Stirling Council

2016/17 Annual Audit Report

AUDIT SCOTLAND

To Members of the Stirling Council and the Controller of Audit

August 2017

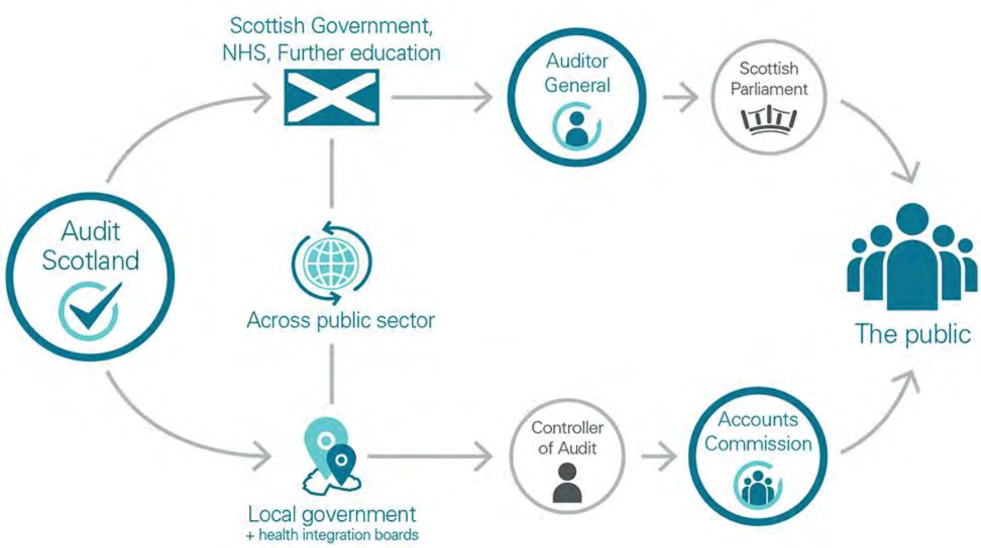
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Key messages

Audit of the 2016/17 annual accounts

1 **Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.**

2 **Unqualified opinions were issued for all the trusts administered by the council.**

Financial management

3 **Financial management is effective with a budget process focussed on the council's priorities. The council has a good track record of delivering services within budgets over the last three years.**

4 **Our testing of the design and operation of the financial controls over significant risk points confirmed that controls relating to financial systems and procedures are designed appropriately and operating effectively.**

Financial sustainability

5 **The council has an adequate level of reserves, consistently contains its expenditure within annual budgets and has met its savings efficiency targets. It has medium-term financial plans that are aligned to the council priorities and demonstrate how it aims to address future budget challenges.**

6 **The council's financial position is sustainable in the medium term although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the council's capacity to deliver services at the current levels. While efficiency savings initiatives of over £20 million have been identified since 2013/14, a funding gap of £11 million still requires to be identified for the period to 2021/22.**

Governance and transparency

7 **The council has appropriate governance arrangements in place that support the scrutiny of decisions made by the council. The council is open and transparent in the way it conducts it business and the public can attend meetings of the council and its standing committees.**

Value for money

8 **The council demonstrated improvements in performance in the latest year for which data is available across Scotland. 36% of indicators were in the top quartile (2014/15: 33%) and 16% were in the bottom quartile (2014/15: 40%).**

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of Stirling Council.

2. The scope of the audit was set out in our Annual Audit Plan issued to management in March 2017. This report comprises:

- an audit of the annual report and accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 1.

Exhibit 1
Audit dimensions

Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the Council's main financial systems and governance arrangements
- audit work covering the Council's arrangements for securing Best Value relating to financial management and financial sustainability
- an audit of the Council's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. Stirling Council is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

5. Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the *Code of Audit Practice 2016* guided by the auditing profession's ethical guidance.

6. As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within Stirling Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the Council's best value arrangements. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016*.

8. This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.

9. Our annual audit report contains an action plan at Appendix 1. It sets out specific recommendations, responsible officers and dates for implementation.

10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

11. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

12. We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts

Main judgements

Unqualified audit opinions on the council's annual report and accounts.

Unqualified audit opinions on the trusts administered by the council.

The unaudited accounts were completed in early June. This, together with the good support provided by the council's finance team, enabled us to complete the audit early, relative to other Scottish councils.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the council on 22 June 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The Council's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

Audit of charitable trusts administered by Stirling Council

15. Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of Stirling Council are sole trustees, irrespective of the size of the charity.

16. Our duties as auditors of the charitable trusts administered by Stirling Council are to:

- express an opinion on whether the charity(s) financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.

17. We received the trusts' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions in respect of the 2016/17 financial statements of

- Stirling Council Consolidated Charitable Trusts;
- Dunblane Memorial Garden Trust; and
- The Stirling Council Common Good Fund.

18. The Stirling Council Consolidated Charitable Trusts consists of 19 individual small charitable trusts where the council acts as the sole trustee. Regulations permit connected charities to prepare a single set of accounts where they are connected by common purposes or shared management. Most of these small trusts did not incur any expenditure during 2016/17.

19. The council is undertaking a review of its small charitable trusts, in consultation with the Office of the Scottish Charities Regulator (OSCR), to identify options for reorganising them in order to reduce the number of trusts and to set up a revised structure which may be better placed to meet the purposes they were originally established for. The council aim to complete this later in 2017.

Submission of the Council's annual report and accounts for audit

20. In 2016/17, for the first time, the council's group accounts included the financial results of the Clackmannanshire & Stirling Integration Joint Board (IJB). The group accounts include the council's share of the IJB's surplus for 2016/17 although these have no net impact on the council's reported outturn. The IJB's annual accounts have yet to be audited, however, although these were agreed later than the 30 April statutory deadline, we are satisfied that the council had good arrangements in place to agree year end balances between itself and its partners. Our audit testing confirmed that the council properly identifies transactions that relate to work commissioned by the IJB.

21. The council's group accounts incorporate fourteen subsidiaries, associates, or joint ventures as listed at note 1 to the group accounts. In most cases we have relied on the unaudited accounts of these entities since the audit of their annual accounts have not been completed. Where these entities are significant we sought assurance from their auditors.

22. The working papers provided with the unaudited report and accounts were of a satisfactory standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly and enabled early completion of the audit, relative to other Scottish councils.

Risk of material misstatement

23. Appendix 2 provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

24. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

25. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in Exhibit 2 Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

26. On receipt of the annual report and accounts we reviewed our materiality calculations. Minor changes were made to the materiality levels we reported in our annual audit plan as reported in exhibit 2. This had no impact on our audit approach.

Exhibit 2
Materiality values

Materiality level	As stated in our annual audit plan	Amount finally determined
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£2.841 million	£3.065 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£1.421 million	£1.532 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 1% of overall materiality.	£0.030 million	£0.030 million

Source: Audit Scotland

How we evaluate misstatements

27. There were no material adjustments to the unaudited financial statements arising from our audit which impact the council's primary financial statements. Exhibit 3 highlights an adjustment that was made to the leases note in the annual accounts. This does not have any impact on the council's balance sheet or comprehensive income and expenditure statement.

28. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. There were no unadjusted errors above the reporting threshold which impact the council's primary financial statements.

Significant findings

29. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in Exhibit 3 (where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included).

Exhibit 3
Significant findings from the audit of Stirling Council

Issue	Resolution
1. Council as lessor, lease of Wellgreen Car Park, Stirling to NCP Note 22 of the unaudited accounts disclosed future lease payments receivable under non cancellable leases amounting to £85.677 million. This included future lease payments receivable later than one year of £52.520 million due from NCP Limited over the next 102 years relating to the lease of Wellgreen Car Park, Stirling. However, this has a break clause and is not, therefore, a non cancellable lease. The break clause has been exercised, and arrangements are in place to tender a new 10 year service contract commencing 1 April 2018. The operating lease income beyond one year for this lease has therefore been removed from note 22, which now discloses future lease income as £33.157 million.	An appropriate correcting audit adjustment has been made to note 22 of the annual accounts to reduce future operating lease rentals receivable from £85.677 million to £33.157 million. This has no other impact on the financial statements. Action plan (appendix 1, point 1)
2. Council as lessee, refuse vehicles. The lease of nine refuse vehicles with total commitments of £1.860 million over the next five years was omitted from note 22 in the unaudited accounts.	An appropriate correcting adjustment has been made to note 22 of the accounts. Total operating lease payments have been increased from £6.360 million to £8.220 million. This has no other impact on the financial statements. Action plan (appendix 1, point 1)

Source: Audit of 2016/17 accounts

Going concern

30. The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis.

Other findings

31. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

Objections and Whole of Government Accounts

32. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations.

