Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. The next NFI exercise is scheduled for 2014/15, with data uploads occurring in October 2014 and data matches available in January 2015. Overall, we are satisfied that satisfactory arrangements are in place.

Correspondence referred to the auditor by Audit Scotland

78. Part of Audit Scotland's duties as external auditors of Fife Council is to consider concerns raised by members of the public about the council. If appropriate, we may investigate them further.

79. During 2013/14 we received correspondence from members of the public expressing concerns over the management of the replacement Madras School capital project in St Andrews.

80. The project is currently 'on hold' as a judicial review is planned for December 2014. We will continue to monitor the developments and outcomes in regard to the project and we intend to review elements of the Madras project in our work on *'Major capital investment in councils'*, follow up work on a report that was originally published by Audit Scotland in March 2013 and which is scheduled to be reported on in November 2014.

Integration of adult health and social care

81. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.

82. Engagement with its health partner, NHS Fife, is critical to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:

- The establishment of a local integrated partnership and related governance arrangements
- Integrated budgets for health and social care
- Joint responsibility for strategic and locality planning in the area served.

83. Fife Council and NHS Fife Board established a Shadow Health and Social Care Joint Board in 2014, comprising of 8 voting

members appointed by Fife Council and 8 voting members appointed by NHS Fife. A Director of Health and Social Care was appointed to the Shadow Integration Joint Board with effect from 1 September 2014.

84. The Shadow Board meets regularly and is developing an Integration Scheme and Strategic Plan for Fife in accordance with the requirements of the Act.

85. Other integration developments include the formation of a Transition Team from across Fife Council and NHS Fife to support integration and the introduction of a risk register for the integration programme.

86. A process for the appointment of a second tier management team for the Health and Social Care partnership has been approved, with the preferred option identified by the Shadow board being the formation of 3 divisions – East, West and Fife wide services.

87. An indicative integrated revenue budget has been identified based on the 2014/15 budgets for the services considered to be in scope but it is likely to be subject to further review as service integration evolves. Budget pressures are likely to pose a significant challenge for the new integrated partnership.

88. The Council and NHS Fife have recognised that they may have to revisit integration decisions, dependent on the contents of guidance, which is expected to be finalised by the Scottish Government by December 2014. This is a very challenging agenda for public sector organisations.

89. As the appointed auditors for the Fife Health and Social Care integrated body in 2015/16, we will monitor the progress in the integration of health and social care going forward.

Welfare Reform

90. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with Council Tax Benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund (SWF). Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for even further reforms in the future.

91. The council has been effectively planning ahead to mitigate against the impact of the reforms, including:

- The establishment of a Chief Officers Welfare Reform Group to give direction on the changes and impacts of welfare reform to the council and its customers and oversee the implementation of the Welfare Reform Act 2012
- The creation of a specific project board to manage the introduction of the SWF.

92. The council has also designated two lead officers to work on the changes and impacts arising from the welfare reform agenda. Their remit includes assisting in the implementation of the Council Tax Reduction Scheme, social sector size criteria '(bedroom tax') and benefit cap as well as being involved in the planning for the implementation of Universal Credit.

93. The council has been significantly affected by the introduction of the social sector size criteria and reported that council tenant rent arrears, in respect of affected customers, has increased by approximately £0.5 million in 2013/14 (reported in November 2013) when compared to the same period in 2012/13. As a consequence, the council stated that the increase in rent arrears is having a significant impact on legal and recovery of possession actions.

Housing benefits performance audit

94. The housing benefits performance audit follow up report, published in November 2013, demonstrated that the council's benefits service has delivered continuous improvement across a number of areas since the last risk assessment in 2011. Good practices identified include:

- A Local Services Network (LSN) is in place to provide the customer facing aspect of the benefit service and a service level agreement is in place setting out the roles and responsibilities and key performance indicators. A timed appointment system and a text reminder service have increased the percentage of customers that have attended appointments from 70% to 90%. As at November 2013, the LSN had, since April 2013, delivered 98% of application forms fully completed to the benefit service
- The council has an excellent relationship with the Department of Works and Pensions (DWP) Fraud and Investigation Service (FIS), and referrals where a DWP benefit is in payment are referred to FIS and a joint investigation carried out. This approach has been particularly successful for the council
- The service has improved its accuracy checking approach and its arrangements for reporting overpayment recovery performance and has developed a benefits take-up strategy to maximise the take-up of both housing benefit and council tax reduction.

