# Stirling Council

## Annual Report to Members and the Controller of Audit for the financial year ended 31 March 2015

3 September 2015

# Key messages

Stirling Council ('the Council') has achieved a small surplus of £2.92 million for the year ended 31 March 2015, which is in line with budget. A good quality set of financial statements was produced a month earlier than prior year with minimal audit adjustments needed. The Council has a well written clear and concise 5 year business plan covering the period 2015/16 to 2019/20. While the business plan recognises the challenges ahead, including financial and service sustainability, it seeks to positively outline the future vision of the Council. Council ambitions are to: become more efficient and responsive; improve the organisation and culture of the Council; identify new ways of working; and a focus on outcomes and achievements for Stirling.

The Council is starting on a journey of transformation, and will need to identify new and innovative ways of delivering the services they currently deliver, or whether delivery of these services in the same manner is sustainable in the medium to longer term. The Council, through priority based budgeting, are continuing to manage and look to reduce expenditure. Looking ahead, in addition to managing expenditure the Council may need to explore the options around income and income generation. However, this could involve substantial structural changes in the relationship between local government, Scottish Government and other stakeholders.

## ISA 260 requirements

We have issued an unqualified opinion on the 2014/15 financial statements. The Council produced a good quality set of accounts by 19 May, a month earlier than prior years, with all external audit work substantively completed by the end of July.

We did not have reason to change our audit plan during the year, and we did not identify any fundamental weakness in the Council's systems of internal control, based on our work undertaken.

We have one un-adjusted difference of £2.49 million to report. This would impact only on the group balance sheet and relates to Active Stirling (a member of the Council group) changing its treatment of pension costs from a defined benefit to a contribution benefit scheme.

## Public Sector Audit impact dimensions

Our external audit work is undertaken in accordance with the Audit Scotland Code of Practice (May 2011). Our annual report is structured to reflect our wider responsibilities under the Code, and this year we have shaped this around the 4 Public Sector impact dimensions reflected in the Audit Scotland Corporate Strategy 2015-18.

## Financial management

The Council continues to budget accurately with the year end broadly in line with the budget set at the start of the financial year, and year on year they have increased reserves to allow for unforeseen cost pressures and also the ability to direct expenditure in line with Council priorities.

The implementation of priority based budgeting has focussed the Council on identifying savings in line with the 18 core Council priorities, resulting in a net in year saving of £2.33 million. As set out in the business plan the Council continues to seek to ensure funding is allocated in accordance with key priorities, recognising service demands in key areas such as Education and Social Services.

The Council's finance team is organised and successfully brought forward the year end accounting process by a month. This was achieved through an internal review of accounting processes for example accounting for capital expenditure and assets during the year rather than a year end exercise.

We are comfortable that going forward the Chief Finance Officer has sufficient access to the Council leadership team to contribute to the financial strategy and future service sustainability of the Council.

## Financial sustainability

The future financial and service sustainability of all local authorities is an on-going area of question, with the Council by 2017/18 forecasting an income gap of circa £9 million. Whilst the Council seeks to continue to identify savings through the priority based budgeting process, options to generate income will also be needed, particularly as the Council has forecasted a decline in core revenue funding.

Stirling has a small economy and therefore national and local fluctuations in economic growth will have a big impact on the local economy. By 2037 25% of the population in Stirling will be over the age of 65 putting pressure on core services such as social services. The Council recognises the local economy it operates in, and has in place a series of strategies that focus on sustainable growth and diversification, focused on the city and rural nature of the communities the Council represents.

Looking ahead the Council acknowledges within the business plan that it will need to take measured risks and good governance, leadership and robust controls will need to be demonstrated across the Council. This may include wider transformational change, in order to secure future financial and service sustainability.

## Governance and transparency

The Council's Annual governance statement is balanced and in line with CIPFA requirements. On an annual basis the Council has undertaken a review of the effectiveness of its governance arrangements and review of internal controls to support the statement, identifying further areas to be strengthened in 2015/16 including the monitoring of arms length organisations.

The local code of governance is in place for arms length organisations, and internal audit has recommended areas where governance can continue to be improved. Now a governance structure is in place, the Council should continue to consider outcomes and the value from these relationships, as part of the long term future vision of the Council.

During the year the Council has streamlined the leadership team, moving from 6 Directors to 4, supported by a senior manager in each service area. This change was to ensure that the Council structure is as efficient and effective as possible, and that services were grouped in a logical manner. For example, the change in structure has allowed all customer focused services to be grouped under the remit of one Director, which supports the Council's vision of putting the customer at the forefront of services.

The changes in the leadership team are the first steps in the plans to change the culture across the Council, to be greater focused on the customer, what good customer service looks like, wider and continuous engagement with the Council residents and reducing bureaucracy and out dated practices.

Given the changes in internal structures there is now a good opportunity for the Council to make sure that the individual service committees as they are, are still the best structure for scrutiny and decision making and do not contain any duplication or gaps in its remits.

## Value for money

A clear performance management framework is in place, which is subject to on-going review and refinement.

The Council has 18 key priorities, with 5 overarching goals and during the year has refined certain performance targets to be more challenging and stretching, reflecting the Council's aim to continuously improve.

During the year monitoring of the single outcome agreement ('SOA')at an overarching level has been limited and this has been recognised by the Council. There are plans in place for 2015/16 to identify specific SOA performance indicators and capture overall performance to date in an annual report.

Mixed performance continues to be reported through statutory performance indicators with 29% recorded in the upper quartile for Scottish local authorities, but 29% in the bottom, including roads maintenance; cost of waste collection and disposal. Performance is reported at each of the relevant service committees.

The importance of community engagement to the Council is clear. The Council continues to invest in understanding and working with local communities as evidenced through the 4 community pilots that are underway. Overall working to understand better the differing needs of the communities as well as better outlining how the Council can and will support groups at a strategic level.

Health and Social Care integration between the Council, Clackmannanshire Council and NHS Forth Valley continues to develop, building on the successful shared service arrangement already in place between the two local authorities. The governance framework is being progressed and it is recognised by the Integrated Joint Board ('IJB') that this is a significant change programme. Once governance arrangements are implemented, the focus will shift to being clear over the outcomes and what the IJB wants to deliver and achieve in the future.

# Contents

# 1. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our external audit of Stirling Council for 2014-15.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

# Introduction

## Purpose of this report

Audit Scotland appointed Grant Thornton UK LLP as auditor of the Council for the period 2011-12 to 2015-16. The appointment is made under the Local Government (Scotland) Act 1973

This annual audit report is addressed to those charged with governance at the Council and the Controller of Audit

We summarise here our opinion and conclusions on significant issues arising from our external audit for the year ended 31 March 2015

## The Council's responsibilities

It is the responsibility of the Council and the Accountable Officer to prepare the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the CIPFA Code)

The Council must:

- prepare financial statements which give a true and fair view of the financial position of the Council and its income and expenditure for the year to 31 March 2015
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

Is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources

## Our responsibilities

We are required to meet the requirements of the Code of Audit Practice ('the Code') May 2011, including consideration of the wider scope of public sector audit.

We provide an opinion on the Financial Statements and Annual Governance Statement. Under the Code we also review and report on the governance arrangements as well as wider financial management, value for money and performance considerations

International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance requires us to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report, together with previous reports to the Audit Committee throughout the year, discharges our ISA 260 responsibilities

## Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Director of Corporate Operations, the Chief Finance Officer and the Finance Team during the course of our work.

## Our responsibilities under the Code of Audit Practice are:

### Financial statements

Provide an opinion on:

- whether the financial statements provide a true and fair view of the financial position of the Council and the group
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements

And review and report on:

- other information published within the financial statements including the remuneration report
- the Council's financial position

### Corporate governance

Review and report on the Council's corporate governance arrangements as they relate to:

- corporate governance and systems of internal control, including reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

### Best value and performance

- 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
- We are required to review and report on other aspects of the Council's arrangements to manage its performance as it relates to economy; efficiency; and effectiveness in the use of resources
- We review and report on the council's arrangements for preparing and publishing statutory performance information
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the Council at a local level or a review of the Council's response to national recommendations. In 2014-15 we have completed a baseline assessment of the financial capacity at the Council

*An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.*

*Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.*

# 2. ISA 260 communication to those charged with governance

# Financial statements overview

## Introduction

We have not had to alter or change our audit approach, which we set out in our Audit Plan (19 March 2015).

## Our review of the financial statements

The draft financial statements were of good quality and we identified no significant errors or misstatements.

We reviewed the narrative elements of the financial statements (including the Management Commentary, Statement of Responsibilities, Annual Governance Statement and Remuneration Report). We review these statements for compliance with required CIPFA Code disclosures, for consistency with other areas of the financial statements and our knowledge of the Council.

The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for the Management Commentary to be included in the financial statements. The Scottish Government produced supplementary guidance on the content of this commentary in May 2015 and the Council has followed this guidance.

We have reviewed the financial statements against the requirements of the CIPFA Code which resulted in very minor disclosure adjustments, which are reflected in the signed financial statements.

During the year the Council's Finance Team reviewed key processes for producing the annual financial statements, focused on where processes could be further streamlined or simplified internally. A complete, good quality first set of accounts was produced by 19 May 2015 (a month earlier than last year). Working closely with the Finance Team we were able to undertake our substantive testing earlier, with all work on the financial statements completed by the end of July 2015. This has freed up time within the Finance Team to focus on other operational and strategic matters.

Going forward, we will continue to work closely with the Team to understand where further efficiencies could be achieved, including review of our own arrangements to ensure a smooth and timely external audit sign off.

## Financial statements opinion

Our audit identified one unadjusted difference in relation to the treatment of pensions within one of the group organisations – Active Stirling . This is set out in appendix A for information.

We have issued an unqualified opinion on the financial statements for the financial year ended 31 March 2015.

## Grants certification

The three grant claims below were certified within the required timescales during the year:

- Criminal Justice Social Work – no issues arising
- Education Maintenance Allowance – no issues arising
- Safety Camera Partnership – no issues arising

The Non-Domestic Rates and Housing Benefit grant claims will be signed following completion of our audit work in October and November.

## Whole of Government Accounts (WGA)

The Council submits a WGA pack for the financial year ended 31 March 2015.

For 2014-15 the Council is below the testing threshold and therefore full audit assurance is not required.