33. The council submitted a consolidation pack for the whole of government accounts to audit on 31 July 2017. Due to the impact that accounting for Clackmannanshire and Stirling Integration Board has on the figures reported in the accounts, the council will exceed the £350 million threshold set for the requirement for an audit of the whole of government accounts return for the first time. We expect to complete our audit of the council's whole of government accounts return in by the deadline of 30 September 2017.

Part 2

Financial management

Main judgements

Financial management is effective with a budget setting process focused on the council's priorities.

The council has a good track record of delivering services within its budgets and over the last three years has consistently contained its expenditure within annual budgets.

The council has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.

The council's borrowing levels are appear sustainable, however, interest rates are higher than the average for Scottish councils.

Financial performance in 2016/17

34. In February 2016 the council approved a budget of £204.679 million for 2016/17. The budget was aligned to the council's strategic priorities as outlined in the council's five year business plan. Minor amendments during the year resulted in a revised budget of £204.849 million.

35. When setting the 2016/17 budget, the council recognised that sufficient usable reserve balances were required to meet future unforeseen expenses over the life of the five year business plan, such as the cost of severance and other costs within the budget transformation programme.

36. The council has a good track record in delivering services within or near budget. The general fund reported an overspend of £0.752 million in 2016/17. This overspend principally arose due to the cost of implementing the council's budget transformation programme (involving severance and other costs). While a modest budget for these costs was incorporated into the 2016/17 budget, the council agreed in 2015 that uncommitted reserves above 2.5% of the annual general fund budget would be used to finance transformation programme costs. The uncommitted general fund balance at 31 March 2017 was £8.152 million which represents approximately 4% of the general fund budget and is in excess of the target of between 2% and 2.5%.

37. Most services spent within 2% of budget. There were, however, a small number of significant variances and these have been summarised in Exhibit 4

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Exhibit 4

Summary of significant over and under spends against budget

Area	Under/over spend (£m)	Reason(s) for variance
Overspends		
Children and Families	£1.613	Increase in the number of placements of children in their mid teens and children with complex care needs.
Termination Payments	£3.182	Pension strain costs arising from staff severances, together with PBB implementation costs.
Underspends		
Loan Charges	£2.300	This reflects the short-term advantage gained from the current Treasury Management Strategy of delaying new long-term borrowing.

Source: General Fund Revenue Budget Outturn Report May 2017

38. Overall, the council's' budget setting and monitoring arrangements are effective. Relevant explanations have been identified and reported to members for budget variances, including those noted above.

Housing Revenue Account

39. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year.

40. The HRA records expenditure in 2016/17 of £23.849 million (2015/16: £20.330 million). The increase was largely due to the movement in depreciation and impairment which was £12.796 million (2015/16: £9.849 million). This increase is mitigated in the movement in reserves statement by a statutory adjustment. Dwelling rents increased by 1% which is in line with the approved rent increase of 1% in the year.

41. Overall, the HRA records a surplus of £0.250 million in 2016/17 (2015/16: £0.250 million), resulting in an HRA balance of £0.736 million. The council is currently seeking to build its HRA balance from its current base to allow it to address any future requirement to fund emergency repairs or other emerging issues.

Transformation and efficiency savings

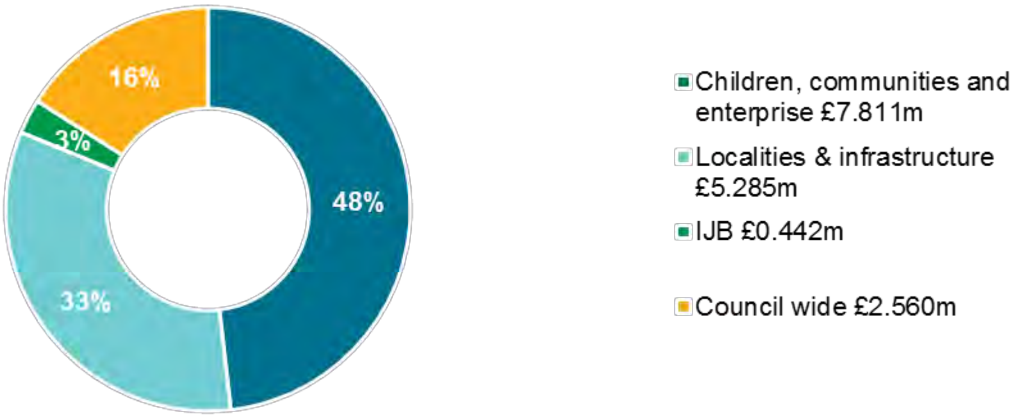
42. With reduced funding from government and increased demand for financial services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

43. The budget was set using the council's Priority Based Budgeting (PBB) approach and identified savings options based on future requirements, aligned to council priorities. Savings plans were the subject of consultation with members, staff and the public (through the council website) and the savings plans were risk assessed as part of the process.

44. Savings are monitored by the 'Transformation Portfolio Board'. This group meets every 4 weeks and review detailed reports from the service based transformation boards. Progress reports are normally presented to the Finance and Economy Committee, however, this occurred less frequently in 2016/17 due to the council elections.

45. The council achieved cumulative savings to 2016/17 of £16.098 million against a target of £16.177 million (99.5%). This substantial level of savings is important to ensuring the council continues to meet the savings targets it has identified for the period to 2021/22. An analysis of savings achieved is shown in the Exhibit 5 below.

Exhibit 5
Cumulative efficiency savings achieved



Source: Stirling Council

Borrowing in 2016/17

46. The council's outstanding loans at 31st March 2017 were £155.206 million, an increase of £3.383 million on the previous year. Despite the overall increase, the council has maintained its under borrowed position in accordance with its approved strategy to use working capital such as cash and temporary investments to service its capital investment requirements. This strategy has worked well while temporary borrowing is readily available at lower rates than PWLB new loan rates and was reviewed when considering the Treasury Management Strategy for 2017/18.

47. Interest payable and similar charges on borrowing, excluding PFI/PPP fell by £0.149 million in 2016/17 to £8.159 million. This was achieved through prioritising internal and temporary borrowing at lower interest rates. Long term loans at 31 March 2017, such as PWLB, were £129.206 million with an average interest rate of 6.03%. Temporary borrowing at 31 March 2017 totalled £26.000 million with an average interest rate of 0.4%. The average interest rate for all loan debt held at 31 March 2017 was 5.09%, all of which is held on fixed repayment terms

48. The council entered into a PFI contract for Balfron High School in March 2000, with the contract running up to August 2026. A Stirling Schools PPP contract was subsequently agreed in August 2006, with the contract running to 2039/40. Over the remaining life of these contracts, the council expects to pay £357.594 million in unitary charges covering service costs, interest payments and repayment of debt.

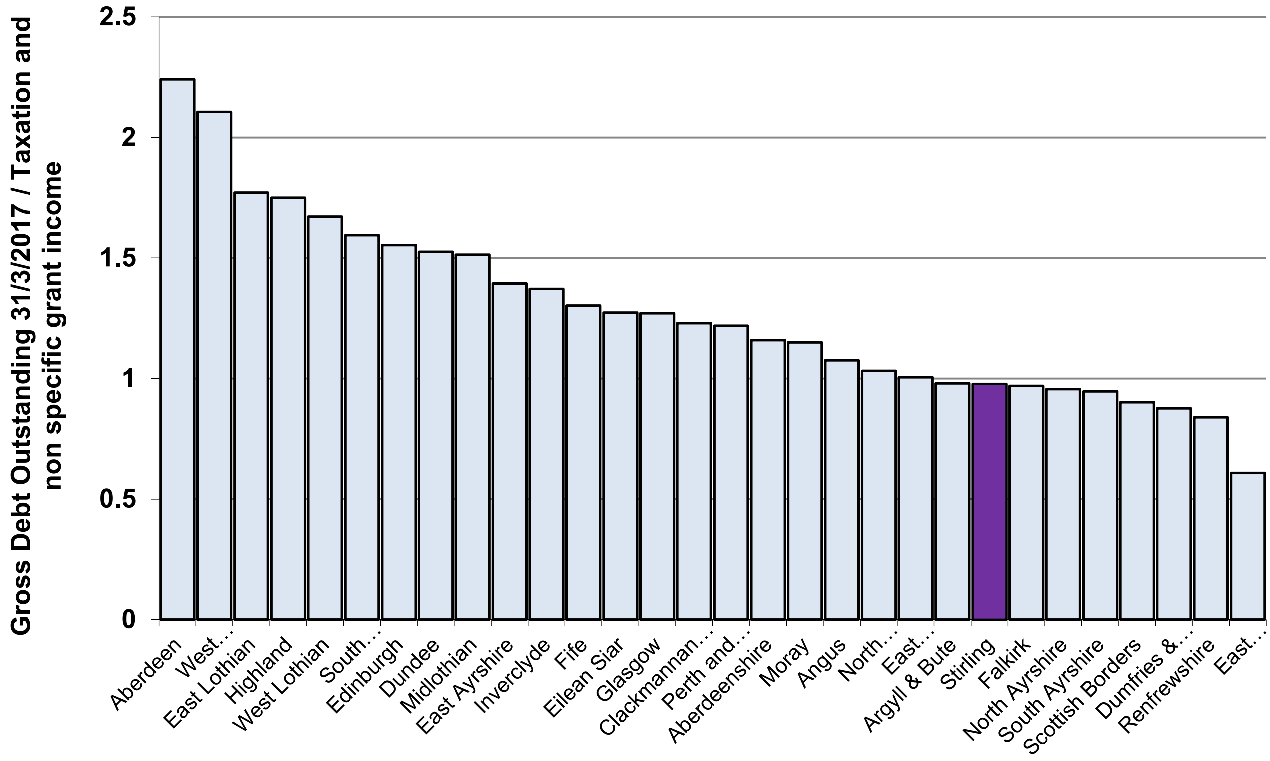
This is built in to long term financial plans to ensure that the unitary charges are affordable over the life of the contracts.