95. The benefit service could deliver further improvement by updating and synchronising targets across the service's key documents to ensure reported performance is based on accurate and consistent data, ensuring accuracy performance is reported for the whole service and reporting outcomes from successful prosecutions in the media as a deterrent and to help raise the profile of the investigation team. An action plan has been prepared to assist delivery of these improvements.

Outlook

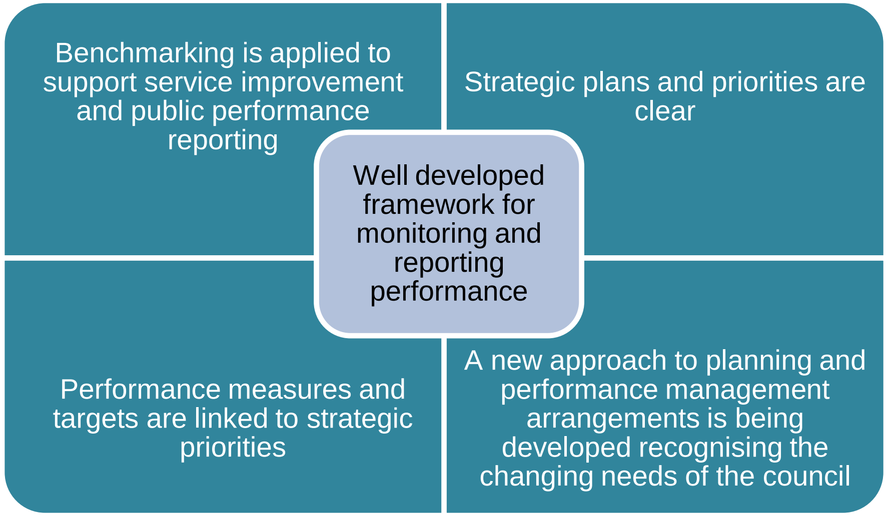
96. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the council will need to continue to engage at the highest level with partners to ensure that the unified service is in place by the statutory date of 1 April 2016.

97. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for the investigation of housing benefit frauds.

98. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented across councils on a phased basis during the period July 2014 and March 2016 and will see the transfer of staff from councils to the DWP. There is a risk that the council's arrangements for the prevention and detection of fraud may be weakened due to the loss of experienced investigators to the SFIS.

99. The political context in 2014 has been particularly challenging with the referendum on Scottish independence. Post – referendum there is the potential for even further change and discussions are likely on local services, governance and accountability.

Best value, use of resources and performance



100. Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arm's-Length External Organisations (ALEOs). This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and other stakeholders know what quality of service is being delivered and what they can expect in the future.

Arrangements for securing Best Value

101. The council has not been subject to a Best Value audit since 2009, when it was reported that the council had many of the building blocks in place for achieving best value. The timing of the council's next Best Value audit is determined by a risk assessment performed by the Local Area Network (LAN). The LAN's current risk assessment has identified that a Best Value audit is not required in the period to March 2017, although this will be subject to review by the LAN as part of the 2014/15 risk assessment.

102. The council reinstated its Fife Excellence Model (FEM) in 2013/14, a self evaluation mechanism based on the Improvement Service's Public Service Improvement Framework. A corporate assessment was carried out by senior managers in November 2013, facilitated by Quality Scotland.

103. The council has recently announced a major organisation restructuring exercise and is also in the process of developing a different approach to planning and performance management arrangements. Work on these areas will involve the time of managers who are responsible for implementing the FEM process and as a result, management have decided to postpone any further self evaluation exercises under the FEM until these processes are completed. Instead management intend to focus on rolling out the 2013 corporate FEM assessment, although they do recognise the importance of continuing self evaluation as key to delivering best value.

Refer Action Plan Point 6

104. The new approach to planning and performance management arrangements approach is expected to lead to improvements in demonstrating that the council is delivering best value and we will monitor the implementation of the new approach from 2014/15.

105. The council also make use of maturity models as a tool for self-evaluation. Management has constructed and populated 18 maturity models and intend to report on the findings to the Council Management Team in November 2014.