In accordance with the WGA guidance we have completed the required assurance statement and submitted that to Audit Scotland, with no issues arising.

# Our audit plan: a reminder

## Scope of the Audit

We consider the inherent risks to the Council and how these may result in a material misstatement in the accounts. We identified one significant risk and three reasonably possible risks which are outlined on pages 11 and 12

We conduct a range of audit procedures across all balances above performance materiality including analytical review; agreement to third party confirmations; and substantive testing on a sample basis.

Performance Materiality is £4.33 million(amount set to reduce the probability that aggregate of uncorrected/undetected misstatements exceed materiality)

Separate Materiality levels for single entity (£6.19 million) and group accounts (£6.37 million). Calculated as 2% of gross expenditure

Reasonably possible risks identified relating to:

- operating expenses;
- employee remuneration; and
- welfare benefit.

All misstatements identified over the de-minimus of £0.25 million are captured and reported to officers. Unadjusted differences over this value are included within this report

Significant risk assumed relating to management override of controls (Fraud risk).

# Audit findings against significant and reasonably possible risks

Set out below is our response to the significant risks of material misstatement identified in the Audit Plan.
There are two presumed significant risks which are applicable to all audits under auditing standards. However, as set out in our plan and below we rebutted the risk around revenue recognition.

| | Significant Risks identified in our audit plan | Work completed | Assurance gained |
|---|---|---|---|
| 1 | **Management override of controls**<br>• Under ISA 240 there is a presumed risk that the risk of management override of controls is present in all entities | • Review of accounting estimates, judgments and decisions made by officers<br>• Testing of journal entries<br>• Review of unusual and/or significant transactions | • Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues |
| 2 | **The revenue cycle includes fraudulent transactions**<br>• Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue<br>• This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition | • Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined the risk of fraud arising from revenue recognition can be rebutted, because:<br>– there is little incentive to manipulate revenue recognition<br>– opportunities to manipulate revenue recognition are limited<br>– the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable<br>• The most significant area of revenues was grant funding totalling £133.8 million (43% of revenues). We have substantively agreed grant funding to award letters<br>• In addition we have conducted judgemental sampling of fees, charges and other income to trace to cash receipts | • Our work confirmed that revenue had been recognised appropriately in the financial statements |

*Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty*

(ISA (UK&I) 315).

Set out below is our response to the other risks of material misstatement which we identified in the Audit Plan.

| Transaction cycle | Description of Reasonably Possible Risks | Work completed | Assurance gained |
|---|---|---|---|
| Operating expenses | Creditors understated or not recorded in the correct period<br>• The Council is responsible for the delivery of a range of services to the local area. In 2013/14 the cost of delivering these services was £301.6 million<br>• Purchasing is decentralised across service lines with budgetary responsibility delegated to ensure monies are recorded correctly | We gained assurance over the risk through:<br>• Review and walkthrough of the processes and controls in operation over purchase ordering, procurement and general payment and recording of expenditure<br>• Reconciliation of the creditors system to the general ledger and financial statements<br>• Statistical sample of 10 post year end transactions to test for unrecorded liabilities | • We gained sufficient assurance over the operating expenditure control environment and balances to conclude that there is not a material understatement of creditors |
| Employee remuneration | Employee remuneration accruals understated:<br>• Employee costs accounted for 43% of gross expenditure in 2013/14. There are a large number of transactions processed throughout the year and the Council relies on numerous controls including monthly reconciliations and segregated duties when compiling employee remuneration batches to ensure that the employee costs are recorded correctly in the financial statements | We gained assurance over the risk through:<br>• Review and walkthrough of the processes and controls in operation for payment of staff<br>• Substantive testing of employee remuneration accruals at the year end<br>• Judgemental sample testing of 30 staff members to HR system, recalculation of employer costs<br>• Analytically review employee remuneration expenses in comparison to expectations and investigate any significant variances<br>• Review of the relevant disclosures relating to staff costs within the financial statements | • We gained sufficient assurance over employee remuneration processes to conclude that there are no material misstatements |
| Welfare expenditure | Welfare benefit expenditure improperly computed<br>• The Council received £18.9 million in housing benefit subsidy. The systems to establish entitlement to housing and council tax benefit are complex and rely on a number of controls to provide assurance that the benefits area awarded and recorded correctly | We gained assurance over the risk through:<br>• Review and walkthrough of the processes and controls in place to calculate pay and record benefit expenditure<br>• Analytical review of the benefit expenditure in comparison to auditor expectations<br>• Statistical sampling of 10 rent rebates and 10 rent allowance transactions<br>• Reperformance of the reconciliation between the housing benefit system and general ledger | • We gained sufficient assurance over the welfare benefit control environment and transactions to conclude that there is not a material misstatement in welfare benefit arising from improper calculation |

*"Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work". .*

# Accounting estimates and significant judgements

| Accounting area | Summary of policy | Commentary | Our assessment |
|---|---|---|---|
| Revenue recognition | • **Grants receivable:** Government grants, third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments<br>• **Sale of goods:** Recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits will flow to the Council<br>• **Provision of Services:** Recognised when the Council can measure reliably the percentage of the completion of the transaction<br>• **Council Tax and Non Domestic Rates:** Revenue from Council Tax and Non Domestic Rates is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably. | • The revenue recognition policies are appropriate under the CIPFA Code<br>• The disclosure in the draft accounts was found to be reasonable and in line with prior years, however, it was noted that there were not specific revenue recognition policies for Council Tax or Non-Domestic Rates. As both are material income streams a specific revenue recognition policy should be disclosed<br>• The disclosures were enhanced in the revised financial statements and were found to be appropriate | ● |
| Property, plant and equipment | • Note 13 of the accounts sets out the Council's rolling programme of revaluations. This shows that the date of valuations vary because the Council has a rolling programme of valuations over a 5 year period<br>• The Code permits a class of assets to be revalued on a rolling basis providing the revaluation of the class of assets is completed within a short period and the revaluations are kept up to date. We would expect this short period to be within 1 financial year. Therefore the Councils approach, as set out in the policy, doesn't fully meet code requirements. | This approach is similar to other local authorities. However, a rolling programme of valuations increases the risk that the carrying value of assets is materially different from fair value.<br>The Council has considered movements in the market and selected a sample of substantial properties outwith the rolling programme to establish whether there had been a significant movement in value.<br>Additional disclosures have been included in the financial statements to explain this approach. | ● |

## Assessment

- ● Material accounting policy which could potentially attract attention from stakeholders
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

| Accounting area | Summary of policy | Commentary | Our assessment |
|---|---|---|---|
| Provisions | • The Council recognises provisions where an event has taken place that gives the Council a legal or constructive obligation that will probably require a settlement by transfer of economic benefits or service potential<br>• Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation | • We are satisfied the policy is appropriate under the CIPFA Code<br>• The Council has recognised provisions for three items:<br>– equal pay provision (£0.50 million)<br>– insurance provision (£0.91 million)<br>– debtor provisions (£10.48 million)<br>• We have reviewed the reasonableness of management's judgements in line with our knowledge of the Council<br>• We have conducted a review of the debtors provision including re-performance of calculations and review of assumptions<br>• We are satisfied the provisions have been disclosed appropriately | ● |
| Pension fund valuations and liabilities | • In accordance with International Accounting Standards the Council is required to account for retirement benefits when it is committed to giving them<br>• This involves recognition in the Balance Sheet of the Council's share of the net pension asset or liability together with a pension reserve<br>• Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of consulting actuaries (Hymans Robertson) is engaged to provide the Council with expert advice about the assumptions to be applied | • We have reviewed the accounting policies and confirmed they are in line with the guidance in the CIPFA Code and IAS 19<br>• We have reviewed the competence, capability and objectivity of Hymans Robertson who have been used as management's expert in year<br>• We have relied on an auditors expert, PwC, to provide assurance over the reasonableness of assumptions and judgements applied by the Council<br>• We are satisfied pensions have been disclosed appropriately | ● |
| Other accounting policies | • We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards | • Disclosures were in line with the CIPFA Code and considered reasonable | ● |

The Council's Finance Team has invested time in "de-cluttering" the Council's financial statements so the users of the accounts can find them easier to follow and understand. The Finance Team is continually reviewing the accounts to make further improvements on disclosure and presentation year on year, reflected in the good quality statements we receive.

## Assessment

- ● Material accounting policy which could potentially attract attention from stakeholders
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

# Group audit summary

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

| Component | Risk identified | Response under ISA 600 and work completed | Assurance |
|---|---|---|---|
| **Significant Components** | | | |
| Active Stirling | • Management over-ride of control<br>• The revenue cycle includes fraudulent transactions | • A full scope audit was performed by Hardie Caldwell LLP. We issued group instructions outlining our key risks and planned materiality levels<br>• We have agreed the figures in the unaudited financial statements for Active Stirling to the group working papers provided by the Council and agreed the treatment to the Code | • We have received a response from Hardie Caldwell LLP, who intend to issued an unqualified audit opinion<br>• The figures in the accounts have been agreed to the financial statements of the component with one issue arising in respect of pension valuation (note a. below) |
| Stirling Development Agency (SDA) Ltd | • Management over-ride of control<br>• The revenue cycle includes fraudulent transactions | • A full scope audit was performed by PricewaterhouseCoopers LLP (PwC). We issued group instructions outlining our key risks and planned materiality levels.<br>• We have agreed the figures in the unaudited financial statements for SDA Ltd to the group working papers provided by the Council and agreed the treatment to the Code | • We have received a response from PwC LLP, who has issued an unqualified audit opinion.<br>• The figures in the accounts have been agreed to the draft financial statements of the component with no issues arising |
| **Non- significant components** | | | |
| • Stirling Business Centre Ltd<br>• Stirling Technology Projects<br>• Central Scotland Valuation Joint Board<br>• ThinkWhere Ltd<br>• Raploch Urban Regeneration Company Ltd<br>• Raploch URC Landholdings Ltd<br>• Stirling District Tourism Ltd<br>• Stirling University Innovation Park Ltd<br>• Steadfast Homes LLP<br>• Stirling Charitable Trusts<br>• Stirling Common Good Fund | • Not applicable | • We have agreed the figures in the group accounts to the unaudited financial statements from the individual bodies<br>• We have undertaken a desktop review of the financial statements using analytical procedures to identify any risk areas | • Our audit work has not identified issues in respect of the non-significant components |

Note a: Our audit identified one misstatement within the group financial statements relating to the long term liabilities for pensions. This relates to a decision by Active Stirling to account for the balances with the Local Government Pension Scheme as a defined contribution scheme rather than a defined benefit scheme. This is a significant change in accounting treatment and is inconsistent with the Council's requested treatment. The Council have been unable to obtain an actuarial valuation for Active Stirling in year and therefore it is not possible to adjust the misstated figure. The Council are satisfied this will not lead to a material misstatement in the group financial statements. This adjustment is set out in detail at Appendix A.

