Fife Council

2017/18 Annual Audit Report

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

28 September 2018

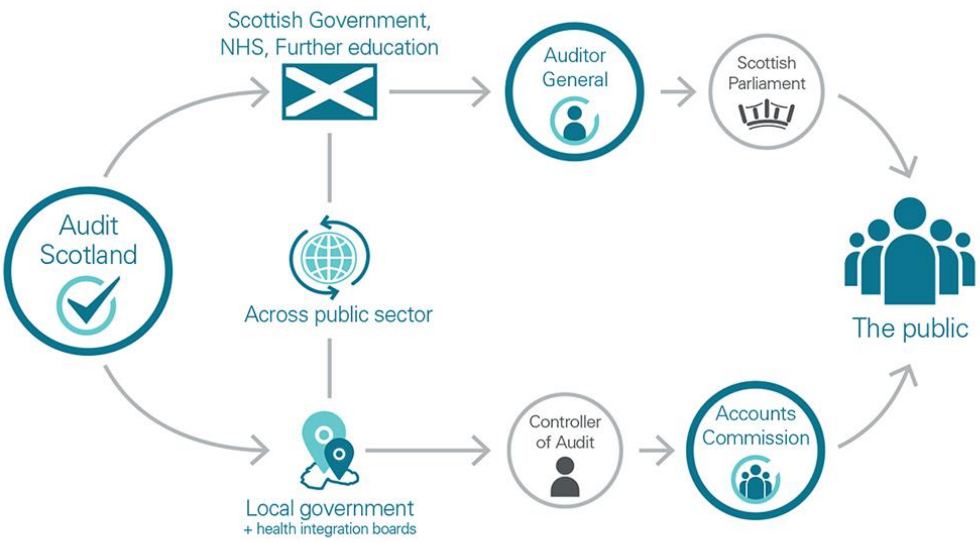
Who we are

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.

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Key messages

2017/18 annual accounts

1 **Our audit opinions were all unqualified.**

2 **32 of the charitable trusts (67 per cent) have been inactive for the last three years and the management of cash balances for the funds is not delivering value for money.**

3 **There was a significant adjustment to the Council's liabilities and pension reserve of £50 million. The issue affected the local government sector and we have identified and estimated the additional error in subsidiary pensions valuations (£2.7 million). The Group statements have not been adjusted for this additional error.**

4 **Significant steps were taking to streamline the annual accounts reducing the number of pages from 144 to 83.**

Financial management

5 **The Council had an underspend of £7 million against its £783 million budget in 2017/18. It has a track record of delivering most of the identified savings, but this is becoming harder to achieve.**

Financial sustainability

6 **The 2018/19 budget was balanced without using uncommitted reserves but the significant reduction in the uncommitted general fund balances, scale of future funding gaps and the increase in financial risk presents immediate challenges which the Council is managing through service change plans.**

7 **The Council displays good practice by applying relatively sophisticated models for longer term financial planning.**

Governance and transparency

8 **The Council has appropriate governance arrangements and conducts its business in an open and transparent way.**

9 **There are challenges in delivering effective health and social care integration although some benefits are being seen. Service redesign and transformation has progressed slower than anticipated and a three year financial recovery plan is in place.**

Value for money

10 **The Best Value audit found the Council had made good progress since 2009 and is fostering an improvement culture, based on a clear strategic direction shared with partners. The Council has effective leadership and performance continues to improve and broadly track national trends. The Council has reviewed its use of key resources and has good examples of service change.**

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Fife Council (the Council) and its group. The scope of the audit was set out in our Annual Audit Plan presented to the 23 February 2018 meeting of the Standards and Audit Committee. This report comprises the findings from an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the *Code of Audit Practice 2016* as illustrated in Exhibit 1.

Exhibit 1
Audit dimensions

Source: *Code of Audit Practice 2016*

2. The main elements of our audit work in 2017/18 have been:

- a review of the Council's key financial systems
- an audit of the Council's and its group 2017/18 annual accounts and the statement of accounts of the 48 “section 106” charities administered by the Council including the issue of independent auditor's reports setting out our opinions
- audit work covering the Council's arrangements for securing Best Value relating to financial management, financial sustainability and the use of resources
- consideration of the four audit dimensions.

3. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

4. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the *Code of Audit Practice (2016)* and supplementary guidance, and International Standards on Auditing in the UK.

5. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the Council's best value arrangements and in doing this we aim to support improvement and accountability.

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

7. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £504,760 (Council) and £6,475 (Charitable Trusts) as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. Our aim is to add value to Fife Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

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-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts

Main judgements

Our audit opinions were all unqualified

32 of the charitable trusts (67 per cent) have been inactive for the last three years. and the management of cash balances within the funds is not delivering value for money.

There was a significant misstatement in the Council liabilities and pension reserve position (£50 million) which has been adjusted in the audited accounts. The issue affected the local government sector and we have identified and estimated the additional error in subsidiary valuations (£2.7million). The Group statements have not been adjusted for errors in the subsidiaries.

Significant steps were taken to streamline the accounts this year, reducing the number of pages from 144 to 83.

Audit opinions on the annual accounts

13. The annual accounts for the Council and its group were approved by the Standards and Audit Committee on 27 September 2018. We reported, within our independent auditor’s report that, in our opinion:

- financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance

14. Additionally, we have nothing to report in respect of other information in the annual accounts, the adequacy of accounting records, or the information and explanations we received

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

Audit opinions on section 106 charities

15. A separate independent auditor's report is required for the statement of accounts of each registered charity where members of Fife Council are sole trustees. We received the charities’ accounts in line with the agreed timetable and after completing our audit we issued an unqualified audit opinion on the 2017/18 statements.

Submission of the Council and its group annual accounts for audit

16. We received the unaudited annual accounts on 29 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit.

Risk of material misstatement

17. 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 and the wider audit dimension risks identified.

Materiality

18. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. On receipt of the annual report and accounts we reviewed our planning materiality and concluded that, the materiality levels required only minor adjustment. These are shown at Exhibit 2.

Exhibit 2
Materiality values

Materiality level	Amount
Overall materiality	£14 million
Performance materiality	£3.5 million
Reporting threshold	£150,000

Source: Audit Scotland

19. Adjustments to the planning materiality levels for the Council's charitable trusts were made as expenditure in the unaudited accounts was lower than anticipated. These are detailed in Exhibit 3.

Exhibit 3
Charitable Trusts materiality values

Trust	Planning materiality	Performance materiality	Reporting threshold
Transactions	£420	£300	£10
Balances	£16,500	£11,500	£100

Source: Audit Scotland

Significant findings from the audit in accordance with ISA 260

20. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. 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.