49. The capital balance outstanding on PFI/PPP contracts at 31 March 2017 was £62.179 million, a reduction of £1.974 million from the previous year. The interest charge reduced slightly from £6.486 million in 2015/16 to £6.195 million in 2016/17. This is equivalent to a rate of 9.9% of the PFI/PPP finance lease liability at the year end (£62.179 million).

50. Total external debt was within the authorised limit and operational boundary set within the council's treasury management strategy. When compared to other Scottish council's in Exhibit 6, the council's overall borrowing position appears considered and sustainable. . The council's treasury management strategy highlights that the council will continue to consider the affordability of future borrowing.

Exhibit 6

Borrowing (including PPP/FFI) as a proportion of income



Source: Audit Scotland database July 2017

51. The composite interest rate for Stirling Council for all debt (including its PFI/PPP finance lease liability) was 6.5% in 2016/17 (2015/16: 6.8%). Overall the average interest rate on external debt for Scottish councils was between 4% and 8% in 2016/17, however Stirling is just outside the upper quartile in terms of the average interest rate paid for debt outstanding. The council should continue to ensure that it is obtaining best value in this area.

Capital programme 2016/17

52. The council incurred general fund capital expenditure of £28.127 million (87.6% of the capital budget of £32.106 million and 67.3% of the total capital budget for the year). The main projects were: the sports village investment - national curling academy; roads improvements; continuation of energy efficient street lighting; and new build schools at St Margaret's and St Ninians.

53. Slippage of £3.979 million (12.4%) arose during the year. This principally related to some of the council's City Region Deal and rural development projects, construction of Balvalachlan cemetery, the national curling centre, and certain major roads infrastructure projects.

54. The slippage arose due to a variety of circumstances specific to each project and has resulted in expenditure being re- profiled into the first two quarters of 2017/18. For example:

- The river harbour refurbishment project will be completed later than planned due to the extended design process and ground investigations required.

- The commencement of the sports village – national curling centre was project was delayed as the main contractor could not gain access until the car park works were completed by the council's internal contractor. Despite the re-profiling of some expenditure into 2017/18, this project was completed in June 2017 in accordance with the contract.

- Balvalachlan cemetery - planning consent was delayed. Once this was awarded, there were a large number of planning conditions that required to be addressed before works could commence.

- The Stirling, Callander and Bridge of Allan flood prevention scheme experienced delays due to additional works required around design and ground investigations.

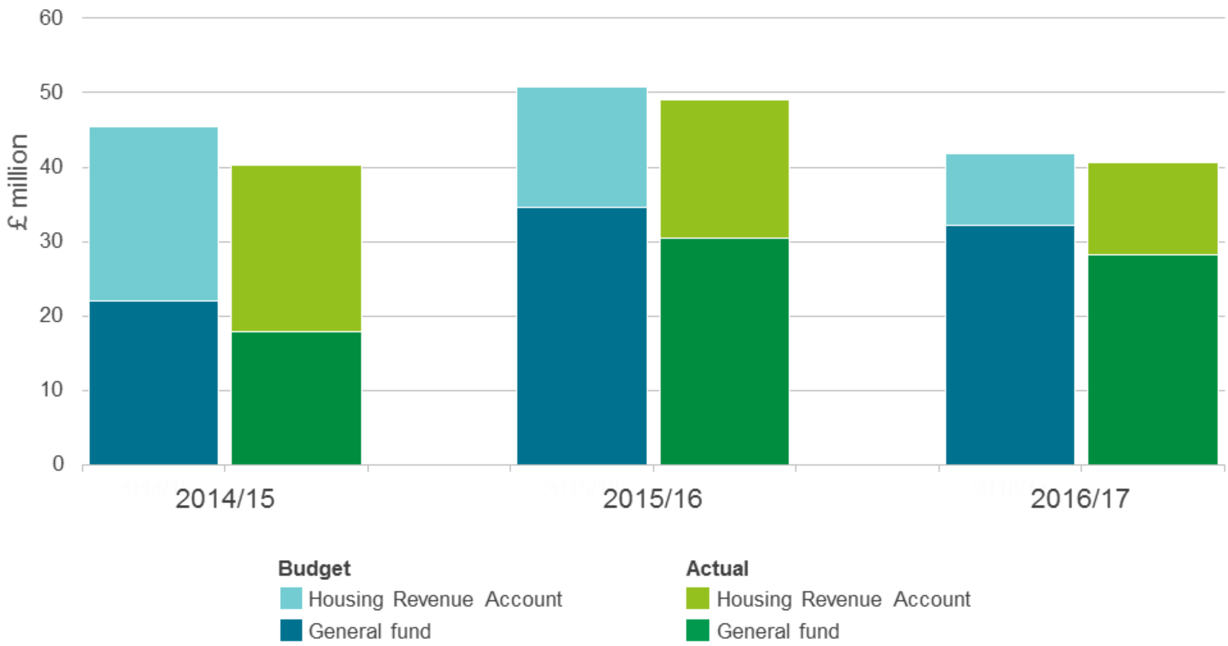
- Kerse Road bridge improvements have been delayed pending the outcome of the council's Planning & Regulation Panel considering Network Rail's planning application to upgrade the bridge, and the council considering the associated road closures that Network Rail would require to implement the proposed replacement of the current bridge.

55. The housing capital programme reported expenditure of £12.561 million in 2016/17, an overspend of £2.890 million (29.9%) against the budget of £9.671 million. This mainly arose due to an additional £1.639 million incurred on property acquisitions and an overspend of £0.640 million as part of a "mortgage to rent" Scottish Government backed scheme to acquire mortgages from home owners experiencing financial hardship. Additional funding received in the year, together with prudential borrowing, mitigated the housing capital programme overspend. This resulted in borrowing of £0.955 million against a budget of £0.122 million.

56. New arrangements for capital monitoring reporting were introduced in June 2016. Members are provided with regular progress reports of the capital programme, and are made aware of slippage in any projects that arise, together with the reasons why this occurred. The council approved the re-profiling of the general services capital slippage that arose in 2016/17 into the 2017/18 capital programme. The slippage in the general fund capital programme and the overspend in the housing revenue account capital programme over recent years are outlined in Exhibit 7.

Exhibit 7

Capital slippage compared to budget (General Fund and HRA)



Source: Stirling Council Annual Accounts 2014/15 to 2016/17

57. The slippage in the general fund capital programme and the overspend in the housing revenue account capital programme continues a trend from previous years as outlined in Exhibit 7. There is a risk that continued slippage on the general fund capital programme could impact on service delivery in future.

Recommendation 2

The council should ensure that slippage and rescheduling of general fund capital projects does not have a significant impact on strategic priorities that are dependent on capital projects being completed on time.

Budgetary monitoring and control

58. The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on. We noted that the council's budget and savings plan is aligned to the council priorities as set out in its 5 year Business Plan. This is consistent with good practice.

59. Within the council the detailed scrutiny of financial performance is delegated to the Finance and Economy Committee which generally receives quarterly revenue and capital monitoring reports – although there were no meetings after 2 February 2017 to discuss the forecast 2016/17 outturn due to council elections and the summer recess. During this period the forecast deficit on uncommitted balances reduced from £3.053 million to £1.876 million. This was reported to the Corporate Management Team. Overall, from our review of these reports and attendance at committee we concluded that they provided an effective overall picture of the budget position at service level and support both members and officers in carrying out scrutiny of the council's financial position.