# Other areas of audit focus

## Internal controls

We update our understanding of the Council's key financial controls and overall control environment on an annual basis.

We considered internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate to our financial statements audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. We undertook walkthrough testing related to:

- employee remuneration
- operating expenditure
- welfare expenditure
- IT control environment.

We did not identify any significant deficiencies or material weaknesses arising from our limited testing of the financial controls, however we did identify a number of deficiencies relating to the IT control environment which have been reported in a separate letter. The key IT themes were:

- there are weaknesses in the management of the access rights of users and password settings
- improvements are required to the induction procedures for IT and data protection policies
- the Council currently does not have a disaster recovery plan.

An agreed action plan is set out within this letter and will be followed up during 2015/16.

## Going concern

We considered going concern and obtained assurance through:

- review of financial factors including levels of debt, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures. The Council business plan sets out indicative 5 year financial forecasts through to 2019-20

Overall we concluded that it is appropriate for the Council to prepare the financial statements on a going concern basis.

## Future accounting considerations

There are two key accounting changes for 2015-16 which will impact on the Council's financial statements:

### IFRS13: Fair value measurement

For surplus assets three valuation options will be available:

- the market approach uses prices and other relevant information generated by market transactions involving comparable assets or liabilities.
- the cost approach reflects the amount that would be required to replace the service capacity of the asset.
- the income approach converts future cash flows, income or expenditure to a single current amount. The fair value measurement reflects current market expectations about those future amounts.

The Council currently values surplus assets at fair value based on existing use, with current surplus assets valued at £1.76 million.

### Accounting for Infrastructure assets

The Council has a range of transport infrastructure assets including carriageways, footways, cycle tracks, and street lighting.

The 2016-17 CIPFA Code will changesthe valuation base from historical cost to a depreciated replacement cost (DRC) basis. DRC is a method of valuation that provides the current cost of replacing an asset with the modern equivalent asset less deductions for deterioration or obsolescence.

This change will have a significant impact on the balance sheet of the Council and requires retrospective restatement. In order to ensure successful delivery for 2016-17 preparatory work will be required in 2015-16. The Finance Team has already started to consider the implications of this change in the Council's financial statements, having sought technical advice and we will continue to support the team in this transition.

Refer to action point 1

# 3. Financial management

# Financial management

## 2014/15 out-turn

The Council approved the 2014-15 general reserve budget in February 2014 alongside indicative budgets for the financial years 2015-16 to 2018-19.

2014/15 Budgeted expenditure was set at £201.72 million with an in year spend forecasted at £203.92 million giving a budget gap £2.20 million.

## Financial savings

The budget was set using Priority Based Budgeting (PBB) and identified a suite of savings options based on future requirements, aligned to Council priorities. Officers consulted with communities to develop proposals which outlined proposed savings options of £4.40 million.

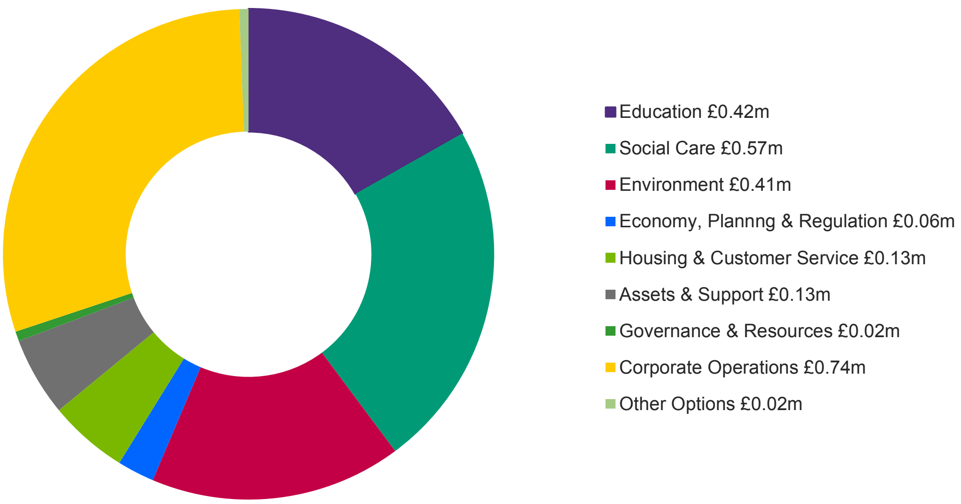
Elected Members were provided with the identified options and approved a number of savings projects giving net savings of £2.43 million:

The Finance and Economy Committee routinely receives finance updates, including savings plans which have been risk assessed according to likelihood.

The Council achieved net in-year savings of £2.33 million compared with the 2014-15 PBB savings set of £2.43 million, due to the timing of when certain planned savings were realised in year.

The Council's budget is aligned to the 18 priorities of the Council. Savings proposals are linked to priorities and this helps shape the decisions making process. This exercise also supports the Council in allocating greater resources to key priorities, and continuing to invest in service delivery, as outlined in the five year business plan

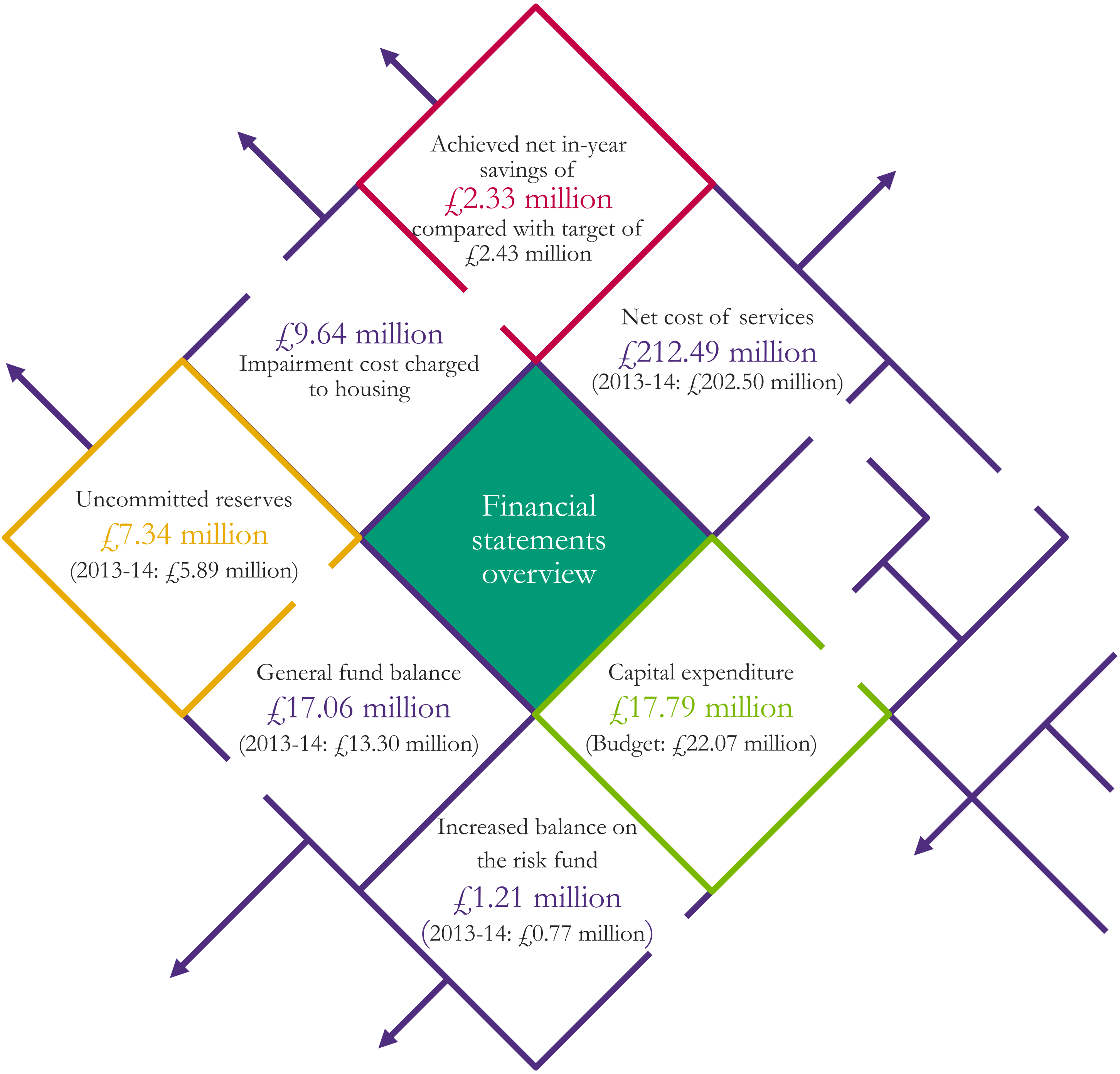
### Savings in 2014/15 were split across Council services as follows:




Source: Stirling Council minutes February 2014

The Council continues to budget accurately, with the year-end outturn broadly in line with the budget set in February 2014. The Council has sought to continue to build reserves, with reserves as at 31 March 2015 representing 3.5% of gross expenditure. The Council is continuing to focus on achieving savings over and above those needed to balance the budget as this will allow for further investment in the Council's strategic priorities and provide financial support for any emerging cost pressures. Overall the Council's financial position for 2014-15 continues to be one of stability.