21. The findings include our views about significant qualitative aspects of the Council's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual accounts
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
1. Pension Scheme Valuation The Council accounts for its share of Fife Pension Fund in accordance with International Accounting Standard 19 - Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the scheme's actuary (Hymans Robertson). The actuary produced the IAS 19 report using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns. This resulted in pension fund liabilities reported in the Council's balance sheet being overstated by £50 million. The same issue also affects six of the group bodies. Consolidation is completed using unaudited accounts and no adjustments have been put through the group accounts. Figures were available for five of these bodies with the sixth estimated.	This issue occurred across the local government sector. The accounts have been adjusted to reflect the Council's share of the pension fund assets based on the latest valuation at 31 March 2018. This resulted in the pension fund liability reducing and the pension reserve increasing by £50 million for both the Council and group. The unadjusted error in the group accounts is estimated to be £2.7 million. This is included in Appendix 3 We accept this approach as reasonable as the error is below our materiality threshold
2. Elimination of internal transactions and balances The gross income and expenditure figures in the unaudited accounts for one of the Council directorates were overstated by £49 million as the capital income account was not eliminated during preparation. The group balance sheet also overstated debtors and creditors by £10 million for inter group amounts.	Management accepted these points and adjusted the accounts to remove any internal transactions and balances. Procedures have been amended to prevent reoccurrence in future **This has been corrected in the audited financial statements**

Finding	Resolution
3 Accounting for ring-fenced grants Ring-fenced grants for the Pupil Equity Fund (£9 million) and Criminal Justice (£6 million) were accounted for as Taxation and Non-Specific Grant Income in the unaudited accounts. During the course of the audit officers decided that, following work on Scottish Government financial monitoring returns, it was more appropriate for the grants to be credited to services.	We agreed with management's judgement that the revised accounting was more appropriate. It was also the approach adopted by the majority of other Scottish councils. The change reduced the general fund by £4 million as the carried forward PEF grant is now treated as a liability rather than a committed balance. The final net expenditure budgets and funding totals were also reduced by £11 million. **This has been corrected in the audited financial statements**
4. Dormant charities There are 48 charities listed in the Fife Council Charitable Trusts accounts, however only six have paid out grants in the year (12 in 2016/17). The Office of Scottish Charity Regulator (OSCR) website states that "in general, if a charity does nothing for a prolonged period, it is unlikely to be providing public benefit and this may result in it failing the charity test". Audit testing found that 32 funds (67%) had been inactive for the last three years. Section 46 of the Charities and Trustee Investment (Scotland) Act 2005 requires auditors to report to OSCR when the charity test is not met.	There are currently no plans to reduce the number of trusts held and we have been advised that trustees are aware of the need to promote the use of trusts in local communities to ensure that the public benefit requirement is delivered. We have advised OSCR of our findings. Recommendation 1 (refer appendix 1, action plan)
5. Cash balances for charitable trusts We reported last year that a significant cash balance was held by the charitable trusts. and officers confirmed action would be taken during 2017/18 to redefine the levels that trigger re-investment. We found there had been no re-investment and cash balances had increased further this year. It is not clear why these monies are being held in cash which earns a significantly lower rate of interest than alternative investments. The current approach is not delivering value for money on the balances held.	Officers have said they intend to review the cash balances during the 2018-19 financial year. Recommendation 2 (refer appendix 1, action plan)

Source: Audit Scotland

How we evaluate misstatements

22. Errors with a gross value of £118 million were identified by auditors. Officers adjusted for four of these (£113 million) resulting in no change to the reported outturn on a funding basis and an increase to total comprehensive income of £50 million with a corresponding increase to the pension reserve. All errors were above our performance materiality threshold and in each instance we concluded that audit procedures undertaken provide sufficient assurance that there were no further undetected errors of a similar nature.

23. Unadjusted errors are detailed in Appendix 3. We have concluded that these errors are contained and do not indicate further systematic error within the account areas or more pervasively within the financial statements. We considered the impact of these misstatements on our audit approach and decided that further audit procedures were not required.

24. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the items in in Appendix 3 as their view is that these are not material to the understanding of the accounts. If they had adjusted there would have been an increase in the Group's net assets of £1.7 million.

Good practice in financial reporting

25. Significant steps were taken by officers in the Council to streamline the annual accounts with the encouragement of the Standards and Audit Committee and the support of Audit Scotland. The final document reduced in length from 144 pages last year to 83 pages this year. We commend this approach to focusing and reducing the size of the financial statements and will continue to support this if officers want to develop this further in 2018/19.

Follow up of prior year recommendations

26. We have followed up actions previously reported and assessed progress with implementation, these are reported in Appendix 1 and identified by the prefix b/f (brought forward).

27. In total, eight agreed actions were raised in 2016/17. Of these:

- six have been completed and one is partially complete
- one was not actioned.

28. Overall the Council has made good progress in implementing these actions. For those actions not yet implemented, revised responses and timescales have been agreed with management as set out in Appendix 1.

Data analytics

29. In 2017/18 we used data analytics in Fife Council as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as "the science and art of discovering and analysing patterns, deviations and inconsistencies…. in the data underlying…. an audit ….for the purpose of planning and performing the audit". Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

30. Accuracy of staff costs. Analytical techniques were used to predict individual elements of staff cost including wages and salaries, social security costs and pension contributions. The actual staff cost was within tolerable limits of our predicted amount.

Other findings

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

Objections

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 and there were no objections to the accounts.

Part 2
Financial management

Main judgements

Fife Council delivered an overall underspend of £7 million against its final budget of £783 million. This included the planned use of £13 million earmarked reserves.

Overspends of £2 million in Health & Social Care were offset by underspends in Education & Children's Services and Finance and Corporate Services.

The Council has a track record of delivering most of the identified savings, but this is becoming harder to achieve

This year a lower capital budget was again underspent but was financed without a significant increase in external borrowing.