Financial capacity within the Council

60. The Section 95 officer is the Chief Finance Officer of the council. He is a member of the senior management team and has direct access to the chief executive and council members. We concluded that the Section 95 officer has appropriate status within the council.

61. The finance team has decreased in size in recent years. While this has placed an additional pressure on resources, we are satisfied that they continue to provide good quality support to the council. There are arrangements in place to employ new staff and place them on the modern apprentice scheme, with a view to offering them the opportunity for a professional qualification.

62. With the recent council elections there have been a number of new members elected. It is important that they receive adequate training on how the council works and how it is financed if they are to exercise their financial scrutiny responsibilities effectively.

63. The Audit Committee considered the Accounts Commission's national follow-up report: Roles and Working Relationships in Councils: Are You Still Getting It Right? in January 2017. Going forward, the council intends that the questions raised for elected members at Appendix 2 of this report, together with training that is more tailored towards members needs, including access to the council's CPD framework, are reflected in the training provided to elected members.

Internal controls

64. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

65. Our findings were included in our interim audit report that was reported to management in May 2017. We concluded that the key controls were operating effectively. Areas where existing controls could be improved were included in the action plan which we will follow up as part of our 2017/18 audit. No significant control weaknesses were identified which could affect the council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

66. The Annual Governance Statement notes that the council reviewed the effectiveness of its governance framework, including the system of internal financial controls. It concluded that the arrangements continue to be fit for purpose and that reasonable assurance can be placed on the adequacy and effectiveness of the systems of governance operated by the council.

Prevention and detection of fraud

67. We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, fraud prevention and fraud response plan.

68. Based on the evidence reviewed by us, we concluded that the council has adequate arrangements in place for the prevention and detection of fraud.

National Fraud Initiative

69. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

Exhibit 8

National Fraud Initiative

Total number of matches	Number recommended for investigation	Completed/closed investigations
4,121	1,092	1,362

Source: NFI website – July 2017

70. NFI activity is summarised in Exhibit 8 above. The NFI secure website lists a total of 4,121 data matches with 1,092 of these classed as ‘recommended’ matches (high risk) for investigation.

71. In the previous NFI exercise, the council’s approach was to investigate all matches, albeit prioritising those that were recommended. Since then, the council has appointed a Corporate Fraud Officer who is responsible for directing and reviewing NFI work. This is expected to enable the council to reduce the number of matches it investigates by risk assessing the non-recommended matches and investigating these on a sample basis. All recommended matches will continue to be investigated. By July 2017, 1,362 matches had been investigated. To date, there are six cases totalling £13,286 which have been concluded as a fraud or error.

72. Senior management and the Audit Committee have been kept up to date on NFI progress and this is scheduled to continue with the current NFI activity, with a progress report scheduled to be reported to the Audit Committee in September 2017. Internal audit completed a review of the 2014/15 exercise and reported its findings to the Audit Committee in January 2017. This provided a high level of assurance that the council are complying with NFI requirements. It also identified a small number of areas where findings from the NFI work could be used to improve efficiency or improve existing controls.

73. Overall, we are satisfied that the council are fully committed to NFI.

Part 3
Financial sustainability

Main judgements

The council's financial position is sustainable in the medium term although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the council's capacity to deliver services at the current levels. While efficiency savings initiatives of over £20 million have been identified since 2013/14, further savings of £11 million still requires to be identified for the period to 2021/22.

The council has an adequate level of reserves, consistently contains its expenditure within annual budgets and has met its savings efficiency targets to date.

The council has a robust approach to its business and financial planning through the adoption of priority based budgeting which has formed the basis for its financial planning since 2013.

Financial planning

74. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategies. Although councillors only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the council.

75. The council has a robust approach to its business and financial planning through the adoption of priority based budgeting (PBB) which has formed the basis for its financial planning since 2013. This has identified options for reducing budgets to match available funding, and also to drive service improvements. Budget reductions of £34.5 million have already been approved through PBB phases 1 to 4, and it is intended that PBB will continue to be used to drive service improvements and budget reductions in future years.

76. The council's five year business plan 2017-2022 sets out how services will be delivered in line with the council's key priorities, and outlines the anticipated financial position over this period. It is refreshed each year and is updated to reflect a more detailed understanding of the cost pressures, planning assumptions and Scottish Government settlement figures.

77. The rolling five year plan identifies the different factors and budget projections that impact on the development and delivery of services and thus form the financial environment within which the council will operate over the medium term.

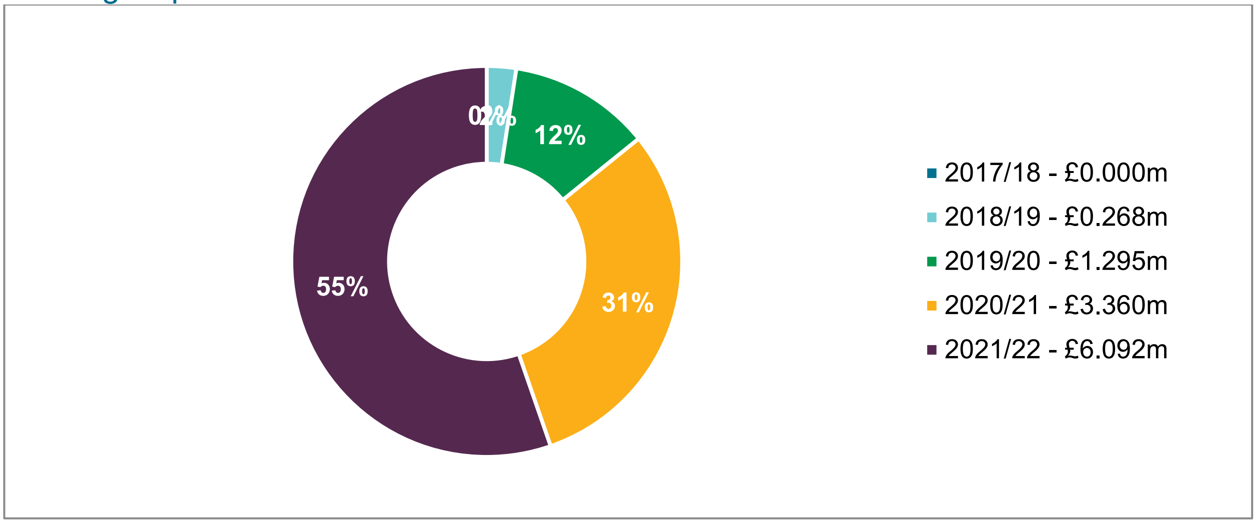
Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Funding position

78. The council is facing a number of challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing cots of services and reductions in central government funding.

79. A break even position is budgeted for 2017/18, based on spending of £208.709 million. However, the cumulative budget gap over the five year period to 2021/22 is £11.015 million as outlined in Exhibit 9 below:

Exhibit 9
Funding Gap 2017/18 to 2021/22



Source: PBB 4 approved February 2017

80. The cumulative budget gap incorporates £20.109 million of existing savings requirements approved over the last three years of priority based budgeting (PBB), together with £0.357 million of new savings that were approved through PBB4, the most recent budget setting exercise. As outlined in paragraphs 44 and 45 the Council has achieved nearly all of its efficiency savings targets to date. However, there is a risk to future service delivery if the council does not address the projected funding gap or if it cannot continue to meet the existing efficiency savings requirements it has set.

Recommendation 3

The council should ensure that savings plans are developed which identify how the remainder of the savings required to meet the residual funding gap of £11.015 million for the five year period to 2021/22 will be made.

Reserves

81. One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the council decreased by £3.426 million from £30.071 million in 2015/16 to £26.645 million in 2016/17. This decrease was mainly attributable to the £3.004 million decrease in the capital receipts reserve which was used to finance capital expenditure in 2016/17.