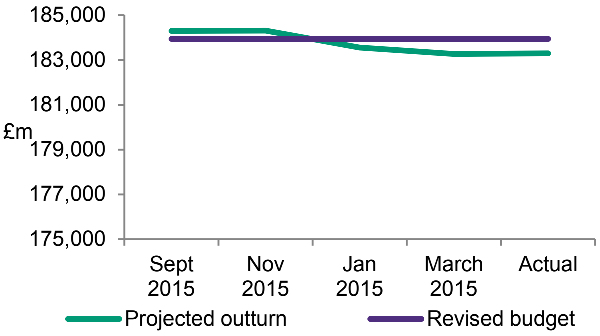
## Key Financial Statement highlights for the financial year ended 31 March 2015 were:



## Finance position – Budget v actual

The Council has a good track record of delivering its revenue budget. During 2014-15, routine budget monitoring reports presented remained within 0.5% of the revised budget and final outturn




Source: General Fund Monitoring Reports to Finance and Economy Committee

As at 31 March 2015 there was a £0.63 million underspend against the cost of services budget. Variances include:

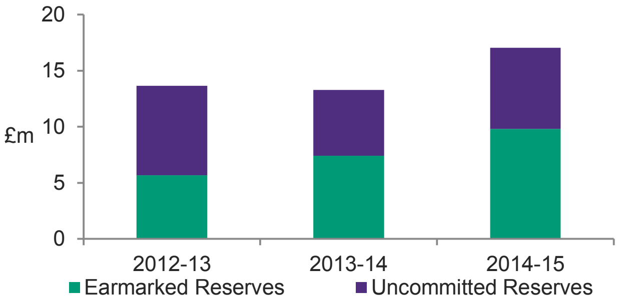
- an underspend of £0.70 million for Children, Young People and Education. £0.55 million of the saving arose from the slow uptake of provision of nursery services for 2 year olds under Children and Young People Act. There was also increased income from nursery charges and crèche and play
- an overspend of £0.27 million which was due to overspends in Adult Services (£0.41 million) and Children's Services (£0.20million) and partially offset by savings made in recruitment of (£0.23 million)

In addition, there was also an underspend of £1.71 million against corporate budgets. The most significant element of the saving was through a reduction in loans charges (£1.38 million), as the current treasury management strategy delayed long term borrowing, utilising cash balances

## Reserves position

Un-earmarked reserves as at March 2015 were £7.24 million, representing an increase on prior year.

The earmarked element of the General Fund also increased in year to £9.82 million (2013-14: £7.41 million).




Source: Stirling Council Abstract of Accounts 2013-14 and 2014-15

Earmarked purposes include:

- the creation of a Risk Fund in line with the PBB strategy which forecasts cumulative funds will be set aside of £4.14 million over a six year period to capture potential cost pressures. A transfer of £0.44 million was made to the Risk Fund in 2014-15 bringing the balance to £1.21 million
- council tax second homes discount £1.22 million
- Strategic Housing Account £0.93 million

To support the Council's vision to be risk aware, not risk adverse the Council has created a specific risk fund. The intention of this fund is to support strategic investment and innovation in the Council, linked to Council's priorities

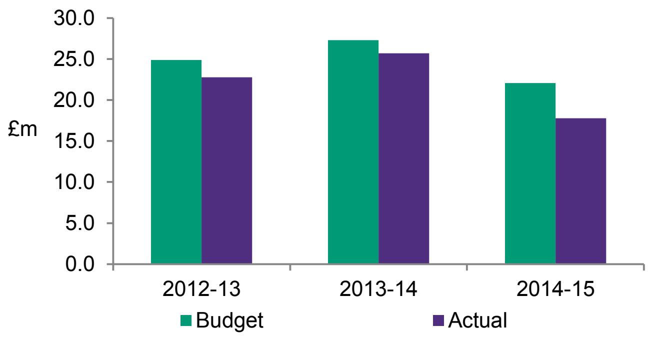
As part of the Council's medium to longer term financial strategy it should consider setting an expected level of annual reserves, and how it might anticipate this being split across the risk fund, earmarked and un-earmarked reserves.

Refer to Action Plan point 2

## Capital programme

The Council incurred General Services capital expenditure of £17.79 million, (80.6% of the re-profiled capital budget of £22.07 million). Due to slippage, £3.84 million has been carried forward into 2015-16.




Source: Stirling Council General Services Capital Programme Committee Paper

To give flexibility a degree of over programming of £0.5 million has been built into the capital programme for 2015-16, reflecting the underspends incurred in the prior years

The Housing Strategy Investment Programme set out planned expenditure of 2014-15 of £23.3 million. The actual amount used for capital purposes in year was £22.42 million giving a small underspend of £0.88 million

## Finance Team

The Council's most senior finance officer is the Chief Finance Officer. They are a core member of the Council's Corporate Management Team. Overall the Finance function within the Council has sufficient status at a strategic level to deliver expected financial management

CIPFA issued guidance on "The role of the Chief Financial Officer" which noted that the Chief Finance Officer should be a key member of the Leadership Team and must be actively involved in and able to bring influence to bear on all material business decisions

The Chief Finance Officer will report directly to the Director of Corporate Operations from September 2015, and has sufficient access to the CMT, Senior Officers and therefore the arrangements meet the requirements set out in the CIPFA Guidance.

### Quality and financial capability of the Finance Team

The Council has numerous employees working in a financial capacity across the Council for example corporate finance, revenues, service based teams

Overall there has been a reduction in professionally qualified and support staff across the finance function since 2011-12. Where possible the Council has considered redistribution of roles and work load in order to achieve savings while maintaining the level of service

The Council is currently reviewing the financial processes across the organisation with a view to streamlining activities and providing capacity to professional accounting staff to take on more high value work. This is represented through the delivery of the annual accounts earlier and the work done to bring certain operational activities forward and during the year rather than at year end. This earlier sign off will allow the finance team greater time to focus on strategic financial planning going forward.

Overall although the finance team is relatively small it is proportionate to the size of the Council and is well organised and disciplined. Given the scale of the financial challenges facing the Council it will be critical that the team continue to identify efficiencies in financial processes, allowing greater input into the future financial position of the Council including costing and considering the financial implications of new or alternative service delivery options.

# 3. Financial Sustainability

# Financial Sustainability

Through our work with English Local Authorities, in particular our annual governance and financial sustainability reviews, we have identified that Local Government is continuing to deliver despite challenges, including pressure to achieve financial targets. This is the same for the Council, however it is recognised that it will become increasingly difficult for the Council to achieve financial balance without a more fundamental change to the way the Council operates.

With the wider devolution of powers in England, the Council, like all other local authorities in Scotland, need to consider with the Scottish Government and other stakeholders what future changes need to happen in Scotland to allow the Council greater freedom to generate additional income and continue to deliver services that are fully aligned with the needs of the community the Council serves.

To promote financial resilience, financial skills need to be in place across the Council, promoting a culture of accountability for future service decisions and the associated financial implications. This is something the Council has started to work on through the profile of PPB, and something the finance team are also considering as they look to become more strategically focused.

## Developing Financial Sustainability

The Council has developed a five year Business Plan which recognises the significant challenges facing the Council over five year period including: confirmed Council tax freeze; decreases in grant funding; an ageing population and resultant pressure on services.

Linked to the business plan is the wider economic strategy of the Council. The Scottish Government recognise cities and their regions play a central role in driving economic growth, and are committed to working with Scottish Cities to promote growth. The Council is part of the Scottish Cities Alliance. In 2014 the Alliance agreed an ambitious set of city investment plans across Stirling; Aberdeen; Dundee; Edinburgh; Inverness; and Perth.

## 2015/16 and 2016/17 Budget

The budget for 2015-16, prior to savings initiatives, identified a surplus position of £0.27 million for the Council. In order to reduce the funding gap going forward the Council approved a savings target of £0.18 million for 2015-16.

The Council conducts an annual exercise with communities and partners to identify a range of proposed savings for Elected Member consideration. Work is progressing on creating a suite of options for 2016-17 and the community engagement events are scheduled for October and November 2015.

The Council has considered possible budget scenarios from 2016/17 through to 2020/21 and these continue to be linked to PPB.

For 2016/17 the scenario shows a £4.249 million budget gap, reflecting a forecasted decrease in revenue support grant funding and non-domestic rate income of £1.677 million.

For 2016/17 additional costs of £6.550 million are built into the budget to take account of various pay inflations, and other cost inflations and could be subject to change.

In terms of forecasted service expenditure, Education and Social Services are forecasting slight increases in spend compared with prior years reflecting increasing needs, with all other service areas having to operate at less cost than previously.

Audit Scotland set out ten features of long term financial planning. The table overleaf sets out our assessment of Stirling's five year Business Plan, and associated strategies, against these good practice characteristics. Based on our review the plan meets the majority of the key features identified by Audit Scotland.

Our consideration of Stirling's 5 year business plan against Audit Scotland's good practice characteristics:

| Element | Expected characteristic | Our assessment | Key features within the 5 year Business Plan |
|---|---|---|---|
| **Income** | An assessment of expected income, including projected changes to council tax income. It should set out options to increase income, for example policies on fees and charges. | ● | • Expected income factored using key financial assumptions including the impact of demographic change, central government funding and anticipated council tax rates.<br>• Strategy for fees and charges agreed by Council. |
| **Costs** | A clear understanding of the Council's costs, including those of individual services, borrowing costs etc. It should highlight future cost pressures and identify options for relieving these. | ● | • Key factors within the financial model, including cost pressures such as the impact of pay awards.<br>• Clear links to the Priority Based Budgeting process (PBB2) which highlights cost pressures and options within specific services. |
| **Savings** | An analysis of required savings along with evidence-based options for achieving these. This should set out details of one-off and recurring savings and the risk of these not being achieved. | ● | • Clear outline of savings required and remaining funding gap for each year to 2019-20.<br>• PBB2 process identifies the risks associated with savings and is monitored using a traffic lights approach. |
| **Funding gaps** | Details of any funding gaps between projected income and the cost of providing services, including the reasons for these and how these will be managed. | ● | • A cumulative funding gap has been identified of £18.9m by 2019-20.<br>• There are detailed plans in place to meet the savings requirement in 2015-16. However, there are no detailed plans for the following years.<br>• The Plan signifies a programme of cultural and structural change, based on key principles including community engagement. |
| **Assets, liabilities and reserves** | An assessment of assets and liabilities showing how these will change over time. There should also be a reserves policy, setting out details of adequacy, why reserves are held and what they will be used for. | ● | • The Business Plan is aligned to a range of interlinked strategies, including the Workforce Strategy, refreshed Economic Strategy, Inward Investment Plan and Treasury Management and Capital Programmes.<br>• The Council has committed to a target of uncommitted reserves totalling 2-2.5% of expenditure, and has established a Risk Fund. |
| **Scenario planning** | Different scenarios that show the best, worst and most likely financial positions. This should set out the assumptions used, and take into account long-term economic forecasts and interest rate projections. | ● | • Major influences over the period of the Plan are identified<br>• Sensitivity analysis is included against key assumptions |
| **Capital investment activity** | Details of investment needs and plans and how these will be paid for. This should include details of estimated financing charges. | ● | • The Plan links to the capital programme, which highlights Council priority projects and the PBB implementation programme. |
| **Demand** | Analysis of demand for services, taking into account various population projections. It should also include the impact of demand on capital investment needs. | ● | • Demographic pressures built into cost model |
| **Risks** | An analysis of significant financial risks, their implications and how these might be mitigated. | ● | • An earmarked Risk Fund has been established to mitigate the risk of future cost pressures. Further work is taking place over the Council's risk framework, in particular the quantification of key risks. |
| **Links** | Clear links to the Council's corporate strategy, CPP objectives and other plans. | ● | • There are clear links to the Economic Strategy, Inward Investment Strategy and City Centre Strategy , Workforce strategy and 5 year indicative capital programmes. |