The Council's budget was £783 million and including the use of earmarked reserves (£13 million) and savings (£25 million) in 2017/18

33. In February 2017 the Council approved a budget of £771 million for 2017/18. During the year the budget was amended with the final budget of £783 million adjusted following a change in treatment of two ring-fenced Scottish Government grants during audit (see Exhibit 3 point 3). The increased budget was due to

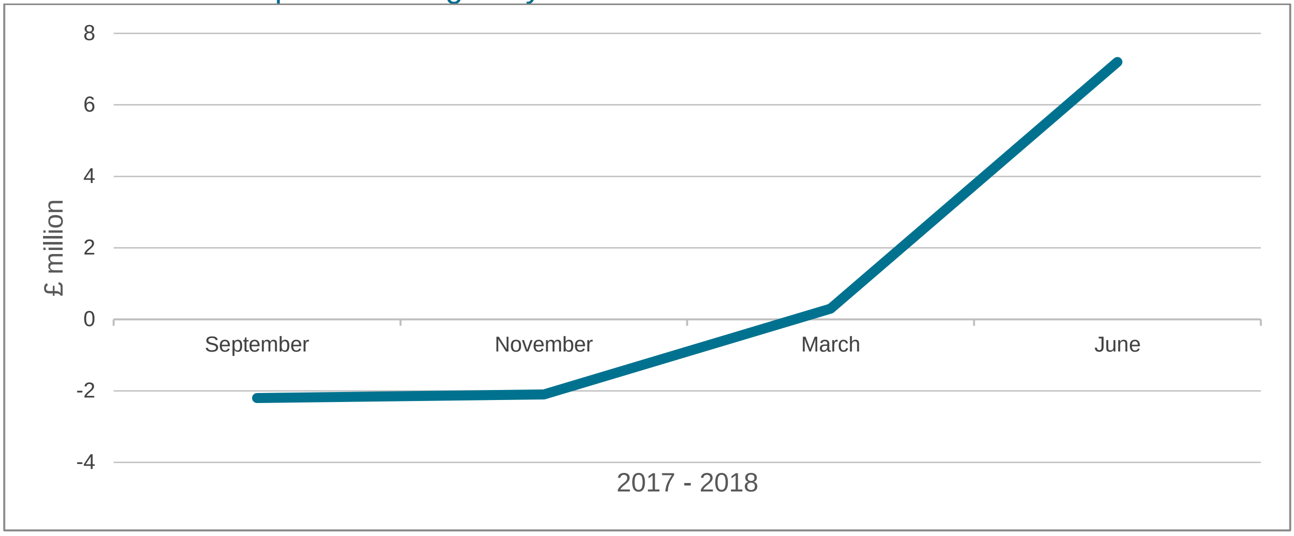
- additional expenditure to be funded from committed balances of £13 million
- additional Scottish Government funding of £14 million
- removing £15 million of Scottish Government funding which is now accounted for as income.

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

Budget monitoring arrangements are being reviewed

34. The overall budget position was reported to the Policy & Coordination Committee four times throughout the year including the provisional outturn in June 2018, which was a significant turnaround from the previous reports. The forecast outturn position improved from the initial £2 million deficit reported in September 2017 as shown in Exhibit 4.

Exhibit 4
Forecast outturn reported during the year



Source: Fife Council Revenue Budget Financial Monitoring 2017-18 Reports to Policy & Coordination Committee

35. We considered the arrangements for in-year financial monitoring and highlighted in our 2017/18 management report that the frequency of reporting had reduced to fit into the revised committee schedule and the reports were not always clear on the financial position. Revisions to the content of the financial report have been agreed to reduce the complexity. We will monitor progress with these developments as part of the 2018/19 audit.

The Council recorded an underspend of £7 million

36. An underspend for the year of £7 million was reported against the revised budget. The more significant under and overspends are summarised in Exhibit 5.

Exhibit 5
Summary of significant under / overspends against budget

Area	(Under)/over spend (£m)	Reason for variance
Education & Children's Services	(4)	Primarily due to vacant teaching posts and shortage of supply
Finance & Corporate Services	(2.4)	Write-off of historic creditors balances and increase in housing benefit subsidy
Loan Charges & Contingencies	(2)	Lower than forecasted external interest payments due to Treasury Management Strategy and capital expenditure underspend.
Health & Social Care	2.4	Primarily due to rising demand for services, includes £0.3 million due to increased funding to the Integration Joint Board to fund an element of the 2017/18 overspend across the partnership.

Source: Revenue Budget 2017-18: Provisional Outturn, report by Executive Director for Finance and Corporate Services to Policy & Co-ordination Committee 7th June 2018

37. With the exception of Health & Social Care, the Council is maintaining its recent track record for delivering services within budget. Departmental budgets included £13 million planned transfers from committed general fund reserves, leaving a £6 million reduction in the general fund as reported in the Movement in Reserves Statement (MIRS). This reduction in general fund is higher than in 2016/17 (see Exhibit 6)

Exhibit 6
Elements of the financial outturn (£million)

	2017/18	2016/17
Surplus (against budget)	£7.2m	£13.9m
Expenditure funded from balances	(£13.3m)	(£15.2m)
Reduction in general fund	(£6.1m)	(£1.3m)

Source: Fife Council Annual Accounts 2017-18 and Revenue Budget 2017-18: Provisional Outturn, report by Executive Director for Finance and Corporate Services to Policy & Co-ordination Committee 7th June 2018

38. Expenditure funded from balances is the use of committed or ear-marked elements of the general fund. These are disclosed in Note 6 to the accounts and include previous spending commitments approved by committee along with prior year underspends carried forward through the Council's "*budget carry forward scheme*".

The housing revenue account broke even taking into account its financing contribution to the capital investment in housing

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 account broke even on a funding basis and the HRA reserve remains unchanged at £2 million. The current capital investment plan includes significant expenditure on both new and existing housing stock, this is partly financed using revenue received in-year and the extent of this is varied to achieve a break-even position.

The Council has a track record of delivering most of the identified savings, but this is becoming harder to achieve

41. The 2017/18 budget approved in February 2017 closed the identified budget gap of £19.5 million through:

- £17.7 million of recurring savings, detailed in the published budget documents
- £7.2 million of non-specific savings to be generated by the *Enabling Change* transformational programme

42. The savings agreed allowed the administration to commit an additional £5.4 million to future funding commitments.

43. During 2017/18 the Council tracked the achievement of savings with regular summaries of progress reported to the Policy & Coordination Committee. More detailed information, including a risk assessment of each saving, was presented to the relevant strategic committees.

44. A report to the Policy and Co-ordination Committee in June 2018 highlighted that 76 per cent of savings had been delivered during the year. In 2016/17, the Council achieved 87 per cent of budgeted savings. Although the Council has a track record of delivering most of the identified savings, there is a downward trend suggesting that planned savings are becoming harder to achieve. This could have implications for the Council's financial sustainability.