106. The council participates in the Local Government Benchmarking Framework (LGBF) and has good arrangements to report its performance in accordance with the requirements of the framework.

107. The council produces a high level report on its performance against each benchmark which is made available to the public through the council's website. The website also provides a link to the Improvement Service benchmarking website which contains annual reports as well as overall performance information, and data on a council by council basis.

108. The council produces a more detailed benchmarking report for use internally by managers, which includes detailed quartile and family group information on each indicator.

Use of resources

Workforce reduction

109. 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.

110. The estimated workforce reduction over the period 2011 to 2017 has been re-assessed at 2,369 full time equivalent posts. Of these 1,470 employees had already left the council's employment up to 2012/13 with a further 155 employees leaving in 2013/14.

111. The number of approved applications in 2013/14 represents a significant reduction on earlier years but 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.

Corporate Improvement Plan

112. Since 2010, the council has had a Corporate Improvement Plan (CIP) in place which aimed to modernise services while delivering savings to contribute to the gap caused by the funding reductions. Most of the programme is now complete and officially closed including:

- Mobile and Flexible Working
- Workforce Transformation
- Depot Rationalisation
- Customer Management.

113. The office rationalisation programme is substantially complete with some elements of the programme continuing into 2014/15. The remaining 3S Programme and Information, Access & Collaboration programme will continue for two more years.

114. As at March 2014, the combined programmes had delivered savings of £5.3 million against an original estimate of £7.6 million.

115. Looking forward, the new Organisational Improvement Board being introduced under the council's revised planning and performance management arrangements will replace the Corporate Improvement Board (CIB) and will manage the remaining CIB programmes including the 3S Programme, as well as introduce and develop new improvement programmes.

116. The corporate improvement activity is underpinned by the workforce reduction programme which aims to deliver significant savings to the council, while maintaining the staff skills to meet the modernised agenda.

Performance management

117. The council has a strong focus on performance management and has a sound framework for monitoring and reporting performance against the council's priorities. Each service at the Council prepares a service plan for the year. These plans take into account the aims and priorities of the Council Plan and the Community Plan, and set out the desired outcomes for the service for the year, as well as performance information for the service over previous years.

118. The council uses an information system, Covalent, to record performance indicators, scorecards, actions and risks. The council uses this system as a key part of its service planning, and information can be extracted from the system in a variety of formats allowing different levels of detail for reports.

119. During 2013/14 a new method for scrutinising service targets and budgets was developed at the council. Twice a year each service produces a report on performance and spend which is taken to one of the council's scrutiny committees. These reports are based upon the priorities and outcomes which were set out in the service plans for the year.

120. We are satisfied that appropriate performance management arrangements were in place within Fife Council for 2013/14.

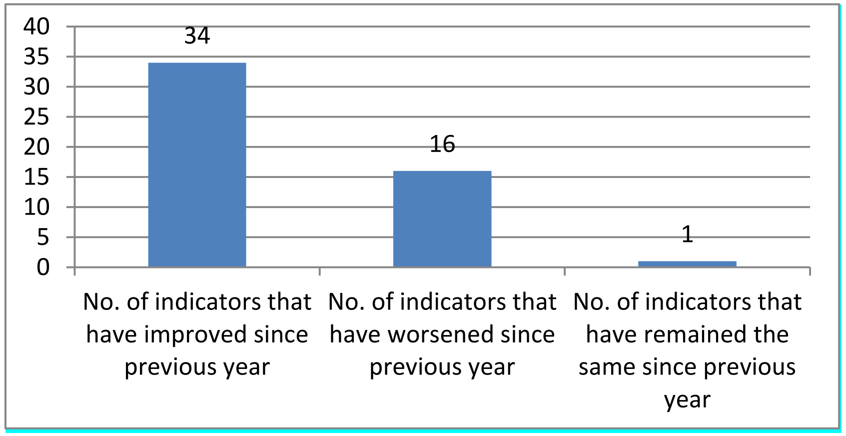
Overview of performance targets in 2013/14

121. The council produced an annual Public Performance Report which set out progress to date in delivering the outcomes set out in the Fife Community Plan 2020 and the Fife Council Plan 2012 to 2017. This report was considered by the Council on 25 September 2014.

122. The report provides information on performance under the three high level outcomes from the Fife Community Plan 2020: reducing inequalities, increasing employment and tackling climate change, as well as performance under the overarching heading of reforming Fife's public services.