Key

● In our view the business plan meets the relevant feature of good practice medium to long term financial planning

● The business plan partially meets the relevant good practice feature

● The business plan does not meet the relevant good practice feature

## Local Authority –Forecasted funding gaps

The Accounts Commission Overview of Local Government 2015 highlighted that Councils are facing increasingly difficult financial challenges. In the 3 years to 2013-14 Scottish Government funding to Council's reduced by 8.5% in real terms to £10.3billion.

These financial challenges are forecasted to continue particularly in 2016-17 and 2017-18.

In a briefing paper taken to the Accounts Commission in May 2015, the Director of Performance Audit and Best Value outlined the funding gaps that councils are predicting between 2015-16 and 2017-18. The Commission agreed that the paper be shared with auditors for their use. The paper was based on information provided by auditors on their councils budgeted income, revenue expenditure, savings plans and use of reserves in the years 2015-16, 2016-17 and 2017-18. Information was submitted when Councils set the 2015-16 budgets.

A funding gap is defined as the deficit that remains after a council has identified measures, such as savings or using reserves, to address the shortfall between their budgeted annual income and revenue expenditure.

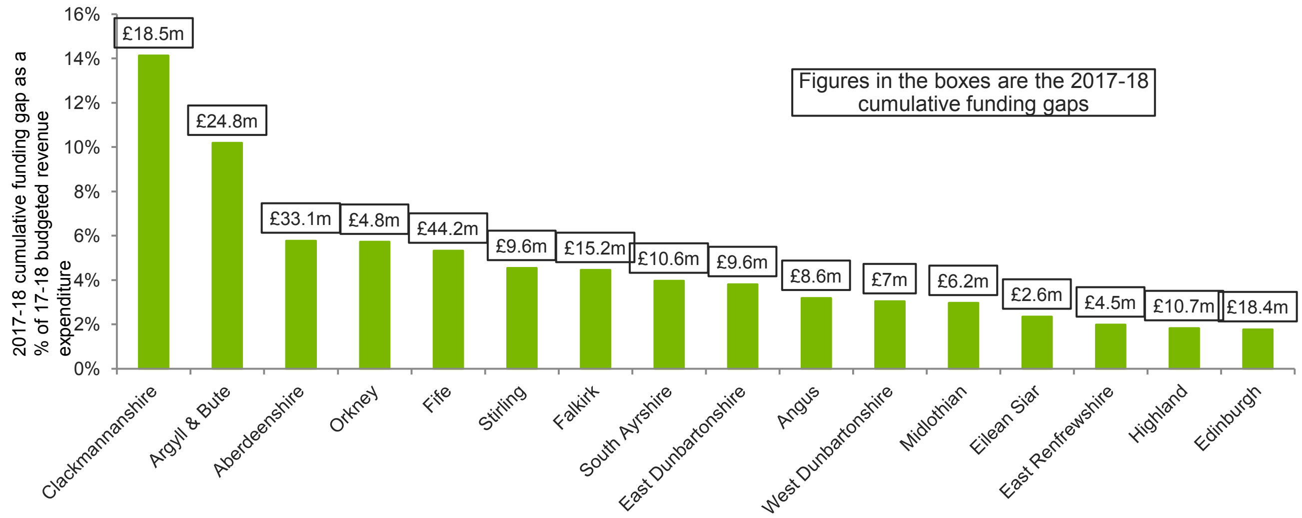
The exercise highlighted differences in the way that councils present budget information. This means that it is difficult to understand each council's individual funding gap and to calculate the total funding gap facing all councils in the next few years. Therefore it is highlighted that comparing information across local authorities should be done with caution.

Sixteen Councils predicted they would have a cumulative funding gap in 2017-18, with the graph below showing the variation in funding gaps. The funding gap ranges from 2% to 16%, with Stirling showing a gap of circa 5%, comparable to Fife, Falkirk and South Ayrshire Council.

The Council continues to use the Priority Based Budgeting exercise to identify savings, linked back to the strategic priorities of the Council. In addition the Council continues to prioritise the identification of recurring savings through re-design of services, as well as following on ensuring available funding is committed in line with priorities and invested in their strategic vision.

The graph highlights the difficult financial position across the local government sector. The Council like many others has already realised the easily identifiable savings, which hasn't yet impacted on service delivery. However, looking forward service delivery at the same level and in the current manner is not going to be sustainable without transformational change.

Cumulative funding gaps in 2017/18 (as a percentage of 2017-18 revenue expenditure)




Note: In 2017-18 ten councils are predicting a balanced budget and a further six councils have not prepared a budget for this year

Source: Accounts Commission paper presented May 2015

# Financial Sustainability

## Stirling's economy – an outlook

For the Council future financial resilience could come through greater control over those decisions that are relevant to the Stirling economy.

In order to achieve financial sustainability, the Council will need to continue to promote economic growth across the area, recognising there are specific challenges. The Council refreshed its Economic Strategy in June 2014 after consultation with local businesses and key agencies. The revised strategy reflects a shared ambition for growth and diversification of the local economy.

The strategy has a key objective to attract trade and investment to the Stirling area that will deliver new economic infrastructure with high quality job opportunities. The Council aims to achieve this through five strategic themes:

- Promoting Stirling's advantage
- Supporting businesses
- Skills development and access to jobs
- Supporting the rural economy
- Investing in infrastructure.

Stirling has a small economy and any economic fluctuations no matter how small could have a substantial impact. Current business formation rate within Stirling is low compared to the UK average, however businesses set up in Stirling have a higher 24 month survival rate than the average across the UK. 75% of the population are employed, which is in the middle 20% of all local authorities across the UK. Like many local authority areas Stirling is dependent on the public sector as a key employer (30% of people employed in Stirling are employed in this sector).

The population aged 15-24 is high at 15.6% compared to the UK but this reflects the presence of Stirling University. A key challenge for the Council will be to continue to look at ways to work with the University, to get investment back in to the Stirling economy and to retain students upon graduation to increase the skill pool and contribute to the wider economy.

By 2037 the 0-14 population is expected to increase by 14% with the population over 65 to increase by 63% (meaning by 2037, those aged 65 or over will account for 25% of Stirling's population). This is in line with national trend but will place pressure on Council services in particular Education and Social Services.

## Economic Strategy

The Council has refreshed its Economic Strategy through engagement with local businesses and key stakeholders, and continues to monitor progress against the actions set out in "A growth plan for Stirling's economy – way forward for economic development and business support".

The Council's overarching vision is "…to be a place with high quality jobs and opportunities for all, providing an excellent quality of life for residents and visitors; a location of choice for business with a vibrant, diverse and growing economy.

In addition to the core strategy the Council has considered an approach to Inward Investment, looking at how Stirling is promoted as a vibrant place, a contributor to Scotland's sector activity and an ideal location to develop new growth in emerging opportunity areas.

A key part of the Council's focus continues to be investing in infrastructure which will support economic growth.

Key actions progressed across the Council in respect of the economic strategy include:

- ✓ Establishment of Stirling Advisory Board
- ✓ City Centre Strategy devised and approved
- ✓ Business and Economy Officer recruited
- ✓ Launch of the Stirling Chamber of Commerce
- ✓ Development of Business Improvement Districts (Stirling City Centre and Dunblane)
- ✓ Refreshment of the Economic Strategy
- ✓ Inward Investment focus

A clear vision is in place outlining what the Council wants to achieve through the economic strategy, with routine updates being presented to the Finance and Economy Committee.

To progress the Council's economic vision and strategy, the Council may need to be more creative in how it delivers future services, ensuring that services are fully aligned to the needs of the economy – investing further in certain areas and reducing investment in others. As recognised in the Council's strategy, delivering this vision relies on the close working with key partners and stakeholders outwith the Council.

## Housing Strategy

As part of the development of the Housing Strategy a 30 year business plan was approved by the Environment and Housing Committee in November 2014.

The plan recognises that housing demands are greater than supply continues to outstrip supply with approximately 2,700 applicants waiting for housing (July 2014).

The Housing Investment Programme for 2014- 2019 outlines spend of £56.26 million of which £20.32 million earmarked for new housing.

In consultation with tenants agreed housing financial objectives are:

- rent increases of no more than inflation over 5 years
- annual rent increases based on known cost pressures and agreed changes to service delivery
- new borrowing on the HRA will only be undertaken to fund construction or purchase of assets
- loans charges including the repayment of principle debt will be no more than 20% of income
- total debt will be no more than 2.5 times income.

The Council intends to build a general housing reserve of between 5%-8% of rental income, (£1- £1.5 million). In order to support the target of only borrowing to invest in new assets, the HRA will need to have sufficient reserves to meet unusual or unforeseen costs.

Refer to Appendix C – Follow up of prior year actions.

Housing will continue to be an area of challenge and focus for the Council, particularly as there is a commitment to hold rental in line with inflation and borrowing will need to be carefully considered. Housing, is just one of the priority areas going forward and will need to be balanced against other priorities including education and social services.