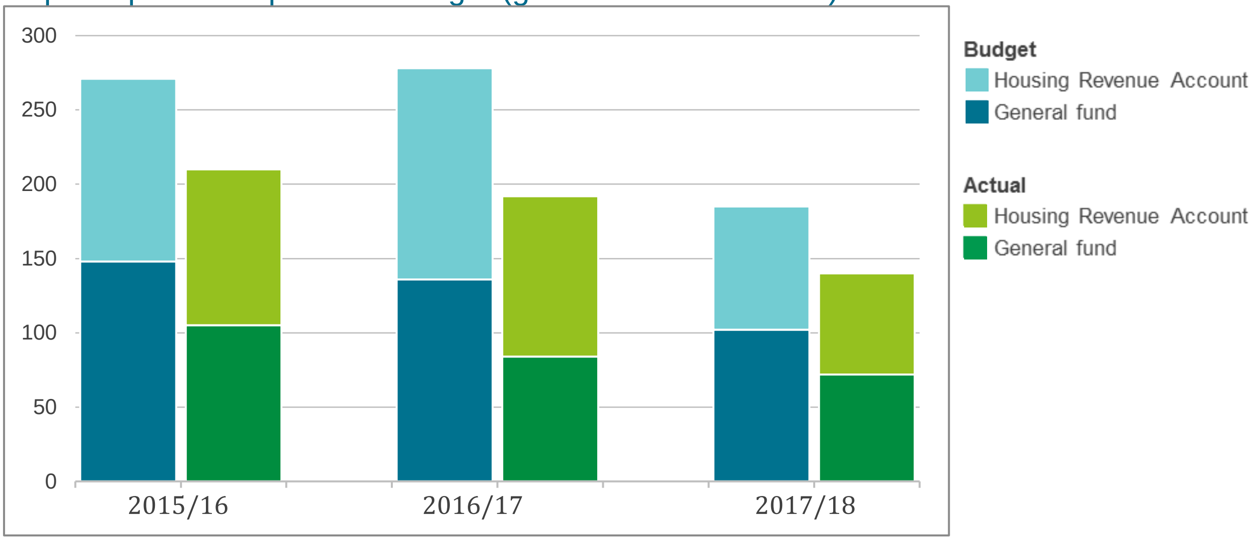
45. The shortfall of £7 million was due to £2.4 million for health and social care, £2.8 million enterprise and environment and around £2 million savings from other directorates that weren't delivered.

The capital budget is consistently underspent

46. The Fife Council capital outturn was £140 million against a budget £185 million, an underspend of £45 million. The Council has a history of underspending on its capital programme as outlined in Exhibit 7.

Exhibit 7

Capital spend compared to budget (general fund and HRA)



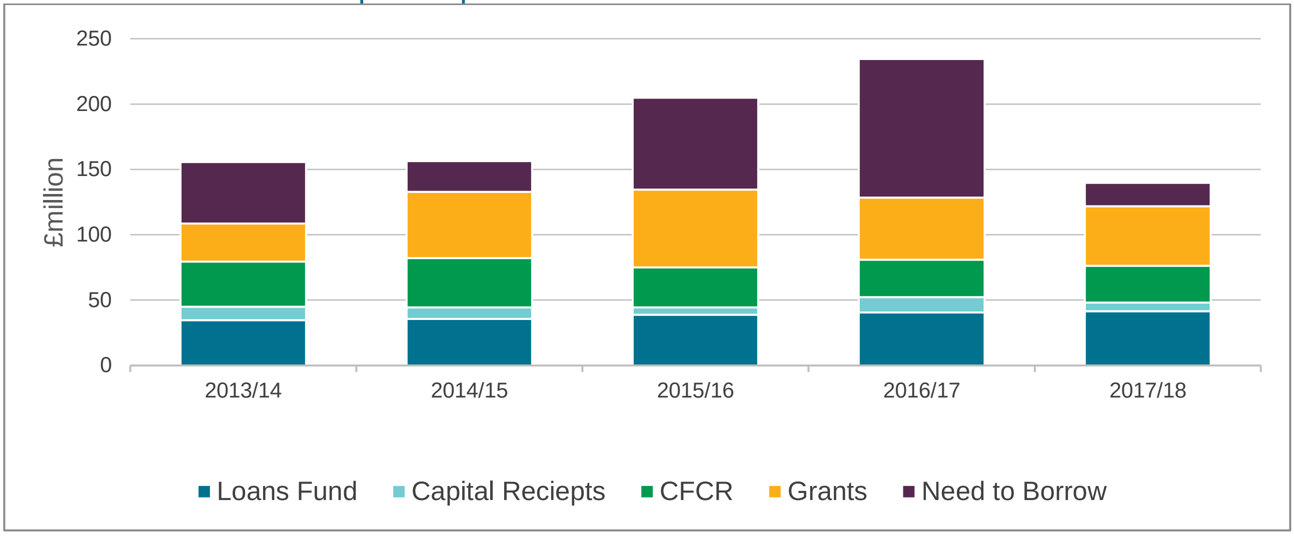
Source: Fife Council Capital Investment Plan Update – Provisional Outturn

47. The outturn against budget was relatively consistent across all services, with slippage generally being due to timing and profiling rather than significant cost changes or time overruns on projects. The most significant underspend of £15 million was for the Affordable Housing Programme (AHP). This is a multi-year programme to deliver a further 3,500 affordable homes by 2022.

The Council did not require significant further borrowing in 2017/18.

48. The Council's capital programme is financed from a variety of sources. As shown in Exhibit 8 the underlying need to borrow was at its lowest level for five years in 2017/18, which reflects a reduction in capital budgets (see above) and total external debt increased only marginally as a result. Fife Council's level of borrowing was considered as part of our May 2018 BVAR report and was considered sustainable.

Exhibit 8
Sources of finance for capital expenditure



Source: Fife Council Annual Accounts

Systems of internal control

49. 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.

50. Our findings were included in our management report that was presented to the Standards and Audit Committee on 14 June 2018. We concluded that the key controls were operating effectively.

Part 3
Financial sustainability

Main judgements

The 2018/19 budget was balanced without using uncommitted reserves but the significant reduction in uncommitted general fund balances, scale of future funding gaps and the increase in financial risk presents immediate challenges which the Council is managing through service change plans.

The Council displays good practice by applying relatively sophisticated models for longer term financial planning.

The 2018/19 budget was balanced without having to take any money from uncommitted reserves and service change plans will be used to manage funding gaps over the next three years

51. The Council agreed its £792 million 2018/19 budget in February 2018. The £13 million budget gap was closed without the use of reserves, by increasing Council Tax by 3 per cent (raising £4 million) and approved savings of £11 million proposed by service change plans. This generated an additional £2 million to be used on Council priorities.

52. This is an encouraging position however the Council is facing several challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing cost of services and reductions in local government funding.