123. The report includes 81 indicators, of which 30 do not have comparison with previous years. Exhibit 6 compares the 2013/14 results against 2012/13 for the remaining 51 indicators.

Exhibit 6: Improvements demonstrated by performance indicators



Source: Fife's Performance Report 2013/14

124. In comparison to 2012/13, areas with improving indicators included the average time (weeks) to deal with major planning applications determined during the year, the number of adults participating in literacies and language learning and the percentage of total household waste that is recycled.

125. Indicators where performance has worsened included average time (weeks) to deal with householder planning applications determined during the year and the percentage rating their area as a very good place to live, for the 20% most deprived areas in Fife.

Statutory performance indicators

126. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.

127. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely:

- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covers a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

128. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014. Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation.

129. The results for Fife Council were generally positive, with 52% fully and 48% partially meeting the criteria and no cases of the criteria not being met. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in Spring 2015.

130. The results of the Audit Scotland report on PPR were considered by the Council Management Team (CMT) in August 2014, and work has been done to incorporate areas of identified good practice from the report into the council's reporting of 2013/14 SPIs, such as developing the council's performance portal on its website to include tables of key indicators.

131. We are satisfied with the council's arrangements for reporting on SPIs 1 to 3.

Assurance and improvement plan 2014-17

132. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for Fife Council prepared by the Local Area Network (LAN) of scrutiny partners for the council since the introduction of the shared risk assessment process. This has been published on Audit Scotland's website and was submitted to the Standards and Audit Committee on 30 May 2014.

133. The AIP 2014-17 highlights the scrutiny activity to be undertaken at the council and this consisted of a joint inspection of Adult Services by the Care Inspectorate and Healthcare Improvement Scotland in 2014/15. Work in this area was carried out in the summer and will be reported in the coming months.

Local performance audit reports

Arm's-Length External Organisations – are you getting it right? A follow-up report

134. In June 2011 Audit Scotland issued a report on *'Arm's-Length External Organisations – are you getting it right?*'. As part of our 2013/14 audit work, we carried out a targeted follow-up review of this report to provide a high level assessment of the governance arrangements that Fife Council has in place for overseeing its ALEOs. The follow-up report was considered by the council's Standards and Audit Committee on 14 August 2014.

135. Our review found that the council demonstrates many of the better practices highlighted in the toolkit for improving the governance of ALEOs which accompanied Audit Scotland's 2011 report, such as carrying out option appraisals as part of the process for approving the setting up of an ALEO. However some scope for improvement was identified, including improving clarity regarding the rationale behind the selection of members to represent the council on each of the ALEOs.

Targeted local follow up review of Audit Scotland's national report on 'Major capital investment in councils' (March 2013)

136. To support improvement through the audit process and to maximise the impact of national performance audits, we undertook a local follow up study of Audit Scotland's 2013 national study on major capital investments. We plan to conclude work on this review by the end of the November and report to the Standards and Audit Committee at the next available meeting subsequent to that date.

National performance audit reports

137. The council has recently adopted a more systematic approach to the consideration of Audit Scotland's national reports. National reports are now initially considered at minuted corporate management team meetings and then referred to the appropriate Scrutiny Committees for consideration of the relevant recommendations.

138. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II.