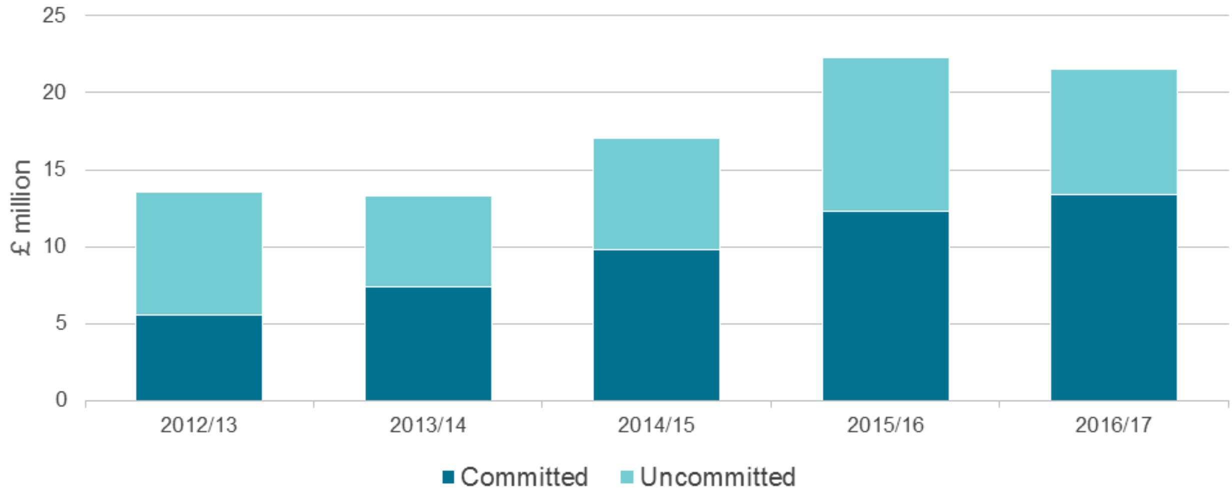
82. The general fund balance is the largest usable reserve and accounts for £21.550 million (81%) of usable reserves. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

83. The council reviews the level of its uncommitted reserves when setting the budget each year. The council's approved reserves strategy specifies that uncommitted reserves should be between 2% and 2.5% of net general fund budget. The level of uncommitted general fund reserves as at 31 March 2017 was £8.152 million, which is approximately 4% of the net budget.

84. Exhibit 9 provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. While the general fund balance peaked in 2015/16, there has been a gradual overall increase in reserves since 2014. This was in line with the council's decision to build reserves in line with its PBB plans to invest in future transformation projects.

85. Committed elements of the general fund balance have gradually increased over the last five years and stood at £13.398 million at 31 March 2017. This includes a risk fund which held a balance of £6.551 million at the year end, an increase of £1.667 million from the previous year, which was principally financed from savings in loan interest costs during the year. This is in line with the PBB strategy, and the council intend to use this to finance transformation costs, including any severance costs that may arise.

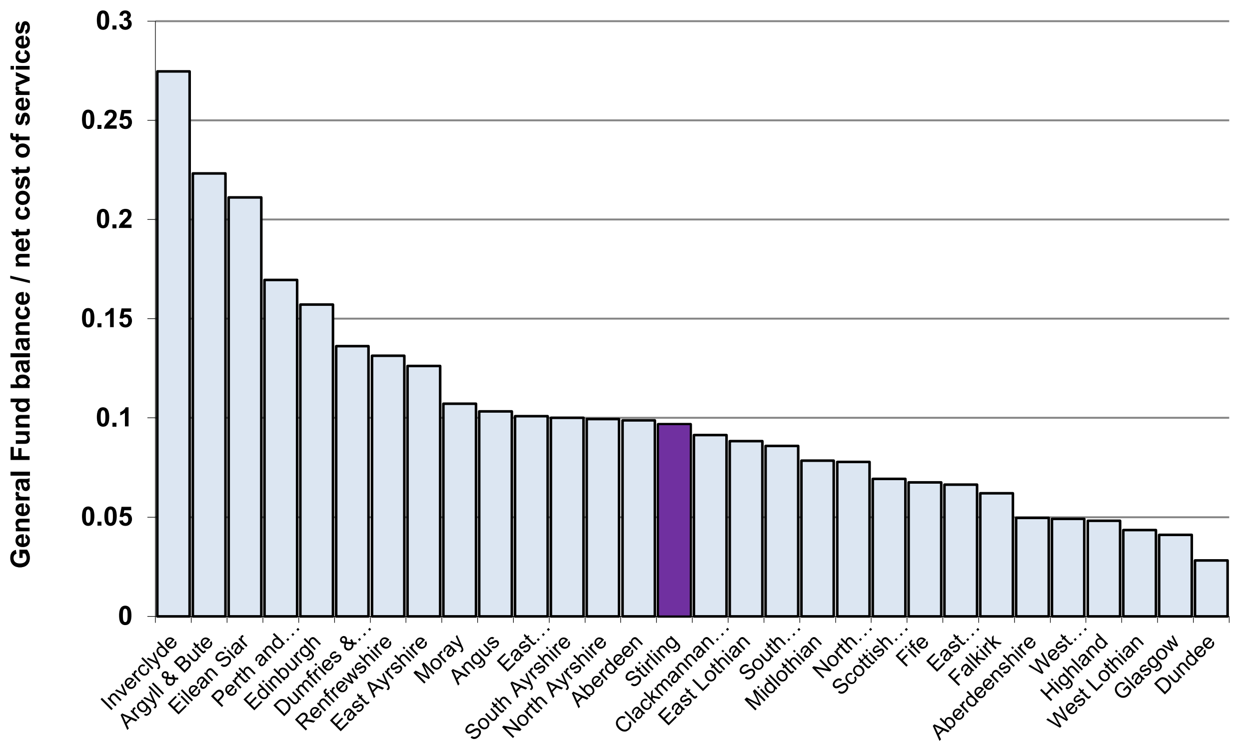
Exhibit 9
Analysis of general fund over last five years



Source: Stirling Council Annual Accounts 2012/13 to 2016/17

86. We consider the overall level of usable reserves held by the council are reasonable. As demonstrated at Exhibit 10, the council's usable reserves fall within the mid range when compared to other Scottish Councils.

Exhibit 10
General fund balance as a proportion of net cost of services



Source: Audit Scotland database July 2017

Workforce planning

87. Stirling Council, like other local authorities across Scotland, has seen its workforce reduce in recent years. Audit Scotland's *Local government in Scotland – performance and challenges 2017* report highlighted the need to plan and manage reductions to council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver, manage and scrutinise services effectively.

88. The report advises councils to have effective systems in place for managing their workforce and monitoring staffing levels, and that information should be aligned to other long-term plans such as financial plans.

89. The council's strategic workforce plan sets out the council's current workforce, the factors that will impact the workforce in the next few years and how the council intends to respond to these factors. This reflects the council's new structure and is aligned to the council's five year business plan and PBB. The workforce plan is refreshed on an annual basis and summarises the strategic workforce priorities for the five year period covered by the council's business plan.

90. When setting the 2016/17 budget, the council identified the need to reduce the workforce by between 450 and 550 jobs over the next five years, reflecting the anticipated funding and savings position. Workforce numbers reduced by 185 from 4,733 at 1 April 2016 to 4,548 at 31 March 2017.

91. In the year to March 2017 the council approved and agreed 117 termination packages with employees resulting in a 2016/17 charge of £4.167 million. These costs are funded through the council's policy in recent years to build up the general fund to finance transformational change costs. The annual cost of termination costs are expected to progressively reduce.

Part 4

Governance and transparency

Main Judgements

The council has appropriate arrangements in place that support scrutiny of decisions made by the council and its standing committees.

The council is open and transparent in the way that it conducts its business, with the public able to attend meetings of the council and its committees. Minutes of committee meetings and agenda papers are readily available on the council's website for public inspection.

Governance arrangements

92. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

93. The council has a committee structure in place which is underpinned by clear roles for members and officers; and procedural documentation regarding decision making. Based on our observations and audit work, our overall conclusion is that the governance arrangements within Stirling Council are operating effectively. However, there were very few committee meetings over spring and summer 2017 due to the combination of the local government elections and the summer recess. For example, there were no Audit Committee meetings between January 2017 and August 2017; and there were no Finance & Economy Committee meetings between February 2017 and August 2017. Our view on how committees operate is therefore restricted.

94. The council endorsed a revised organisational and management structure in May 2016, with the move from a 5 director model to a 2 director model. Movements in key personnel have been finalised and revised lines of responsibility are in place. The council should carry out a self assessment of the new arrangements to confirm this is delivering the benefits planned.

95. The previous external auditor had commented on the low attendance at member training sessions. Member training is made available to all and has not, in the past, been tailored to individual members needs, albeit feedback is sought. Following the May 2017 elections, the council now aim to introduce more individually tailored training, on a voluntary basis, in addition to the induction programme and other training that are provided on an ongoing basis. Members have access to the training database and CPD framework, which enables them to carry out self-assessment.