# 3. Governance and transparency

# Governance and transparency

## Annual governance statement

The Local Authority Accounts (Scotland) Regulations 2014 require the preparation of an Annual Governance Statement (AGS) within the financial statements. The Council has been preparing an AGS on a voluntary basis since 2011-12.

The Council conducted a review of effectiveness of the governance framework and the system of internal control to inform the AGS. The review of effectiveness did not highlight any issues that would impact on the level of assurance over the governance framework, however there were a number of areas for improvement identified and reflected in the statement:

- strengthening service planning, business continuity, health and safety and operational procedures
- improving procurement capacity and capability and contractual supplier management
- undertaking training on key financial responsibilities and counter fraud awareness
- improving monitoring and management of the Council's arms' length organisations
- strengthening project and programme management, including significant capital programmes

We reviewed the Council's AGS as part of our audit procedures and concluded that the disclosures were in line with the CIPFA Code and our knowledge of the Council. The statement is sufficiently balanced, reflecting key aspects of the Council's governance structure as well as key areas for future development

## Review of governance and scrutiny arrangements

The Council has an established Local Code of Corporate Governance based on principals outlined within the CIPFA/ SOLACE framework (2007).

This code is supported by a suite of guidance including Standing Orders, Scheme of Delegation and Financial Regulations, which reviewed and were updated in February 2015.

The Scheme of Delegation outlines the Council committee structure:

- Social Care and Health Committee
- Education Committee
- Finance and Economy Committee
- Environment and Housing Committee
- Community Planning and Regeneration Committee.

The Council has a new streamlined leadership structure, therefore it would be an opportune time to review this against the Council Committee structure and the Council's key priorities to confirm that the Committee remits are still fit for purpose and allow for effective decision making. This could be done through use of an assurance map, focused on where scrutiny is undertaken and considering any gaps or overlaps. See Action Point 3.

## Management restructure

The Council approved a new management structure in June 2014, which reduced the number of departments from six to four: Housing and Environment; Communities and partnership; Children, Young People and Education; and Corporate Operations.

The new management structure is designed to:

- align resources to key priorities and requirements
- be externally focused on outcomes and things that need to get done
- provide senior leadership for key priorities and outcomes

Three of the new Directors were external appointments and further changes were made at senior manager level.

The change in leadership is a positive step to continuing to make the Council's internal governance arrangements streamlined and effective and is a good opportunity for the Council to continue to explore new and different ways of working as they continue to undertake a programme of change.

As well as streamlining the leadership structure, the Council aims to create greater efficiencies in their way of working. Corporate and service level functions are now grouped together in a logical manner, in particular all customer focused services are grouped under the leadership of one Director.

Service committee responsibilities include:

- receiving, scrutinising and approving Service's plans for implementation of the Council's policies and priorities for service delivery
- receiving, scrutinising and approving the Service's arrangements for the management of risk
- monitoring and reviewing the discharge of functions within each committee remit
- reporting any areas of concern to the Council including those that may require further scrutiny by a Committee

We reviewed a sample of the service committee papers and noted that there is evidence of the review, approval and monitoring of service plans and delivery. As part of our 2013-14 Annual Report to Members we recommended that each Committee conducts a self assessment of effectiveness in performing their function, in particular the scrutiny role. Whilst this has been an ongoing focus for service committees a formal evaluation and focus on where further improvements could be made has not yet taken place. Refer to follow-up of prior year actions 6.

At a corporate level the Council has delegated responsibility for governance to an Audit Committee. The Audit Committee is chaired by the Leader of the Opposition and is well attended.

During the year we facilitated a session with the Audit Committee Members and officers, including the Chief Governance Officer and Head of Internal Audit. This session focused on a self assessment of areas where members considered the Audit Committee was performing well and where there was scope for improvement. The main action from this assessment was that the Audit Committee could prepare an annual report including an assessment of it's effectiveness in year. This would be in line with good practice and would help ensure compliance with CIPFA Audit Committees: Practical Guidance for local authorities. Refer to action point 4

## Governance of Arms' Length External Organisations

Stirling has 13 Arms' Length External Organisations (ALEOs) which are consolidated within the group statements on the basis of voting rights. In December 2014 the Council approved a Local Code of Practice on Following the Public Pound (the Local Code). The main purpose of the Local Code was to ensure that there was accountability for public funds used in delivering services, irrespective of the means of delivery.

Additional work was undertaken by Internal Audit in 2014/15 around ALEOs focused on a baseline review of the Council's governance arrangements.

There was one area of high risk identified by the review: Services failed to demonstrate that finalised Service Level Agreements are in place and that monitoring and risk assessment procedures have been performed.

Now that governance arrangements have been strengthened the outcomes and value for money achieved through these ALEO's should be considered, as part of the Councils wider service reviews. Refer to action point 5.

The Council has established a Local Code of Practice on Following the Public Pound which was approved in December 2014. This Local Code sets out Stirling Council's arrangements for ensuring accountability for public funds in the delivery of services. The Local Code is clear, and whilst through the work of Internal Audit, the Council acknowledge there is scope for further refinement, this is a positive step in how the Council seeks to ensure consistent governance across all the Arms length organisations and their relationship with the Council.

## Risk management

The Council revised its Risk Management Policy and Procedures in April 2015 with risk registers in place at strategic, service and project levels.

The Council wide strategic risk register is under the remit of the Director of Corporate Operations. The register is reported as a standing item at the Council Management Team (CMT) and the Audit Committee, where it is subject to a degree of scrutiny.

Strategic risks in the register include:

- the achievement of identified savings and the ability to adequately respond to rising external cost pressures and likely reductions in central government funding.
- failure to maximise workforce capability due to a lack of capacity, workforce development and training.
- failure to engage appropriately with employees
- adequate business continuity arrangements are not in place
- failure to adequately protect information

Service risk registers are the responsibility of Risk Leads who should ensure the Service Risk Register is properly updated and maintained and reported to each Committee. This is an area which will be embedded in during 2015-16, as the revised procedures were only introduced in April 2015.

Therefore we will continue to monitor progress with the implementation of the new Risk Management Policy and Procedures.

Refer to follow up of prior year action 5.

## Internal Audit

The Council has an in-house Internal Audit function, and has confirmed compliance with Public Sector Internal Audit Standards as part of their Annual Report.

Internal Audit is led by the chief Internal Auditor who reports to the Director of Corporate Operations, and consists of a team of five.

Internal Audit is required to provide an annual opinion to the Audit Committee on the assurance framework. In 2014-15, they issued the following opinion:

*"We have concluded that, based on the evidence available and subject to the implementation of audit recommendations to address any weaknesses identified reasonable assurance may be given that the control, governance and risk management arrangements within the Council are adequate and operated effectively during 2014-15"*

There were three areas where only limited assurance was provided:

- data protection
- residential schools
- purchase ordering

Although Internal Audit did identify a number of high risk rated recommendations none of these were identified as critical risks to the achievement of the Council's objectives.

In 2015-16 the Internal Audit programme focuses on:

- corporate asset management
- capital programme
- contract management
- strategic housing investment plan
- health and social care integration

As set out in our audit plan we reviewed the work of Internal Audit to inform our audit approach. However, we did not place reliance on any specific Internal Audit work undertaken in 2014-15.

Overall Internal Audit have completed their plan for 2014-15 as agreed with the Audit Committee and have provided detailed updates to Committee.

## Prevention and detection of fraud and irregularity

The Council has a Fraud and Corruption Strategy, which is designed to promote an anti-fraud and anti-corruption culture. This is supplemented by the Council's Public Interest Disclosure (Whistleblowing) Policy. In year the Council appointed a Fraud and Audit Officer to support and further develop the Council's arrangements including an update of the current Fraud and Corruption strategy (December 2015), and this is reflected in the Annual Governance Statement as a future area of focus.

Our enquiries of management and the Council's internal identified one fraud during the year, related to the theft of a Council refuse vehicle. This resulted in damage to public property and repair costs of £11,000. The Council has strengthened controls in this area following the theft.

There were no instances of internal fraud highlighted to us over the course of the audit. In order to gain assurance there were no material fraudulent transactions in year we conducted testing on journal entries and related party balances to identify any unusual transactions. There were no issues arising from this testing.

The Council participates in Audit Scotland's National Fraud Initiative. During 2014-15 the data matching exercise found 3842 matches of which 826 were recommended matches. The Council has investigated 183 (22%) of the recommended matches as at June 2015 and have not identified any instances of fraud or error.

Refer to action point 6.

## Arrangements for maintaining standards of conduct

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the Council has established a Code of Ethical Standards and the specific Code of Conduct for Councillors as approved by the Scottish Government. Registers of interests are available for each Councillor on the Council's website, and declarations of interest are made at each Council meeting.

# 4. Value for money

# Value for Money

## Single Outcome Agreement (SOA)

The SOA approved in May 2013 sets out a framework focusing on key priorities:

- improved outcomes in children's' early years
- communities are well served, better connected and safe
- improved supply of social and affordable housing
- a diverse economy that delivers good quality local jobs

A mid-year progress report on the prevention and detection areas of the SOA, was presented to the Community Planning and Regulation Committee in November 2014.

All of the task groups set up in relation to prevention and detection except Children and Young People Strategic Partnership had an action plan and performance measures in place by September 2014. The Community Planning Partnership (CPP) has identified the need for progress in this area and identified actions going forward.

The CPP had noted a number of key development themes to consider in relation to the overall impact of the SOA programme:

- building capacity and demonstrating ability for change
- responding to the wider governance agenda including: Health and Social Care Integration; transition to the new Community Justice arrangements; and Public Protection
- reviewing and clarifying joint priorities in the context of the SOA's focus on prevention and reducing inequalities
- measuring impact completing a shared performance framework
- continuing to build community engagement and participation across the CPP

Monitoring performance of the Council against the SOA during 2014-15 has been limited. However the Council and the CPP have demonstrated commitment to improving arrangements going forward including the creation of a comprehensive bank of performance indicators and the preparation of an annual report.

Refer to action point 7.

## Community Engagement

The Council has actively sought to increase community engagement since 2013 through "Increasing engagement and participation: A Framework for Change".

Since December 2014 the CPP Leadership Group has been reviewing how they can accelerate progress with the key objectives of the SOA. The CPP are keen to utilise community leadership and empowerment to provide solutions to local issues.