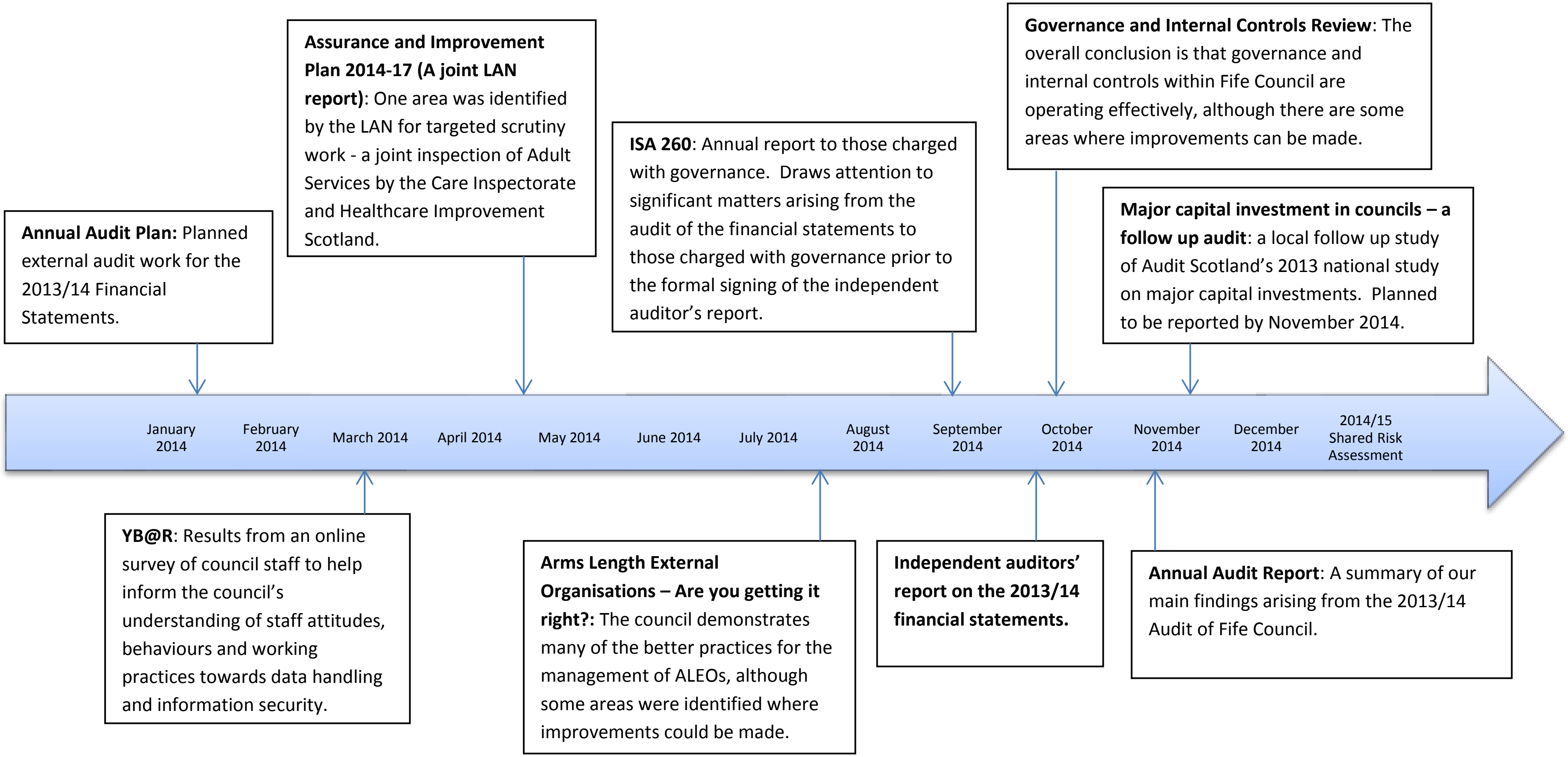
Outlook

139. In common with other councils, Fife Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However as choices on how to address funding gaps becomes increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities.

140. A best value review is not currently planned for Fife Council. No additional scrutiny activity has been identified for Fife Council between now and 2016/17 but this will be re-assessed, along with the requirements of the best value audit, in the 2014/15 Shared Risk Assessment (SRA). Any changes to the scrutiny programme will be reported in the 2015-17 Assurance and Improvement Plan that will be produced from the 2014/15 SRA process.

141. 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 a second round of audits has been conducted. Fife Council has not been selected as one of the sites for the second round of Community Planning Partnership audits.

Appendix I – Fife Council local audit reports 2013/14



Appendix II – Audit Scotland national reports 2013/14

Housing in Scotland – An assessment of how well the Scottish Government and councils plan to meet Scotland's housing needs and future challenges.

Maintaining Scotland's roads – an audit update on councils' progress since our 2011 report on Maintaining Scotland's Roads.

Charging for services – Are you getting it right? Considered the contribution charges make to budgets and how charges can influence how people choose to use services.

Options appraisal - Are you getting it right? Highlights the importance of councils using rigorous option appraisals to deliver efficient and effective services and to achieve best value.

School Education - An assessment of how efficiently and effectively councils are using their resources to maximise pupil achievement in primary and secondary schools education.