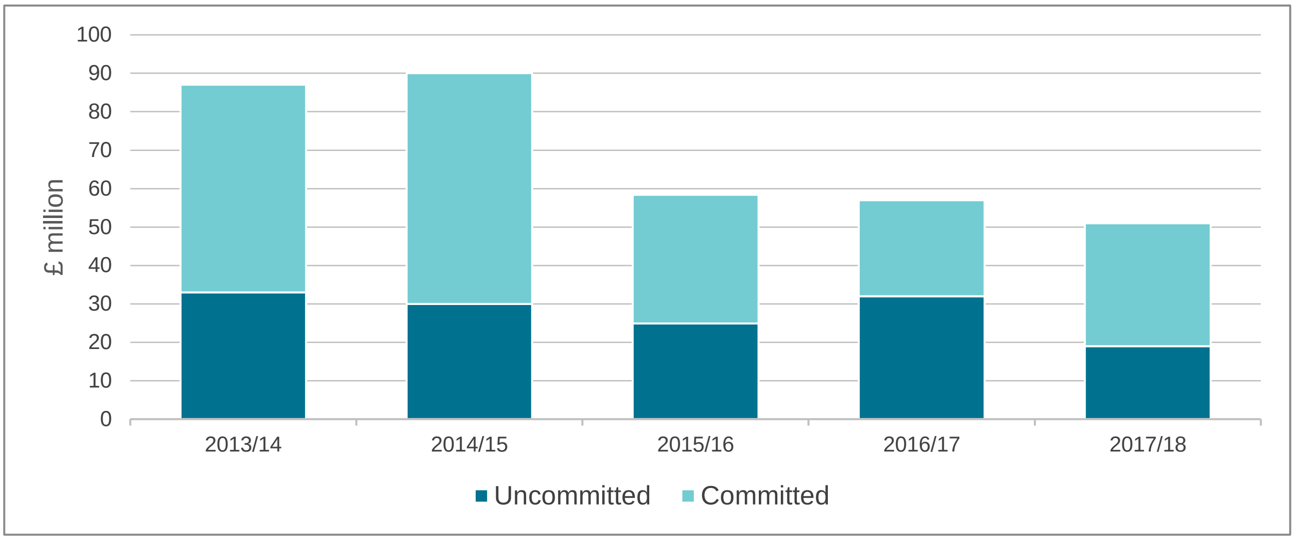
53. Services are allocated a three year budget based on the Council's long term financial model and are expected to develop proposals to deliver savings through their change plans. These plans will be influenced by the Change to Deliver transformation programme. This is a new approach effective from 2018/19 and we will monitor progress and delivery of savings as part of our on-going audit work. The first budget monitoring report produced in September 2018, forecasts a £6.4 million overspend with 77 per cent of approved savings being achieved. The most recent financial projections, for 2019/20 and 2020/21, forecast funding gaps of £9 million and £23 million respectively and a further round of service change plans are being developed.

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

There has been a reduction in the level of uncommitted reserves in 2017/18 and during 2018/19 the financial risks have increased

54. The Council's medium-term financial strategy bases reserve levels on the maximum amount of financial risk identified within the Council's risk register. This forms part of regular budget-setting and monitoring reports to committees and the full council. The level of uncommitted balances fell by £13 million in 2017/18 as illustrated in Exhibit 9. In May 2018 the projected uncommitted General Fund covered 67 per cent of identified risks and the Executive Director of Finance and Corporate Services assessed this as adequate. In September 2018 this had reduced to 36 per cent due to the increased level of assurance being taken from the new service change planning approach. This is a significant reduction and could indicate an increasing financial risk, which may not be covered by uncommitted reserves.

Exhibit 9
Analysis of general fund over last five years



Source: Fife Council accounts 2013-18

The Council has relatively sophisticated models for longer term financial planning

55. We reported in our Best Value Audit Report this year that Fife Council has relatively sophisticated models which help forecast long term expenditure and income and good cross-party working. This is an example of good practice amongst Scottish Councils.

Public sector pay pressures are estimated at £16 million in 2018/19

56. In 2018/19 the Scottish Government lifted its 1 per cent pay cap for public sector workers. Pay levels set by Scottish Government act as a benchmark for local government pay settlements which are negotiated nationally on behalf of councils by the Convention of Scottish Local Authorities (COSLA). Fife Council has included an allowance for the settlement agreed by the Scottish Government of a 3 per cent increase for those earning under £30,000, 2 per cent between £30,000 and £80,000 and a cap of £1,600 on staff earning more than £80,000 recognising that the final settlement may differ. The estimated costs of £16 million were included in the 2018/19 budget.

Part 4

Governance and transparency

Main Judgements

The Council has appropriate governance arrangements in place that support decision making and scrutiny and conducts its business in an open and transparent way.

Internal audit delivered only 70% of its work programme in 2017/18 and is expected to deliver financial savings going forward.

Good progress has been made and further actions are planned to strengthen cyber security arrangements.

The health and social care partnership faces significant financial pressures. Service redesign and transformation has progressed slower than anticipated and a three year financial recovery plan is in place.

Appropriate governance arrangements are in place to support decision making

57. Since May 2017 Fife Council has had a Joint Administration (Labour and SNP). The two parties agreed a Programme for Administration and each contributed a co-leader. The Programme for Administration was initially agreed for one year and has now been extended for the foreseeable future.

58. There are five service aligned strategic committees and one over-arching Policy & Co-ordination committee. These six committees replaced the previous Executive Committee. There is also a Standards & Audit Committee and a Scrutiny Committee. The Scheme of Administration has been updated and sets out the new committee structure outlining the terms of reference for each committee. The arrangements in place support good governance and accountability.

The Council is open and transparent in the way it conducts its business

59. Members of the public can attend meetings of the full Council, Policy & Co-ordination and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website and from June 2018 Council meetings will be streamed on the internet and remain on the Council's website for 90 days.

60. The Council's website also allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and to make a complaint. The website provides details of the citizen's panel and how to join it. The panel provides information and feedback on services as well as information on the needs of local communities. The Council has an ongoing project to enhance the functionality of its external website

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.

Internal audit delivered only 70 per cent of its work programme in 2017/18 and is expected to deliver financial savings going forward

61. Internal audit completed 70 per cent of the work set out in their agreed plan in 2017/18 and carried forward 19 audits for completion in 2018/19. The main explanation for the delay was the expansion in their work on the procure to pay system. Their 2018/19 plan reflects the number of carried forward audits without reducing the audit coverage across their key risk areas.