The Community Empowerment (Scotland) Bill was passed in June 2015. The Bill aims to make provision about the achievement of national outcomes through increased community involvement and collaborative decision making. The Bill makes provision:

- for community planning partnerships to be embedded in law with a requirement to work alongside communities
- to enable communities to buy abandoned or neglected land
- for registers of common good property

The CPP has agreed to provide resource and support a number of community pilots to explore the principles of the Community Engagement Bill. The pilots will take place across the following communities:

- Cowie
- Strathfillan and Killin
- Strathblane, Balfron and Killearn
- Stirling City Centre

The Council believe there is considerable potential to create change within the pilot areas, with the pilots focussed on the aspirations of the individual commitments.

The Council has invested significant time in understanding the community, and actively engaging the Community through a variety of means. As part of this engagement the Council has sought to understand each community council's key vision and strategic goals, focused on how they can support the Community Council's achieve their vision, whilst explaining the limitations the Council have and that they cannot simply provide administration support. This is the start of an active two way dialogue, looking to build and develop relationships across communities.

# Performance management framework

The Council's performance management framework is structured as show below:

| | | | |
|---|---|---|---|
| Reviewing and improving | • Best value<br>• Community planning partnership self-assessment<br>• Corporate self-assessment<br>• Stirling Council improvement plan<br>• Service self-assessment | • Inspections<br>• Audits<br>• Benchmarking<br>• Scrutiny panels<br>• Source improvement plans | |
| Reporting and managing | • SOA progress report<br>• Annual report<br>• Scorecard | • Corporate scorecard<br>• Committee scorecard<br>• Service scorecard | |
| Planning and prioritising | Community planning partnership level<br>Single outcome agreement | Corporate level<br>Business plan | Service level<br>Service plans |

The Council has established 18 Key priorities which are reflected in the Council's business plan and scorecard. To meet the key priorities, overarching goals have been created which are:

- be community led
- be one Council – One Team
- be a learning Council
- be risk aware: not risk adverse
- be open and responsive

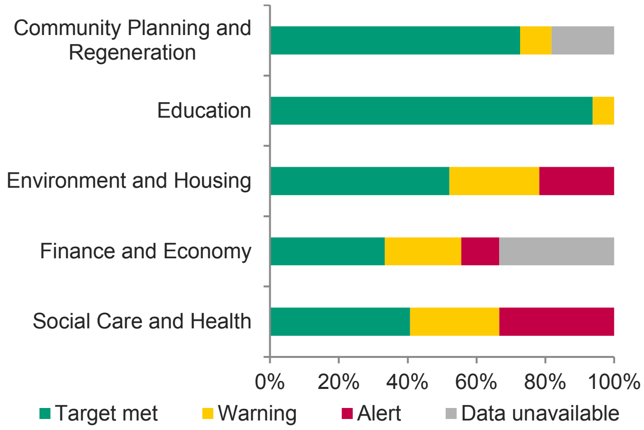
The Council continues to review its performance management framework to ensure clarity and that it is explicitly linked to the Council's vision and desired outcomes.

Performance indicators are aligned to the Council's 5 Committees with a focus on customer facing services, at service level.

During the year the Council reviewed performance targets, and increased the targets in certain areas to be more challenging, with a view to driving forward continuous improvement and to avoid complacency

- We recognise that the Council has stretching key performance indicators with a view to driving improvement, through promoting different behaviours across the Council, and therefore whilst this has contributed to a number of indictors being classed as "warning" or "alert" within performance reports overall Council performance in year has not declined.
- Performance information is reported to individual appropriate service committees as standing items and mitigating actions monitored and discussed where required.

The Council is meeting the majority of its targets across customer service areas with some improvement required:




Source: Stirling Performs August 2015

As at March 2015, Environment and Housing Services and Social Health and Care Services reported 'alert performance' status for:

- re-let void housing properties within 28 days
- building warrant applications determined within 6 working days on receipt of satisfactory information
- roads carriageway network treated against planned maintenance
- Staff satisfaction, leadership and the appraisal process (within Social Care and Health)

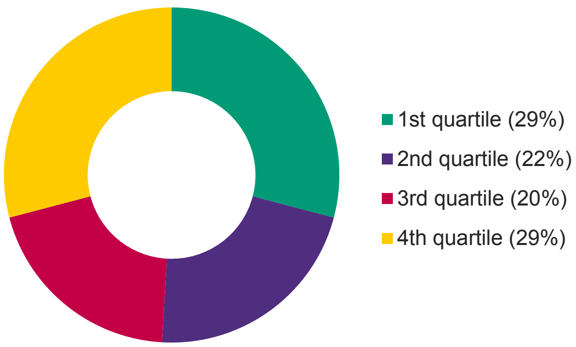
Arrangements are in place to continue to monitor these indicators and take necessary actions.

## Statutory performance indicators

As required by the Local Government Act 1992 Publication of Information (Standards of Performance) Direction 2013, the Council has collected and reported information on Corporate Management (SPI 1), Service Performance (SPI 2) and the Local Government Benchmark Framework (LGBF SPI 3).

The LGBF comprises a suite of performance indicators which are collected for all councils across Scotland to create a database of comparable data. The Council's performance data which was reported into the 2013-14 LGBF is available on the Council website. In 2013-14 there were 55 indicators as part of the LGBF and the Council has improved its position relative to the remaining 32 Councils in 49% of the indicators.

Performance against LGBF indicators:




Source: Stirling online performance management system August 2015

This chart highlights that service performance in a national context remains mixed with 29% in the first quartile, but 29% at the bottom quartile. Areas performing well include: the percentage of pupils gaining 5+ awards at level 6, corporate asset services, the levels of satisfaction with culture and leisure services and the cost per dwelling of collecting council tax.

Performance in the bottom quartile of council's include roads maintenance, cost of waste collection and disposal, cost of environmental health services and gross rent arrears at 31 March as a percentage of rent due.

We have raised the level of rent arrears as an area of challenge for the Council in our prior annual reports. This is an area where there has been improvement. In 2012-13 the Council was ranked 26th out of the 26 Councils who maintain a housing service. In 2013-14 this has improved to 23rd. The Council recognises that improvements in this area are likely to occur over a long period and this remains a high priority for improvement for the service.

Refer to follow up of prior year action point 3.

## Accounts Commission Public Performance Reporting review

The Accounts Commission reported on how well Councils have met the requirements of it's SPI Direction 2012 in June 2015. The report presented to the Accounts Commission meeting outlined where Public Performance Reporting (PPR) has improved and where further improvement is required.

The Accounts Commission noted that although there was a general trend of improvement there were significant variations across the SPI 1 and SPI 2 themes.

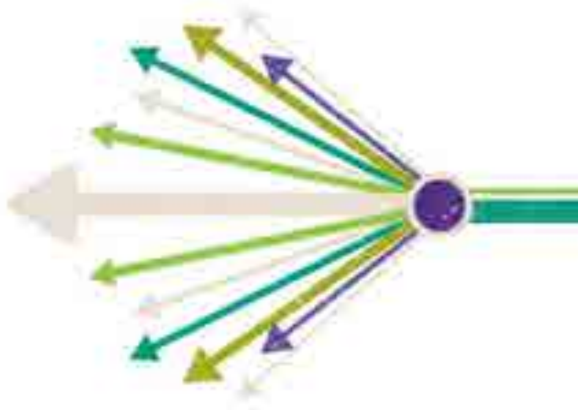
As part of the review it was assessed how well councils met all of the 18 themes within the SPI Direction 2012. As a result of the review Councils were split into quartiles for compliance.

Stirling Council was in the first quartile noting full compliance with 16 out of the 18 priorities. The Accounts Commission identified procurement and criminal justice social work as areas for improvement. The findings in the above areas were:

- the Council does not offer the public a variety of performance indicators to develop a contextual understanding of procurement within the Council
- the Council uses only one indicator for Criminal Justice Social Work performance. This is a complex and diverse service and therefore the public are likely to expect a much wider range of performance information.

Refer to action point 8.

The Accounts Commission review into where Public Performance Reporting has improved, based on the SPI Direction noted that Stirling Council were in the top quartile for reporting against the 2012 Direction, with 16 out of 18 key performance indicators identified as "fully compliant".



## Health and Social Care Integration

Stirling and Clackmannanshire have a history of social services joint working through the partnership and shared social work services between the Council and Clackmannanshire Council.

A Stirling and Clackmannanshire Partnership Board was established in April 2014 and superseded by the Transitional Integration Board (the Board) in January 2015. The Board has representation as follows:

- Stirling Council: 3 members
- Clackmannanshire Council: 3 members
- NHS Forth Valley: 6 members

There are plans for non-voting member representation on the Board from all three authorities from September 2015.

Overall the Board is focused on:

- financial and funding requirements
- relevant governance documentation
- organisational development of the Board
- the strategic plan
- performance framework

Plans are now being established to move from the transition phase to full IJB, with all the supporting structures established. A Chief Officer for Health and Social care has been appointed who started in July 2015.

A programme board is in place with work streams covering: finance; governance; HR; performance; Organisational Development, Communication and Engagement; Forth Valley Data Sharing partnership and clinical and care governance

The strategic plan will be published in February 2016, drafted by December 2015, building on the vision and performance and outcomes work which is on-going.

The creation of a fully integrated Board is complex, and within the finance work stream a process of due diligence is being undertaken. A report was presented to Clackmannanshire outlining the approach agreed and underlying methodology. Alongside this is supporting work being undertaken by the HR work stream to match people, posts and budget lines.

A performance framework is being developed around 9 national outcomes, the SOA and the parent organisation's individual outcomes – this will lead to the development of a performance targets list.

The performance targets list will contain a statement on each measure; if ownership for it remains with the parent organisation or transfer to the IJB. It is anticipated that the IJB will receive full monitoring reports, with an on going performance group functioning beyond March 2016.

The creation of a fully Integrated Joint Board is effectively a large change programme, coming at a time where across the sector there is increasing financial pressure and wider future sustainability questions. For the success of the IJB and the wider partnerships it will be essential that finance does not become the sole driver at the potential expense of a focus on outcomes across all aspects of care reflected within the IJB.