May 2013 | June 2013 | July 2013 | August 2013 | September 2013 | October 2013 | November 2013 | December 2013 | January 2014 | February 2014 | March 2014 | April 2014 | May 2014 | June 2014

Managing early departures from the Scottish public sector – Report aims to help public bodies improve their management and reporting of early release schemes.

Reshaping care for older people - A progress review, three years into a ten-year programme which considers the impact of the Change Fund to the integration of health and social care services.

An overview of local government in Scotland - A high level, independent view on the progress councils are making in managing their finances and achieving Best Value.

Procurement in Councils – An assessment of whether councils are efficiently and effectively managing how they procure goods and services.

Self directed support – A review of progress with implementing self directed support across Scotland's public sector.

Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
Financial Statements Risks	
Accounting for charities The Charities Accounts (Scotland) Regulations 2006 require the preparation of financial statements and the provision of an auditor's opinion for each charity covered by section 106 of the regulations. The council identified 52 separate charities which could impact on the resources of the Council's accounting team. The scale of the number of individual charities may result in delays in the preparation of the financial statements of the council and the charities and an audit fee which is disproportionate to individual charities and does not present best value for the charities.	We assured ourselves that management had received clearance from OSCR that a single set of financial statements could be prepared under the connected charities provisions of the regulations. We then conducted an audit of the section 106 charitable trusts and have given an unqualified opinion with respect to the 2013/14 financial statements.
Providing for equal pay liabilities Settlement negotiations for compensation under the Equal Pay Act 1970 are still ongoing and the final liability for the Council remains uncertain pending several national test cases which remain to be resolved. There is a risk that the council could be exposed to further significant liabilities, which in turn could increase the budgetary pressures.	The council has included a provision of £4.5 million in its 2013/14 financial statements in respect of potential expenditure arising from outstanding equal pay claims. This was reviewed as part of the audit of the financial statements and included a review of the council’s assessment of its exposure to the liability. No issues were noted.

Audit Risk	Assurance procedure
Open cast coal mining liabilities Two of the main operators of open cast coal mine sites in Fife went into liquidation during 2013/14. The Council may be exposed to additional financial liabilities if it is ultimately liable to restore the sites.	Management has assessed that the council is liable to restore the sites up to the value of the bonds that it has in place and that there is no residual financial risk to the council. This was reviewed as part of the audit of the financial statements and there are no issues to report.
Asset de-commissioning costs - landfill sites Under IAS 37 Provisions, contingent liabilities and contingent assets, the council should make a provision for future restoration of its two landfill sites. It is also appropriate for the council to capitalise such costs with the associated asset and charge depreciation over the economic useful life of the asset. There is a risk that the council has not properly accounted for the restoration cost liability and the associated asset.	Following guidance from LASAAC, management agreed to amend the financial statements to include a provision and an increase in the value of the non-current assets. This was reviewed as part of the audit of the financial statements. The calculations and accounting entries were subsequently reviewed and no issues were found.
Common Good Fund - asset reconciliations Reconciliations of accounting records to Common Good Asset listings and reviews of Common Good administration processes and rental income are ongoing. There is a risk that Common Good assets may not be properly accounted for resulting in potential loss of value to the fund.	Our audit of the Common Good Fund provided assurance on consistency of records revealing that only a small difference of £0.02 million remains between the financial ledger and the Common Good Fixed Asset Register. We also obtained information on the council's review of its Common Good Fund assets base and rental income arrangements, which is scheduled to be completed in 2014/15. There are no issues to report in 2013/14. We intend to monitor this review during the 2014/15 audit.