62. As part of the medium term financial strategy Internal Audit have been asked to deliver a £21,000 or 3 per cent per annum saving over the next 3 years. This will be achieved through temporary savings in 2018/19, while longer term plans for restructuring are drawn up. Options being considered include the downgrading of the role of the Service Manager Audit and Risk Management and the replacement of auditors with audit technicians. This may place further pressure on the work programme which may need to be revised.

The Council made good progress with its follow-up of the National Fraud Initiative

63. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. We reported on progress with the NFI exercise in our 2017/18 Management Report and concluded that good progress had been made with the 2016/17 NFI exercise. The Council focused on recommended matches and used a sampling approach where there were many other (non recommended) matches, which we considered an acceptable approach.

Standards of conduct and procedures for preventing and detecting fraud and corruption are appropriate with some slippage in planned awareness sessions

64. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

65. We reported last year that fraud awareness training was provided to staff as part of standard induction procedures and to revenues staff on an ad-hoc basis but a regular comprehensive programme of on-going sessions for employees in key positions was not in place. It was intended that the Corporate Fraud Team would deliver a training session for the Extended Council Management Team by September 2017 but due to work pressures on the Fraud Team this was not achieved. Presentations to directorate management teams are now due to take place in October 2018.

The Council has made good progress with its cyber security arrangements

66. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. In June 2018 the Council achieved Cyber Essentials (Plus) accreditation and work is on-going to align its cyber incident response process, and cyber awareness training with government standards by October 2018.

The health and social care partnership faces significant financial pressures and the Council needs to work with partners to address this.

67. The Fife Integration Joint Board (IJB) overspent in the first two years of operation and was deficit-funded by both NHS Fife and Fife Council.

68. The IJB is facing significant challenges in its medium-term financial sustainability. It has a shortfall of £5 million in its 2018/19 budget and is projecting more significant budget gaps for 2019/20 (£31.8 million) and 2020/21 (£46.7 million). A three-year recovery plan has been agreed as the three partner bodies recognise that a medium-term approach is required to address the budget challenge.

69. Savings of £3 million from the community redesign project were not achieved in 2017/18 due to slippage and the savings have subsequently been revised downwards to £800,000.

Recommendation 3 (refer appendix 1, action plan)

A strategy to manage the impact of EU withdrawal on workforce is being developed

70. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

71. Fife Council receives EU structural funding predominantly to enhance employability services. The amounts are not significant in relation to the Council's overall finances. The Council's legal department are continuing to monitor the regulatory landscape.

72. In relation to workforce the Council currently doesn't hold a full record of nationality details on its employee database, except where posts require a disclosure check. This covers a significant proportion of the workforce (predominantly Education and Social Work) and approximately 2 per cent of these are (non UK) EU nationals. An action plan on how to engage with EU nationals to determine what will happen post-EU withdrawal has been prepared and initial informal feedback is that those EU national employees currently in post are likely to stay in Fife. It is noted that applications for settled status are open until 30 June 2021.

73. The Council is also liaising both with its health and social care partners on their approach to the EU withdrawal issues and with COSLA as this body is assessing the risk across local government. The current indications are that EU withdrawal will not have a major impact on the Council's workforce. Ongoing work will continue to monitor this position.

Part 5

Value for money

Main judgements

The Best Value audit found the Council had made good progress since 2009 and is fostering an improvement culture, based in a clear strategic direction shared with partners. The Council has effective leadership.

Performance continues to improve and broadly track national trends. The Council has reviewed its use of key resources and has good examples of service change.

Best value

74. Best value is 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 for Fife was published on 24 May 2018.

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

75. The BVAR said:

- good progress had been maintained since the last Best Value report in 2009 and there is a well-developed approach to continuous improvement using a range of tools and methods. There is a programme to empower workforce and foster an improvement culture.
- the Council and its community planning partners share a clear strategic direction through the Plan for Fife although performance monitoring arrangement had still to be finalised. There was extensive research into the Fife area and engagement with communities to ensure the issues and challenges were understood.
- both members and officers demonstrate effective leadership and there were signs that the joint administration was working well.
- the performance of council services continues to improve and broadly tracks national trends.
- improvements have been made to how key resources including finance, staffing and assets are used and the Council has developed effective medium- and long-term financial planning arrangements.
- there are good examples of the Council implementing service change through reducing the numbers of offices and depots and developing a new Care at Home digital scheduling system.
- a varied range of tools are used to involve communities in decision-making.
- the IJB has significant financial and service redesign challenges in the short to medium term and the pace of change of service redesign will need to increase. The Council will need to work with its partners to deliver this.

76. At its meeting on 28 June 2018 the Council considered the findings and recommendations in the BVAR and agreed that monitoring of the improvements actions would be done by the Standards & Audit Committee. We will monitor and report on the Council's progress against the improvement actions in future annual audit reports.

Arrangements for publishing performance information are satisfactory

77. 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.

78. For 2017/18 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

National performance audit reports

79. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published a number of reports were issued which are of direct interest to the Council. These are outlined in Appendix 4.

80. Fife Council has a system in place for reviewing national reports and disseminating relevant reports to senior managers, however there is no formal mechanism to ensure they are presented to members through consideration at committees.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Compliance with the charity test** Audit testing found that 32 funds (67 per cent) had been inactive for the last three years. **Risk** The charitable trusts do not meet the charity test as they are not providing public benefit.	The review of the ability of the 48 trusts to meet the charity test should be undertaken as a matter of priority and the decision not to reduce the number of charitable trusts should be reconsidered. Exhibit 3	A limited review has been carried out as agreed in previous years. Many of the 'trusts' consisting of graves dressings funds could be amalgamated and/or used by the Service for the original purpose. Discussions are ongoing with the relevant Services in this regard. Spend from trusts continues to be a concern however, the transfer of responsibility for these from Democratic Services to the Communities Directorate should ensure that local solutions can be found by the Communities Managers. **Head of Communities and Neighbourhoods** **Ongoing**
2	**Charitable trust bank balance** Significant cash balances are held by the charitable trusts. It is not clear why these monies are being held in cash which earns a lower rate of interest than alternative investments. **Risk:** Charitable trust funds are not delivering value for money.	The level of cash balances required should be reviewed and any surplus funds invested to achieve a better return. Exhibit 3	The policies and process in relation to cash balances held will be reviewed with a view to introducing a regular assessment of the cash held. **Head of Finance** **March 2019**
3	**Health and social care challenges** The IJB is facing significant challenges in its medium-term financial sustainability with projected budget gaps in the next three years of £5 million, £31.8	The Council should work closely with its health and social care partners to accelerate the redesign of adult health and social care services and mitigate	The Council will continue to have regular liaison with the IJB and NHS Fife. Regular dialogue will continue to take place at Chief Officer and Elected Member level to