96. The council's Local Code of Corporate Governance is based on six core principles and 17 supporting principles. These principles are relevant and consistent with delivering good governance. However, we noted that the local

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

code was last updated and approved in 2013 and therefore would merit another update. For example, it refers to council improvement plans and consultations with residents which are now outdated. It should also ensure that it reflects the recent changes in the council's revised organisational and management structure of 2016, together with any recent changes in governance arrangements. We note that the Annual Governance Statements in the 2015/16 and 2016/17 annual accounts both highlight the requirement to revise the council's Local Code of Corporate Governance to reflect the revised CIPFA "delivering Good Governance in Local Government Framework (2016)". The council plan to carry out a comprehensive review later in 2017.

Recommendation 4

The planned update of the council's Local Code of Corporate Governance should be carried out soon, and should ensure it reflects the council's current governance arrangements, strategic objectives and monitoring arrangements, together with significant changes in the council such as the recent restructure.

Management commentary, annual governance statement and remuneration report

97. The *Code of Audit Practice 2016* requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

98. Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

Internal audit

99. Internal audit provides senior management and elected members with independent assurance on the council's overall risk management, internal control and corporate governance processes.

100. The internal audit function is carried out in-house. As outlined in our Annual Audit Plan, we carried out a formal review of the internal audit service and concluded that it, generally, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place. Plans are also in place for the internal audit function to be externally assessed during 2017/18 in accordance with PSIAS requirements.

101. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. While we did not place reliance on their work regarding our audit of the council's financial statements, we placed formal reliance on internal audit's work as part of our wider dimension work in the following areas: review of the council's risk management arrangements, Information Governance and SWIFT system application review, and NFI arrangements.

102. Internal Audit report progress of the work contained in their annual audit plan to each meeting of the Audit Committee. Despite working with reduced capacity during the year, internal audit completed all significant elements of the work contained in their audit plan and provided assurance on the council's overall framework of control for the year to 31 March 2017. All internal audit reports are included in Audit Committee agenda papers and include a graded statement of assurance on the effectiveness of controls and governance arrangements for the system or area reviewed.

Transparency

103. Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the council is taking decisions and how it is using resources such as money, people and assets.

104. There is evidence from a number of sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full Council, executive and other committees. Minutes of these committee meetings and supporting papers are readily available on the council's website.

105. The council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website encourages the public and staff to become involved in the PBB process and welcomes suggestions on how services might be delivered more effectively and efficiently. An "ideas register" is kept up to date and shows whether, and the extent to which, ideas are being progressed.

106. The council makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the council.

107. Overall, we concluded that the council conducts its business in an open and transparent manner.

Integration of health and social care

108. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on April 1, 2016. This brings together NHS and local council care services under one partnership arrangement for each area.

109. Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value.

110. The Clackmannanshire & Stirling Integration Joint Board (IJB) is provided in partnership with NHS Forth Valley and Clackmannanshire Council, and became fully operational on 1 April 2016. The financial transactions of the Clackmannanshire & Stirling IJB have been consolidated into the council's group accounts.

111. The council has good arrangements in place to identify all financial transactions that relate to the IJB. There are also proper arrangements in place to agree the council's share of the IJB budget and to provide officers with appropriate financial information to enable Clackmannanshire & Stirling IJB to monitor its financial budget.

112. The council have notified the IJB of its funding for 2017/18, which incorporates the IJBs share of the council's efficiency requirements. This has been agreed with the IJB.

113. The council's total contribution to the IJB for services provided to the IJB in 2016/17 was £31.607 million. This includes the council's £3.8 million share of the National Integration Fund to fund pressures in health and social care services including the introduction of the living wage for independent and third sector care providers. It also includes housing support and other costs of £0.884 million. The council's share of the IJB budget for 2017/18 is £31.449 million, including Stirling

Council's share of the Integration Fund for 2017/18. The IJB has strategic control of this funding.

114. The IJB approved the partnership's three year strategic plan in February 2016. The council delegated its Adult Services to the IJB, together with a small element of housing, covering housing support needs. The plan acknowledges that service redesign is required to meet future demand. The Clackmannanshire & Stirling partnership area has been divided into three localities designed to support collaborative working across primary and secondary health care, social care and third and independent sectors.

115. It is still too early for the council or its partners to demonstrate any significant examples of new ways of working that promote integration or the impact or improvements to services. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is due in spring 2018. We plan to use this to assess progress once the work on this report has been completed.

Local scrutiny plan

116. The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the council was submitted to management in May 2017 and reported on our web site.

117. The LAN concluded that no scrutiny risks were identified which require specific scrutiny work by the LAN in 2017/18. This is a positive position for the council and is consistent with the LAN view last year. Scrutiny activity undertaken in the last 12 months was either part of routine ongoing inspection work, or part of national activity. The council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

Equalities

118. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

119. The Board have approved and published a number of reports which have been made available on the council website:

- Mainstreaming Report 2017 – Service Delivery
- Mainstreaming Report 2017 – Employment
- Outcomes Progress Report 2013-17
- Draft Equality Outcomes for 2017-21

120. The reports contain details confirming the extent of progress achieved in delivering equality outcomes and a revised set of equality outcomes for delivery over the next four years.

121. We reviewed the current equalities reports and concluded the board has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the council
- report on progress made towards achieving equality outcomes published in 2013

- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

122. We concluded, on the basis of evidence reviewed, that the council is proactive in ensuring that equality is mainstreamed. Equality outcomes for the next four years have been determined and the council are aware that further progress must be reported in 2019.

Part 5

Value for money

Main judgements

The Best Value audit work carried out this year focussed on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. We are satisfied that there are sound arrangements for financial and service planning though the clear and consistent links between PBB, the five year Business Plan and Workforce Planning.

The council demonstrated improvements in performance in the latest year for which data is available across Scotland. 36% of indicators were in the top quartile (2014/15: 33%) and 16% were in the bottom quartile (2014/15: 40%).

Despite reduced resources, the benefits service has delivered a high level of claims processing performance each year since 2013/14.

Best Value

Value for money is concerned with using resources effectively and continually improving services.

123. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Stirling Council is planned for later in the five year programme.

124. The Best Value audit work carried out this year focussed on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The findings of this work are reported earlier in this report. The effectiveness of the council's Best Value arrangements in other areas will be assessed and reported throughout our audit appointment.

Following the public pound

125. Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

126. The council approved a Local Code of Practice on Following the Public Pound & Funding External Bodies in December 2014, with further supplementary arrangements approved in December 2016 for appointments of Members and Officers to Boards, to ensure proper accountability for council funds used in the external delivery of services to meet strategic priorities and objectives.

127. Audit Scotland is currently carrying out a performance audit of Scottish councils' use of arms-length external organisations (ALEOs). The Scope for this exercise is on our website here. Our aim is to support councils by identifying good practice and also lessons learned, and give assurance to the public over this means of service delivery.

128. Stirling Council is one of a sample of nine Scottish Councils that Audit Scotland will look at in more depth. This means that we will comment on the council's overall approach and look at specific examples from a small number of the council's ALEOs. This work will be carried out around October 2017 with the results of the work done nationally to be reported in spring next year.

129. The council tendered for services currently provided by an ALEO, Active Stirling, as the previous contract for the provision of sport, physical activity and well-being services ended in March 2017. A Steering Group oversaw the development and specification of the tender.

130. A tender evaluation carried out in February 2017 recommended the award of the contract to Sports and Leisure Management Limited (SLM Ltd), an external company. Provisions made within the contractual arrangements set out that SLM Ltd would deliver services through its bespoke subsidiary operating arm, SLM Community Leisure Charitable Trust. The £25 million contract was due to run for 25 years and would have been the largest ever service contract awarded by the council. According to supporting reports, the contract would have brought savings to the council of £2 million in its first 5 years with money saved being reinvested in services.

131. However, councillors decided that neither of the two bids submitted as part of the extensive tender process met the best value criteria and as a result, the contract award was rejected. The current provider, Active Stirling, will now continue to run leisure services until November while work begins to establish a not-for-profit trust to deliver sport and leisure in the area. The council should ensure that both the existing and proposed new arrangements meet value for money criteria set by the council and contribute to efficiency savings that can be re-invested in services.

Benefits service performance audit

132. A risk assessment was previously carried out by Audit Scotland on Stirling Council's benefit service in June 2013 when Audit Scotland identified three risks to continuous improvement. Audit Scotland carried out a follow up audit in 2017. Since our previous visit, there have been some significant changes within the Revenues and Benefits service. These included the retirement of the long-serving Revenues and Benefits Manager and a reduction in the staffing complement by between four and five full-time equivalents (FTE) since 2013. Further, the working week for Revenues and Benefits staff was reduced from 37 hours to 35 hours in April 2016, which resulted in a reduction in available processing time of approximately 1080 hours per annum.