Audit Risk	Assurance procedure
Pension fund actuarial assumptions The council's pension fund liability valuation is highly dependent on the actuarial assumptions used. The Actuary provides details of these assumptions on an advisory basis; and evidence should be available to demonstrate independent assessment of these assumptions by the council. There is a risk of invalid assumptions being used for local circumstances, resulting in incorrect valuations of the fund in the absence of independent assessment.	We sought evidence of independent assessment of the actuarial assumptions used by the actuary. Evidence was provided to support discussions and agreement of the assumptions proposed between management and the actuary. For the purpose of the audit we placed reliance on the work of an expert (Hyman Robertson).
Accounting and ledger control team pressures The council is implementing new financial systems, Enterprise Resource Planning which may impact on the Accounting and Ledger Control Team's ability to prepare the financial statements and WGA pack timeously and subsequently on the audit timetable. The audit timetable may also be affected by absences of key staff at key periods, which will require careful planning.	Unaudited accounts were received, in line the financial statements timetable, by the 30 June 2014. No significant issues were encountered with availability of the council finance officers during the audit process, however the absence of key staff at the conclusion of the audit did impact on the closure of the financial statements audit. We shall liaise closely with officers on the timetable for 2014/15.
Wider Dimension Risks	
Financial management and sustainability The council has identified a significant funding gap for the period to March 2018. There is a risk that the council will be unable to manage its budget pressures within available resources, leading to a reduction in the provision of services.	We have reviewed the financial monitoring of the council which currently highlights an estimated funding gap ranging from £3.5 million for 2015/16, rising to £77.2 million in 2017/18. We have included an action plan point (point 5) in this report and will continue to monitor the position.

Audit Risk	Assurance procedure
Shared Support Services (3S) Programme The council is implementing a council-wide approach for the provision of internal shared support services through a service centre model (the Shared Support Services (3S) Programme). There is a risk that if the new operating model may not achieve the anticipated benefits if it is not supported by effective business change management and this could impact on frontline services.	We will report on this through separate audit report on the Council management of the 3S programme.
Information technology (IT) Services Positive assurance over the integrity of information access requires robust user identity and access management processes. Staff across the council also need to be aware of the risks associated with data handling and information security when using systems. There is a risk that staff may not be fully aware of data handling and information security protocols.	We have carried out a YB@R online survey of council staff to inform the council's understanding of staff attitudes, behaviours and working practices towards data handling and information security. Findings were presented to the Standards and Audit Committee in May 2014.
Information technology (IT) Services The Government has introduced the Public Service Network (PSN) to provide an assured network over which public organisations can safely share services. Access is subject to accreditation and there is a risk that future accreditation might not be achieved if progress is not maintained which could cause disruption to service delivery.	The council is preparing for its submission in November of its 2014 re-assessment, which is now due in December 2014 following a re-alignment of dates by the Cabinet Office. A report to the ICT Programme Board in September 2014 notes that the council has continued with its preparations, including implementation of mobile access to the secure mail in the PSN network, further enhancements to network security and patch management and a separate desktop for users of the PSN network, with training for users on how to securely access the new mail infrastructure.

Audit Risk	Assurance procedure
Welfare reform The changes resulting from Welfare Reform are considerable and will have significant implications for the council, its staff and benefit claimants. There is a risk that the council may fail to meet the challenges of supporting the delivery of the reform.	We have confirmed that the council has been effectively monitoring and planning ahead to mitigate against the impact of the reforms. The welfare reforms are still ongoing and we will continue to monitor the situation in 2014/15.
Madras College - replacement site for secondary school For some years, the council has been seeking to find a suitable single site to build a replacement secondary school for Madras College in St Andrews. Reaction to the proposed site, which is situated on a green belt site and is 'contrary to the local development plan', has been mixed. There is a risk that the proposed site may not obtain the necessary approval to proceed. Further delays may result in increased costs and continued dependency on the provision of educational facilities which continue to be deemed unsuitable for achieving excellence in educational attainment.	Planning permission has been given to the project. However, the project is currently 'on hold' as a judicial review is planned for December 2014. We have monitored the developments within the project and will continue to monitor progress in 2014/15. We also intend to review elements of the Madras project as part of our follow up work on '*Major capital investment in councils'* which is scheduled for November 2014.