The intention to set up integrated health and social care across Scotland was to allow for greater achievement of outcomes. Quickly the new IJB will need to agree suitable and appropriate governance structures and move to focus on service redesign – shift from "as is" provision to something which in effect may need to be radically different.

Like all change programmes buy in from stakeholders is key and the Chief Officer recognises the importance of organisational development, and the wider communication and engagement work which is planned over the next 12 months and beyond. These plans aim to assist the workforce and their employing organisations to move towards greater integration.

# Appendices

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# Appendix A- Unadjusted misstatements

We are required to report to those charged with Governance any identified adjustments, over and above £0.25 million which we have reported to Officers but have not subsequently been changed in the final version of the Financial Statements. We have one adjustment which is outlined below.

| | Detail | Comprehensive income and expenditure account £m | Balance sheet £m | Reason for not adjusting |
|---|---|---|---|---|
| 1 | In 2014-15 Active Stirling have changed the accounting treatment for pension costs and pension liabilities from a defined benefit basis to a defined contribution basis. Under FRS 17 this is only allowable if the employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis<br>From our knowledge of the Local Government Pension Scheme we do not feel this exemption applies<br>We have estimated the impact of this change on the group accounts using prior year figures and adjusting in line with the movement on the Stirling pension fund | | Dr Group Pension Reserve<br>£2.49m<br>Cr Group Long Term Liability- Pensions<br>£2.49m | The Council have not been able to get the actual figures from the actuary to input into the group accounts. The liability is not estimated to be material and therefore no adjustment is proposed<br>The Council have made additional disclosure with regards to the treatment in the Active Stirling financial statements and that this is inconsistent with the Council's understanding of the Accounting Standards |

# Appendix B- Action plan

| | Issue and risk | Priority | Agreed action |
|---|---|---|---|
| 1 | **Future accounting considerations – Infrastructure assets**<br>The change in accounting for infrastructure assets will have a significant impact on the Council's balance sheet. Finance should continue to consider the implication of this change, with a view to considering the balances for 2015-16 and we will continue to work proactively with Finance in this area<br>**Risk**<br>Prior work may not be undertaken in respect of infrastructure assets leading to an impact on 2016- 17 financial statements | Medium | Finance will continue to engage with external audit during 2015-16 around the accounting for infrastructure assets<br>**Owner/Timescale:**<br>Chief Finance Officer – Deadline March 2016 |
| 2 | **Reserves**<br>Year on year the Council has increased its reserve balances (risk fund/earmarked/un-earmarked).<br>**Risk**<br>Reserves built up may not support the medium to longer term financial plans of the Council. | Low | As part of its medium to longer term financial plan the Council will consider a threshold for reserves held and how reserves are to be split.<br>**Owner/Timescale:**<br>Chief Finance Officer – On-going and will be re-reviewed again in February 2016 |
| 3 | **Alignment of Management Structure and Committee Structure**<br>The Council has streamlined its leadership structure so would be a good time to re-review the Committee structure to confirm that Committee remits are still fit for purpose and allow effective decision making.<br>**Risk**<br>The committee structure may no longer aligned to the leadership structure to allow for effective decision making. | Medium | Officers and Elected Members will review the current committee structure alongside the changes in leadership structure to ensure the decision making structures are still effective and efficient.<br>**Owner/Timescale:**<br>Chief Legal Officer – Complete review by June 2016 |
| 4 | **Review of the effectiveness of the Audit Committee**<br>The Audit Committee members attended a session with the external auditor to discuss where improvements could be made. An action arising from this session was that going forward the Audit Committee could prepare an annual report including an assessment of it's effectiveness in year. This would be in line with good practice and help ensure compliance with *CIPFA Audit Committees: Practical Guidance for local authorities*<br>**Risk**<br>There is a risk that the Audit Committee may not comply with the CIPFA guidance and there is a decrease in the level of scrutiny provided by the Committee | Low | The Audit Committee will ensure an annual report is prepared covering the requirements of the CIPFA guidance on Audit Committees on an annual basis.<br>**Owner/Timescale:**<br>Director of Corporate Operations – June 2016 and annually |

| | Issue and risk | Priority | Agreed action |
|---|---|---|---|
| 5 | ALEO review<br>Now the Council has in place clear governance arrangements for ALEO's, it is recommended in the future they may wish to consider the outcomes being delivered by the ALEOs and whether the arrangement is still effective and continues to demonstrate best value<br>Risk<br>The ALEO's may not deliver the required benefits and value for money expected by the Council | Medium | As part of the review of governance arrangements we will consider the value for money and outcomes delivered by the ALEO's<br>**Owner/Timescale:**<br>Chief Legal Officer – Review of Governance report June 2016 |
| 6 | Follow-up of National Fraud Initiative matches<br>The Council identified 826 recommended matches as part of the National Fraud Initiative exercise. The Council has investigated 183 (22%) of the recommended matches<br>Risk<br>A potential fraud may not be discovered due to a lack of timely investigation | Low | We will investigate all recommended matches in accordance with the agreed NFI timetable<br>**Owner/Timescale:**<br>Director of Corporate Operations – By March 2016 |
| 7 | SOA reporting arrangements to be refined in 2015-16<br>Monitoring of the performance against the SOA at a Council level has been limited in 2014-15. However, the Council and the CPP have committed to improving arrangements going forward<br>Risk<br>The Council may not take remedial action against any unidentified areas of underperformance | Low | We will look to ensure the SOA is fully aligned with the Council's performance management arrangements and is reported on at a Council level.<br>**Owner/Timescale:**<br>Director of Corporate Operations – Completed by March 2016 |
| 8 | Public Performance Reporting could be improved to reflect best practice<br>Stirling Council achieved full compliance with 16 out of 18 priorities in the Statutory Performance Indicators. There was scope for improvement over procurement and criminal justice social work indicators, as identified by the Accounts Commission<br>Risk<br>The performance information available for the listed indicators may be insufficient for the public needs to allow them to understand the performance of services in those areas. | Low | The Council will take action to improve the performance indicators in line with the Accounts Commissions recommendations<br>**Owner/Timescale:**<br>Director of Corporate Operations – Completed by March 2016 |

# Appendix C- Follow-up of prior year actions

Set out below is our follow up of the 2013-14 Annual Report to members recommendations.

| | Recommendation | Priority | Action taken |
|---|---|---|---|
| 1 | The Council should consider whether there is scope to revise the target level of reserves to ensure the target is challenging and the general fund is maintained at an appropriate level | Medium | **Implemented:** The council considered the target level of reserves and have maintained the target level at between 2-2.5%. It was acknowledged that going forward this would be increasingly challenging as the funding gap widens. |
| 2 | The Council should consider whether the Housing Revenue Account Reserve is being maintained at an appropriate level and agree a target level of reserves to be maintained | High | **Implemented** The Council has put in place a 30 year business plan for the Housing service which has a key target of building reserves to 5- 8% of rental income which would result in a reserve of £1- £1.5 million<br>The 2014-15 budget was to spend to the level of income and therefore reserves were maintained rather than increased. the 2015-16 budget starts building the reserves with a budgeted increase to £0.49 million which is 2.5% of budgeted rental income |
| 3 | The Council should continue to focus on action to reduce the level of rent arrears | High | **In progress** The Scottish Housing Regulator completed a short piece of focused scrutiny of current tenant's rent arrears in 2013-14 which was reported to the Environment and Housing Committee in September 2014. The findings from the scrutiny exercise highlighted some concerns around the Council's management of rent arrears:<br>– poor note keeping and monitoring of cases<br>– standard letters lack clear titling, personalisation and information on the arrears escalation policy<br>– repayment arrangements are set up and reviewed without full analysis of affordability.<br>The report from the SHR provides performance information highlighting improvement over the past few years in current tenants as a percentage of net rent due. An action plan was created in conjunction with the report and all identified actions had been delivered at the time of reporting to Committee<br>Under the LGBF the indicator for arrears changed in 2013-14 to gross rent arrears as a percentage of rent due for the reporting year. In 2013-14 the level was 8.2% and the Council had moved from the 26th Council on Scotland to 23rd. The level of gross arrears in 2014-15 has increased to £1.56 million (from £1.40 million in 2013-14) and this is 8.9% of rent due<br>• The Council acknowledge this is a challenging area and have kept this as a high priority within the Housing Service<br>• We will continue to monitor progress in this area as part of our 2015-16 audit |

| | Recommendation | Priority | Action taken |
|---|---|---|---|
| 4 | The Council should take action to minimise the impact of slippage on the achievement of the budget | Medium | • **Implemented** As part of the 2015-16 capital programme the Council has recognised that there has been an underspend against budget in recent years and have made the decision to over programme the capital budget in 2015-16 and 2016-17 |
| 5 | It should be considered whether it would be advantageous for all committees to scrutinise the risk management arrangements for their service line | Low | • **In progress** Revised Risk Management Policy and Procedures were put in place in April 2015 which outlined that service risk registers are to be reported to the corresponding service committee. We will conduct further work in 2015-16 to ensure the revised policy is being followed |
| 6 | The Council should encourage each Committee to undertake a self-assessment exercise on a cyclical basis so there is evidence it is operating effectively and in line with the scheme of delegation | Low | • **Outstanding:** From our review of the activities of Service Committees in year we did not find any evidence of a review of the effectiveness of the service committee. We have noted that in year the Council has appointed a new Chief Governance Officer July 2015. A review of the governance structures and the role of service committees is scheduled for 2015-16 |

# Appendix D- Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

| | Issue | Commentary |
|---|---|---|
| 1 | Written representations | A letter of representation has been requested from the Council<br>In particular, representations will be requested from management in respect of:<br>– significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable<br>– responsibility for the design and implementation of internal control to prevent and detect error and fraud<br>– related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the CIPFA Code<br>– all events subsequent to the date of the financial statements and for which the CIPFA Code and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed |
| 2 | Disclosures | Our audit work identified no material omissions in the financial statements |
| 3 | Matters in relation to fraud | We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures |
| 4 | Matters in relation to laws and regulations | We are not aware of any significant incidences of non-compliance with relevant laws and regulations |
| 5 | Matters in relation to related parties | We are not aware of any related party transactions which have not been disclosed |
| 6 | Going Concern | We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern |
| 7 | Independence and Ethics | We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.<br>We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards. We confirm there were no non-audit fees received during the year. |