133. Despite reduced resources, we note that the service has delivered a high level of claims processing performance each year since 2013/14.

134. However, we also note that, since the reduction in working hours in April 2016, the service has not been able to maintain previous performance levels. In-month average speed of processing performance has declined from 14 days for new claims and four days for change events, to 22 days and six days respectively, at 31 January 2017.

135. In context, the council's cumulative average speed of processing performance at 31 January 2017, which at 18 days for new claims and six days for change events, means that performance is still in the top quartile in Scotland. However, if resources remain at current levels, and the service is unable to identify further improvements to help reduce the time taken to process claims, there is a risk that speed of processing performance will continue to decline in 2017/18.

136. The council had not completed any of the three risks outstanding from our previous risk assessment. However, it has still made a positive contribution to the delivery of the benefit service. In particular, by:

- delivering a high level of claims processing performance during change within the service. The council were the third best performer in Scotland for the average time to process new claims, and equal sixth for the average time to process change events, based on DWP's quarter two 2016/17 published statistics
- having an annual programme of interventions that has helped identify around £132,000 of overpayments since 2013/14, and attaining funding from the DWP's Fraud and Error Reduction Incentive Scheme (FERIS) to support its activities
- delivering a high level of overpayment recovery performance each year since 2013/14.

137. Although the council demonstrates awareness of what constitutes an effective, efficient and secure benefit service, there are seven new risks to ensure continuous improvement and three risks outstanding from our previous risk assessment. These include: the need to make more use of the DWP's Automated Transfer to Local Authority Systems (ATLAS) to help free up resources; halt the decline in the average speed of processing performance; and to address the decline in the council's accuracy rate since 2015/16. An action plan to address these has been agreed with the council.

Performance management

138. The council is committed to having a strong framework in place for monitoring and reporting performance. The framework is currently under review as part of a wider review of the overall governance arrangements in place within the council. One of the key aims of this review is to establish how the council can make best use of the learning acquired from the various benchmarking tools and resources available. We will continue to monitor developments in this area as part of out audit in 2017/18. It is important that the council implement a robust system of performance management which continues to drive improvement.

139. The existing framework includes performance measures which are aligned to the priorities and outcomes as set out within the Single Outcome Agreement 2013-23 and the council's 5 year Business Plan. The council has established 18 Key Priorities which are reflected in the Business Plan and overall performance scorecard. Details of the council's performance against these priorities are provided through the Performance and Strategic Priorities Progress Reports presented to service committees.

140. Although a corporate self-evaluation model is in place which is based on the Public Sector Improvement Framework, there was limited activity in this area during 2016/17 due to the recent council restructure and the impending changes to the performance management framework.

Overview of performance targets

141. The Council participates in the *Local Government Benchmarking Framework* (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

142. The most recent *National Benchmarking Overview Report 2015/16* by the Improvement Service was published in February 2017 and covered the 2015/16 reporting period. This report was submitted to the council's Corporate Management Team (CMT) in February 2017. In previous years, the LGBF information was also presented to the council's five decision making committees after being approved by the CMT. However, this did not take place this year given that there were no committee meetings scheduled during the lead up to the local government elections in May 2017.

143. Information presented to the CMT identifies those areas where the council is performing well and those areas where there is room for improvement. Of the indicators measured as part of the 2015/16 reporting period, 29 were within the upper quartile. This represents 36% of indicators (33% in 2014/15). Areas performing well include attainment levels within Children's Services, sickness absence for teaching and non teaching staff and the average time taken to complete non-emergency repairs.

144. Performance in the bottom quartile of councils was noted in areas such as cost per primary school pupil, net cost per waste collection per premises and percentage of adults receiving any care or support who rate it as excellent or good. In total, there were 13 indicators noted as being in the bottom quartile. This represents 16% (40% in 2014/15).

Statutory performance indicators (SPIs)

145. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

146. For 2016/17 three (SPIs) were prescribed:

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

147. We reviewed the council's arrangements for collecting, recording and publishing data in 2016/17. Overall, we concluded that they are satisfactory. Information is publicly available on the council website, although this is accessed through Covalent rather than in a summary document or as part of the council's Annual Report. Previously, a supplementary report summarising performance was prepared as part of the Annual Report. However, we note that this was not included in 2015/16 and is not planned for 2016/17.

148. The Annual Report should consider including a performance section that includes the summary position regarding the council's performance together with relevant detailed performance information. This would improve the accessibility of performance information and help to demonstrate greater transparency by the council.

National performance audit reports

149. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the council. These are outlined in Appendix 3.

Arrangements are in place for the council to consider national reports. These are presented to the Audit Committee and members are made aware of key issues. The council does not routinely report the council's position in respect of the key issues reported. Action taken in response to reports is dependant on the nature of the national report and the service to which it relates.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
10	**1. Lease commitments** Future lease payments receivable by the council (as a lessor) under non cancellable leases disclosed in the accounts at note 22 included a significant lease which was cancellable and the break clause has been exercised. This resulted in an overstatement of minimum lease payments receivable. Further, the same note excluded details of future lease payments due by the council (as a lessee) for refuse vehicles leased by the council. Appropriate adjustments have been made to note 22 in the audited accounts. There is no impact on the comprehensive income & expenditure account. There is a risk that future lease commitments are not being fully and accurately reflected in the financial statements.	Arrangements should be in place to ensure that all leases are notified to the finance service, together with details of any break clauses or changes in the nature of existing leases.	Leasing updates will be included as an item for discussion on the agenda of the quarterly meetings between the Corporate Accounting Team and the Estates Team. Senior Accountant, Corporate Accounting August 2017.
16	**2. General Fund capital slippage** The general fund capital programme has experienced slippage in each of the last three financial years. There is a risk that slippage could impact the council's strategic priorities.	The council should ensure that slippage and rescheduling of general fund capital projects does not have a significant impact on council strategic priorities that are dependent on capital projects being completed on time	Paragraph 56 refers to the improved practices in place since June 2016. Although there was still a level of slippage at the end of 2016/17, the reasons for that have been better understood and explained to Members, and the recently formed Capital Delivery Group has

Page no.	Issue/risk	Recommendation	Agreed management action/timing
			provided peer challenge to ensure that any programme slippages are then delivered early in the following financial year. Building on these process improvements, it is intended to deliver the programme closer to the approved capital budget in 2017/18. Senior Manager - Infrastructure March 2018
20	**3. Funding Position** The cumulative budget gap over the five year period to 2021/22 is £11.015 million. There is a risk to future service delivery if the council does not address the projected funding gap or if it cannot continue to meet the existing efficiency savings targets it has set.	The council should ensure that savings plans are developed which identify how the remainder of the savings required to meet the residual funding gap of £11.015 million for the five year period to 2021/22 will be achieved.	The next iteration of PBB will include significant options that will further address the residual gap for future years. This will be guided by the revised council priorities currently being determined and due for approval in October 2017. Options for savings, currently being prepared by officers, will be presented to Members in late 2017, prior to the revised budget being presented to the Council in February 2018. All available relevant sources of information will be accessed and analysed to constantly refine the assumptions that underlie the financial strategy, and any changes will be reported to Elected Members. Chief Finance Officer March 2018
24	**4. Governance arrangements** The council's local code of corporate governance was last updated and approved in 2013 and is therefore in need of a refresh.	The planned update of the council's Local Code of Corporate Governance should be carried out soon, and should ensure it reflects the council's current governance arrangements, strategic objectives and	A revised Local Code of Corporate Governance will be drafted, with input from Internal Audit, during the latter part of 2017. The draft will then be presented to Council for approval.

Page no.	Issue/risk	Recommendation	Agreed management action/timing
	There is a risk that the existing code doesn't reflect the council's current governance arrangements; and doesn't reflect the current council structure, priorities, or results from recent consultations with stakeholders.	monitoring arrangements, together with significant changes in the council such as the recent restructure.	Chief Officer - Governance March 2018

Appendix 2

Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
1 Risk of management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.	No unusual or inappropriate transactions were identified as part of detailed testing of journal entries. A review of accounting estimates did not show any instance of bias. Focussed testing of regularity and cut-off assertions showed controls were operating effectively. No significant transactions outside the normal course of council business were identified. Our conclusion is that there is no evidence of management override of controls at the council.
2 Risk of fraud over income and expenditure ISA 240 presumes a risk of fraud over income which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice Stirling Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud. Particular areas of concern include council tax, non domestic rates and income from sundry debtors. The risk of fraud over expenditure also applies due to the variety and extent of expenditure made by	Clear schemes of delegation and authorised signatory databases are regularly updated. Appropriate processes for the authorisation, separation of duties and workflow associated with income and expenditure. Compliance with procurement regulations. Member scrutiny through regular cycle of committee reporting. Internal audit's plan includes a rolling review of core financial controls.	Sample testing of income and expenditure transactions confirmed that these were in the normal course of business. We obtained satisfactory explanations for any significant increases or decreases in income or expenditure. Our sample cut off testing confirmed that transactions are processed in the correct accounting year. NFI work is on-going, but at a relatively early stage. The council has adequate counter fraud arrangements. Our conclusion is that the council has arrangements in place to minimise the risk of fraud over income and expenditure.