No.	Issue/risk	Recommendation	Agreed management action/timing
	million and £46.7 million respectively. Transformation plans are progressing slower than anticipated **Risk** Transformation and redesign of health and social care services across Fife is insufficient to enable partners to close their funding gaps.	medium term financial pressures. Paragraph 69	ensure that the level of progress is satisfactory **Chief Executive** **Ongoing**
Follow up of prior year recommendations			
b/f	**1. Charitable Trusts** Only 12 of the 48 charitable trusts have paid out grants in the year. Risk The charitable trusts do not meet the charity test as they are not providing public benefit.	Consideration should be given to whether the existing charitable trusts are providing public benefit and consider whether any could be amalgamated or closed	**Not completed** The position deteriorated further this year with only six funds making payments. **See 2017/18 point 1 above**
b/f	**2. Group Accounts** Our audit work on the group accounts identified a number of errors relating to the information provided by subsidiaries and the consolidation procedures performed by the Council Risk The group accounts are materially misstated due to consolidation issues.	The Council should review the group accounts process and ensure they have sufficient arrangements in place to support the preparation of the group accounts.	**Partially complete** While the Council have improved the consolidation process they still omitted a significant adjustment in the unaudited accounts. **See Exhibit 3 point 2**
b/f	**3. Historic Creditor Balances** Our audit work identified £3.4 million of balances in creditor accounts that were over a year old. It is not clear whether they represent legitimate liabilities or arose from processing errors in the accounts payable system Risk Expenditure and liabilities may be overstated	The Council should review the balances and confirm whether they remain as liabilities or should be written off. The accounts payable process should be reviewed to identify if there are systemic issues which need to be addressed.	**Complete** Reconciliations consider balances greater than £100,000 and amounts outstanding for more than three months. All historic balances older than one year have been resolved in the year and the remaining £394k older than six months are being addressed.
b/f	**4. Redundancy Provision & Insurance Fund** Before a provision for future costs can be recognised, accounting	The accounting treatment for: • the redundancy provision and	**Complete** The accounting treatment for both redundancy and insurance provisions were reviewed during the year. The redundancy provision

No.	Issue/risk	Recommendation	Agreed management action/timing
	standards (IAS37) requires the following: • a present obligation (legal or constructive) as a result of a past event • payment is probable and • the amount can be estimated reliably Our assessment is that Fife Council's plans for workforce change are insufficient to meet the criteria of a provision. Accounting standards do not allow for an internal liability to be recognised in the accounts. There are elements of the Insurance provisions relating to internal claims. Risk There is a risk that the Council are over stating liabilities.	• the operation of the insurance fund should be re-assessed with reference to accounting standards.	was used against valid claims in the year. The insurance provision no longer includes internal amounts.
b/f	**5. Accounts disclosures and streamlining** The accounts document was 144 pages long. We identified a number of areas where the overall document could be streamlined. Risk There is a risk that users are unable to identify material elements of financial position and performance in such a long document.	The Council should review all disclosure issues identified by us in 2016/17 and we will assist officers with a review of whether some disclosures could be removed or reduced for the 2017/18 accounts.	**Complete** The 2017/18 accounts have been significantly streamlined and have reduced in size by over 60 pages.
b/f	**6. Accounts notice** There are legislative requirements relating to the advertisement of the annual accounts. We identified that the advert did not identify the certifying auditor by name and that the accounts were only available for 13 working days instead of the required 15 days. Risk There is a risk that the Council is failing to comply with legislation.	The Council should take steps to ensure the advert for the 2017/18 accounts is in line with legislation.	**Complete** The advert this year addressed the issues raised last year.

No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	**7. Missed transformation savings targets** The Council's previous transformation project (3S) was expected to identify and deliver £9.4 million recurring savings by 2016-17. Only £4.5 million had been achieved, with most of the shortfall in the procurement project. £5 million of savings forecasted to be delivered in 2016/17 were postponed and had to be covered by contingency budgets. The Council is already reporting difficulties with achieving 2017/18 in-year savings. Risk Failure to deliver planned savings presents a risk to the Council's financial sustainability in the medium and long term.	The Council should ensure all savings plans are subject to robust challenge to ensure they are deliverable.	**Complete** As part of their medium term financial strategy the Council have introduced three year service change plans. These are supported by the corporate Change to Deliver programme which will have a role in reviewing proposals and enabling delivery. The impact of the new process can be assessed for the first time in 2018-19
b/f	**8. Register of Interests** Currently Fife Council procedures to identify and record member and officer registers of interest reflect basic practice overall with aspects of good practice in relation to officers returns. There is scope, however, to improve the process. Risk Robust procedures for maintaining a register of interest and responding to conflicts of interests increases transparency and reduces the risk of fraud and corruption are not fully in place	We recommend that members, in line with the approach for officers: • complete an annual return • include details of any conflict of interests involving friends and family, and • once a potential conflict is identified the Council should produce an action plan detailing how the conflict will be handled.	**Complete** We reported in our management report to the June 2018 Standards and Audit Committee that these points had been addressed. Our review of procedures in place to manage potential conflicts of interest for officers did not highlight any issues.

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 conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the *Code of Audit Practice 2016*.

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.	**Results** – Our work on journals, accounting estimates, accruals and prepayments did not identify any evidence of management interference and there were no significant transactions outside the normal course of business. **Conclusion** – No issues were identified that indicate management override of controls.
2 Risk of fraud over income Fife 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.	Establishing and testing the operation of key controls over income systems Analytical procedures on income streams. Detailed substantive testing of revenue transactions.	**Results** – We did not identify any significant issues from our testing of income controls and transactions. **Conclusion** – No fraud issues were identified.
3 Risk of fraud over expenditure The Code of Audit Practice extends the assumptions within ISA240 to the risk of fraud associated with areas of expenditure. Fife Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants and therefore there is an inherent risk of fraud.	Establishing and testing the operation of key controls over expenditure systems Detailed substantive testing of expenditure transactions focusing on the areas of greatest risk including social care and housing benefit payments	**Results** – We did not identify any significant issues in our testing of expenditure controls and transactions. We took assurance from work done by Internal Audit on specific aspects of Children's Services payments. Our Management Report highlighted several errors through the National Fraud Initiative matches totalling around £71,000 for housing benefits and pension payments. The majority of these (£60,000) were being recovered. **Conclusion** – Limited fraud issues were identified from the NFI work.