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/10	**Fife Council Charitable Trust Accounts** The council was required to produce financial statements for its Charitable Trusts for the first time in 2013/14, under the provisions of the Charities Accounts (Scotland) Regulations 2006. There was a significant shortfall in the quality of the unaudited accounts. **Risk** The 2014/15 financial statements may not be produced in accordance with proper accounting practice. **Recommendation** Management should review its processes for the preparation of the financial statements. The financial statements should be reviewed by management prior to submission for audit to assure themselves that they comply with the requirements of the Charities SORP.	Arrangements will be put in place to ensure that there is a full review of accounting requirements in relation to Charities Accounts to ensure compliance with the relevant SORP. Closure of Accounts processes and timetables will be reviewed and sufficient review time will be built into the process. Additional resources have been deployed in the team to undertake this review work and improve the closure process.	Team Leader, Accounting and Ledger Control	31 March 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/11	**Group accounts** Four new international accounting standards have recently been adopted in 2014/15 which impact upon the preparation of group accounts. These standards include a change to the definition of control for group purposes. This is likely to require a reassessment of the group boundary and potentially further consolidations and disclosures. **Risk** The group financial statements may not fully comply with the requirements of the Code. **Recommendation** Management should review its group boundary in line with the requirements of the Code and report appropriate disclosures in the 2014/15 financial statements.	The Accounting Code of Practice and relevant standards will be reviewed and the appropriate accounting treatment will be adopted.	Team Leader, Accounting and Ledger Control	30 June 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/11	**Enterprise Resource Planning** The council is currently encountering problems with the implementation of the new Enterprise Resource Planning financial management system. **Risk** Failure to resolve the problems could have an adverse impact on the system of internal controls, in-year management accounts and thereafter on the preparation and audit of the 2014/15 financial statements. **Recommendation** We are aware that significant effort is being made to resolve the issues.	There have been some issues around the implementation of the Oracle system. However many of these issues are typical of the consequences of major change within an organisation and are not system related. Significant progress has been made since the "Go Live" date of 1 April 2014 and a plan is in place to reach "Business As Usual" by 31 December 2014. The plan includes ensuring that internal controls are satisfactory. This will ensure that risks around the preparation of annual accounts for 2014/15 are mitigated.	Head of Finance	31 December 2014

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/12	**Overspend within services' revenue budgets** Although the council achieved an overall budget saving of £7.8 million, this was only achieved as a result of savings on corporate activities, including £12.0 million savings on loan charges and £10.4 million on underspends against contingency balances. Overall service overspends amounted to £16.0 million, due to overspending in Social Work (£13.3 million) and Environment, Enterprise and Communities (£7.8 million), offset by other service underspends (£5.1 million). **Risk** Continuing overspends on service delivery could impact on the longer term financial sustainability. Savings on other corporate activities may not be sustainable in the long run. **Recommendation** Management are well aware of the impact of service overspends on the financial sustainability of the council. We would encourage their efforts to put services on a sound financial footing. This is particularly important for Social Work in advance of Adult Health and Social Care integration.	Officers are fully committed to ensuring that Services operate within resources available. Significant effort has been devoted to Priority Based Budgeting in Social Work, Children's Services and Transportation. The exercise in Social Work and Children's Services resulted in the Council approving a recovery plan as part of the 2014/15 budget. This recovery plan will support these Services through the use of council balances to allow time to reduce expenditure to budgeted levels. A key part of this strategy is changing the way services are delivered towards lower cost interventions.	Chief Executive	Ongoing

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/16	**Financial management and sustainability** The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. The problem is heightened by the difficulty in making previously agreed cost savings. **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. **Recommendation** The council should ensure that it has robust medium to long term financial plans to address the anticipated budget gap. This may require transformational change for service delivery.	The Council has a well developed longer term budget model. This model uses all available sources of information to enable projection of the potential gap between income and expenditure for the next 10 years. This budget model drives the Council's budget strategy in order to close the projected budget gap. The strategy identifies efficiencies and savings which could contribute towards closing this gap. In addition different service delivery models are being considered. However there does need to be a sense of realism. The scale of future budget reductions will inevitably mean reductions in service provision.	Executive Director, Finance and Corporate Services	Ongoing

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/24	**Self evaluation and FEM** The council reintroduced its self evaluation mechanism, FEM, in 2013/14. A corporate assessment using FEM was undertaken in 2013/14. The council is now implementing an organisational restructure and a new approach to strategic and service planning and performance management and while management recognise the importance of the FEM, as a result of resources being diverted to implement the new initiatives, they have decided to postpone the FEM while the initiatives are implemented. **Risk** There may be a dilution of key evidence to provide support that council activity is achieving best value. **Recommendation** Management should recommence the FEM programme as soon as practicable.	We will recommence the FEM programme, including closer links to corporate governance assurance and maturity model approaches to produce a less resource intensive but effective product.	Senior Manager (Policy, Communications and Area Management)	April 2015