	Audit risk	Assurance procedure	Results and conclusions
	the council in delivering services.		
3	**Estimation and judgements** There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets, pension liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	Asset valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyor. Pension fund balances and valuations are completed by qualified actuary. Robust controls over process for updating asset register for in-year valuations. A year end timetable for producing the annual accounts has been prepared. This considers all aspects of cut off.	A number of estimations and judgements in the accounts were based on the opinion of experts. We assessed the reliability of these experts and reviewed their work. We tested samples of accruals and provisions and confirmed them to appropriate back up evidence. The council's accounting policies are appropriate. We concluded that estimations and judgements included in the accounts are supported by appropriate audit evidence.
4	**Group accounts consolidation of Integration Joint Board** From 1 April 2016 the Clackmannanshire and Stirling Integration Joint Board (IJB) has been operational and will be included in the council's group accounts for the first time in 2016/17. The IJB is responsible for commissioning adult social care while the council is responsible for delivering services. There are risks that: • transactions relating to the IJB are not correctly classified by the council • balances between the council and its IJB partners are not agreed in time for preparation of the financial statements • overspends occur if scrutiny of partnership budgets is not effective. Any overspends by the IJB will directly impact the council's budget.	The financial ledger coding structure identifies all IJB transactions. Regular monitoring of financial information. Due diligence completed on the budget setting process. All balances between IJB partners will be agreed prior to preparing the annual accounts. Agreement on how to account for overspends and underspends is outlined in the Integration Scheme.	IJB figures were accurately incorporated into the consolidated accounts. Sample testing of income and expenditure transactions confirmed they were accurately recorded as IJB or non-IJB. IJB position against budget was monitored throughout the audit and the treatment for year end results considered in line with accounting guidelines. Confirmation of year end balances was received from each party of the IJB. The IJB returned a year end underspend of £3.412m. Of this, £0.688m is unearmarked and £2.724m is earmarked for services in 2017/18, in line with the Integration Scheme. The council's share of the results of the IJB has been appropriately consolidated into the group accounts. Our conclusion is that transactions and balances of the IJB were correctly classified within the council's ledger. Balances between the council and its partners were agreed, and full financial details were provided to audit within the required timescales.

	Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice			
5	**Financial Sustainability** Councils are facing significant financial pressures with reductions in funding and the need to reconfigure services, increasing non discretionary costs, increasing demand for services and the uncertainty around the newly created IJBs. Good financial information to support strategic cost reduction measures will be critical to achieving this. The council's third priority based budget (PBB3) plan identified a savings target of £30.184 million over the five years to 2020/21 that will be necessary to achieve a balanced budget. This included the need to make savings of £6.281 million in 2016/17. There is a risk that the council is not able to identify or achieve the necessary sustainable savings measures or meet cost pressures as they arise.	The council carried out an extensive priority based budgeting exercise that reviewed all costs over the next five year period. This is aligned to key objectives contained in the five year business plan and the workforce plan. Savings proposals of £25.124 million for the five year period to 2020/21 were approved when the 2016/17 budget was set. The five year business plan is reviewed every year and updated in line with changes in the council's priorities. This will be reflected in PBB4. Uncommitted reserves have increased in recent years as part of a planned strategy to help finance the implementation of the budget transformation programme. Regular financial monitoring reports are scrutinised by the Finance & Economy Committee. Over 90% of PBB3 savings by value for 2016/17 are forecast to be delivered. Monthly progress updates towards meeting PBB savings targets are reported to the Strategic Transformation Board. A surplus of £0.230 million for 2016/17 is forecast at 2 February 2017, subject to the planned use of around £4 million reserve balances to finance the implementation of the budget transformation programme.	The council has a robust approach to its business and financial planning through the adoption of priority based budgeting (PBB). The current cumulative budget gap over the five year period to 2021/22 of £11.015m incorporates £20.109m of existing savings approved over the last three years of PBB. The council achieved cumulative savings to 2016/17 of £16.098m against a target of £16.177m. Usable reserves held by the council decreased by £3.426m in 2016/17 due to financing transformation costs. Uncommitted general fund reserves at as 31st March 2017 were £8.152m, which represents around 4% of the net budget. This is in excess of the target level of between 2% and 2.5%. Year end outturn was broadly in line with forecasts and narrative explanations contained with quarterly reports presented to committee. Monitoring reports presented to the Finance & Economy Committee inform members of budget variance and areas of service pressure. These reports contain sufficient information to allow scrutiny by members. We therefore consider that the overall level of usable reserves held by the council is reasonable; expenditure is contained with annual budgets; and most savings efficiency targets are met.
6	**Shared service arrangements** Shared service arrangements with Clackmannanshire Council for Education and Social Services came to an end in October 2016. The council has redesigned these services with a view to being more flexible	A business case setting out the options for future service delivery was approved in October 2015. There was continuous communication with Clackmannanshire Council throughout the decoupling process until appropriate	Children and Families Services recorded a significant overspend against budget of £1.613m. This was as a result of an increase in the number of placements of children in their mid teens and children with complex care needs. The Chief Education Officer has

	Audit risk	Assurance procedure	Results and conclusions
	towards demand, as well as being better placed to manage operational risk. During this period of change there is a risk that governance arrangements may not be in place and could impact the quality of service provided. Children & family services are forecasting an overspend in 2016/17 of £1.612 million.	arrangements were in place at both councils. Appropriate governance arrangements are now in place. Financial performance of all education and social services are regularly reported to the Finance & Economy Committee, together with reasons for all variances from budget.	made good progress in establishing the new management team to support education across the Council. There continues to be a joint Adult and Child Protection Committee with Clackmannanshire Council. Whilst there has been a strong commitment to self-evaluation to inform improvement priorities, it is too early to evaluate the effectiveness of these.
7	**Workforce Management** To help meet the financial challenges, the council have identified that significant organisational change is required over the five year period to 2020/21. The council have identified that a reduction of 450 to 550 jobs requires to be undertaken in a cost effective manner. There are risks that either this could be unaffordable, or that there is insufficient capacity to meet future business requirements.	The workforce plan is strategically aligned to the five year business plan and the PBB. Ongoing communication with employees and trade unions. Uncommitted reserves have increased in recent years as part of a planned strategy to finance the implementation of the budget transformation programme. Around £4 million has been used in 2016/17 to finance severance costs.	The council approved and agreed 117 termination packages in the year to 31 March 2017, resulting in an in-year charge of £4.167m. These severance costs were mainly funded through reserves. This is in line with the council's policy to build up the uncommitted element of the general fund to finance transformational change costs. Workforce numbers reduced by 185 from 4,733 at 1 April 2016 to 4,548 at 31 March 2017. Our conclusion is that the council is taking adequate steps to monitor and reduce its workforce in line with targets to meet projected funding availability over the next five years.

Appendix 3

Summary of national performance reports 2016/17

2016/17 Reports

Apr			
May	Common Agricultural Policy Futures programme: an update		
Jun	South Ayrshire Council: Best Value audit report	The National Fraud Initiative in Scotland	
Jul	Audit of higher education in Scottish universities	Supporting Scotland's economic growth	
Aug	Maintaining Scotland's roads: a follow-up report	Superfast broadband for Scotland: a progress update	Scotland's colleges 2016
Sept	Social work in Scotland	Scotland's new financial powers	
Oct	Angus Council: Best Value audit report	NHS in Scotland 2016	
Nov	How councils work – Roles and working relationships in councils	Local government in Scotland: Financial overview 2015/16	
Dec	Falkirk Council: Best Value audit report	East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	Scotland's NHS workforce		
Mar	Local government in Scotland: Performance and challenges 2017	i6: a review	Managing new financial powers: an update

Local government relevant reports

The National Fraud Initiative in Scotland – June 2016

Maintaining Scotland's roads – a follow up report – August 2016

Social work in Scotland – September 2016

Local government in Scotland: Financial overview 2015/16 – November 2016

Local government in Scotland: Performance and Challenges 2017 – March 2017

Stirling Council
2016/17 Annual Audit Report

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