Audit risk	Assurance procedure	Results and conclusions
4 Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of pensions and non current assets. This subjectivity represents an increased risk of misstatement in the financial statements. The Beacon valuations used to value council dwellings are due to be re-assessed as part of the 2017-18 accounts. This is likely to have a material impact on the current value of £705 million. The 2017-18 accounts will also reflect the outcome of the triennial valuation of the pension fund, based on revised membership data and financial assumptions.	Assessment of the scope, independence and competence of the professionals engaged Review of the Beacon methodology Review of the actuarial valuation including assumptions. Substantive testing of journals and disclosures in connection with these estimates	**Results** – A national issue with the valuation methodology for pension liabilities was identified which led to an adjustment in the accounts (*see risks identified during the audit below*). We did not identify any issues in relation to the Beacon revaluation **Conclusion** – We concluded we could rely on the management experts engaged by the Council and were content that their values had been reflected in the revised accounts.
5 Non current asset register replacement The asset register records asset values, tracks revaluation reserve balances and calculates depreciation charges. The current software (AIRS) is due to be replaced by a new programme TF Cloud in February 2018. There is a risk of errors in the migration and operation of the new system.	Review the reconciliation of data in the new NCAR with the old NCAR to gain assurance that the migration is accurate. Substantive testing of a sample of depreciation charges and revaluation adjustments.	**Results** – We reviewed the reconciliation for data transferred from the old to the new system and found no issues. Our testing of depreciation and revaluation adjustments found no errors. **Conclusion** – The data from the previous non current asset system has been accurately transferred to the new system and our audit testing did not identify any issues with the operation of the new system.
6 Group accounting Fife Council has a number of subsidiaries and is required to prepare group accounts. A number of adjusted and unadjusted errors were identified in the 2016/17 accounts and the consolidation arrangements are being reviewed. There is risk that intra group transactions and balances are not identified and eliminated leading to inaccuracies in the group accounts.	Review the revised consolidation process and confirm appropriateness. Obtain completed component audit questionnaires and, where appropriate, meet with the auditors of material components. Undertake a detailed review of intra-group transactions.	**Results** –The group balance sheet included inter-group figures in the unaudited accounts and this required an adjustment to be made in the final version. Component audit questionnaires were received. This identified one subsidiary with a going concern issue due to funding from the Council not being formally committed. This does not have a material impact on the group accounts. **Conclusion** - We were content with the adjustment to the group balance sheet and that there is no impact on the group accounts as a result of one subsidiary having a going concern issue.

Audit risk	Assurance procedure	Results and conclusions
Risk of material misstatement identified during the audit process		
- **Accounting for inverse floating LOBO** £298 million (28 per cent) of Fife Council's external debt is Lender Option Borrower Option Loans (LOBOs). One of these loans, valued at £20 million has an inverse variable rate where the interest rate paid varies in the opposite direction to the base rate. The inverse LOBO was taken out in 2012 to mitigate the Council's exposure to potential rising interest rates. During the audit we became aware of increased scrutiny of these instruments by UK auditors.	We considered whether the accounting for this loan was in compliance with *IAS 39 Financial Instruments: Recognition and Measurement*	**Results** – We accepted the Council's judgement in accounting for the inverse LOBO at amortised cost as a floating rate instrument, but recommended additional disclosure be included in the accounts. **Conclusion** – Officers have included related disclosures in the audited accounts.
- **IAS 19 Valuation** The Council's pension assets and liabilities are revalued annually as per accounting standard IAS19. The actuary carried out their valuation based on estimates of annual returns on the Fund's financial assets. During our audit it emerged the information used was significantly under-estimated creating a risk of material mis-statement to the Council's liabilities.	We reviewed the asset valuations contained in the original IAS 19 report and compared the asset values to those included in the Pension Fund accounts and estimated the size of the potential over statement. We advised the Council to seek a revised IAS19 report from their actuaries.	**Results –** The accounts were adjusted to reflect the revised IAS 19 report, reducing the pension liability by £50 million. The issue also affected 6 of the Council's subsidiaries, revised reports were obtained but adjustments were not processed as they were considered immaterial **Conclusion –** We are content with the adjustment processed in the Council's account and have treated the Group issue as an unadjusted error of £2.7 million.
Fife Council Charitable Trusts Risks		
7 **Inactive trusts** Only 12 of the 48 charitable trusts paid out grants in 2016-17. If the level of inactivity continues in 2017-18 there is an increased risk that trusts not providing a public benefit will fail the Charity test set out in guidance issued by the Office of Scottish Charity Regulator (OSCR).	Review the Council's analysis of trust activity across a three year period to identify trusts at risk of dormancy and report any breaches through the Annual Audit Report	**Results** – The position has deteriorated further in 2017/18 – **see 2017/18 point 1 above**
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
8 **Financial management** Current budget monitoring reports highlight that only 72% of planned 2017/18 savings will be achieved this year. As well as an additional £5 million for Health & Social Care agreed in February 2017, the Council's current forecast outturn also includes additional funding for	Review budget monitoring reports and the financial position at the year end. Consider the robustness and completeness of financial monitoring through the year and activities to deliver proposed savings.	**Results** – The Council delivered a surplus against its final budget of £7 million despite a final £2.4 million overspend on health & social care **Conclusion** – The Council was able to offset the financial pressures emerging from Health & Social Care with savings elsewhere in 2018-19.

Audit risk		Assurance procedure	Results and conclusions
	the IJB to cover a £3.8 million overspend on Health & Social Care. Although the current budget projections indicate the Council will break even this year, the increasing pressures on health and social care and the expected shortfall in planned savings continue to pose a risk to the Council's level of uncommitted reserves.		This is likely to be an ongoing risk in future years.
9	**Financial sustainability** In September 2017 the Council's Medium Term Financial Strategy was approved. By current forecasts based on the Local Government settlement proposed in December 2017, budget reductions of £29 million (2018-19), £58 million (2019-20) and £90 million (2020-21) are required. Meeting these reductions will require significant service redesign. As there are limited usable reserves available, failure to make expenditure savings poses a risk to the Council's financial sustainability	Assess the impact of 2017/18 financial performance on future financial sustainability, including the level of savings achieved Review the 2018/19 budget. Review the reasonableness of assumptions in the long and medium term financial planning.	**Results** – The Council delivered a surplus against its final budget of £7 million however its uncommitted general fund balance fell by £13 million. It identified sufficient savings to close the budget gap in 2018-19. Budget gaps for 2019-20 and 2020-21 remain **Conclusion** – The Council has delivered a positive financial result this year. This is likely to be an ongoing risk in future years.

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £150,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

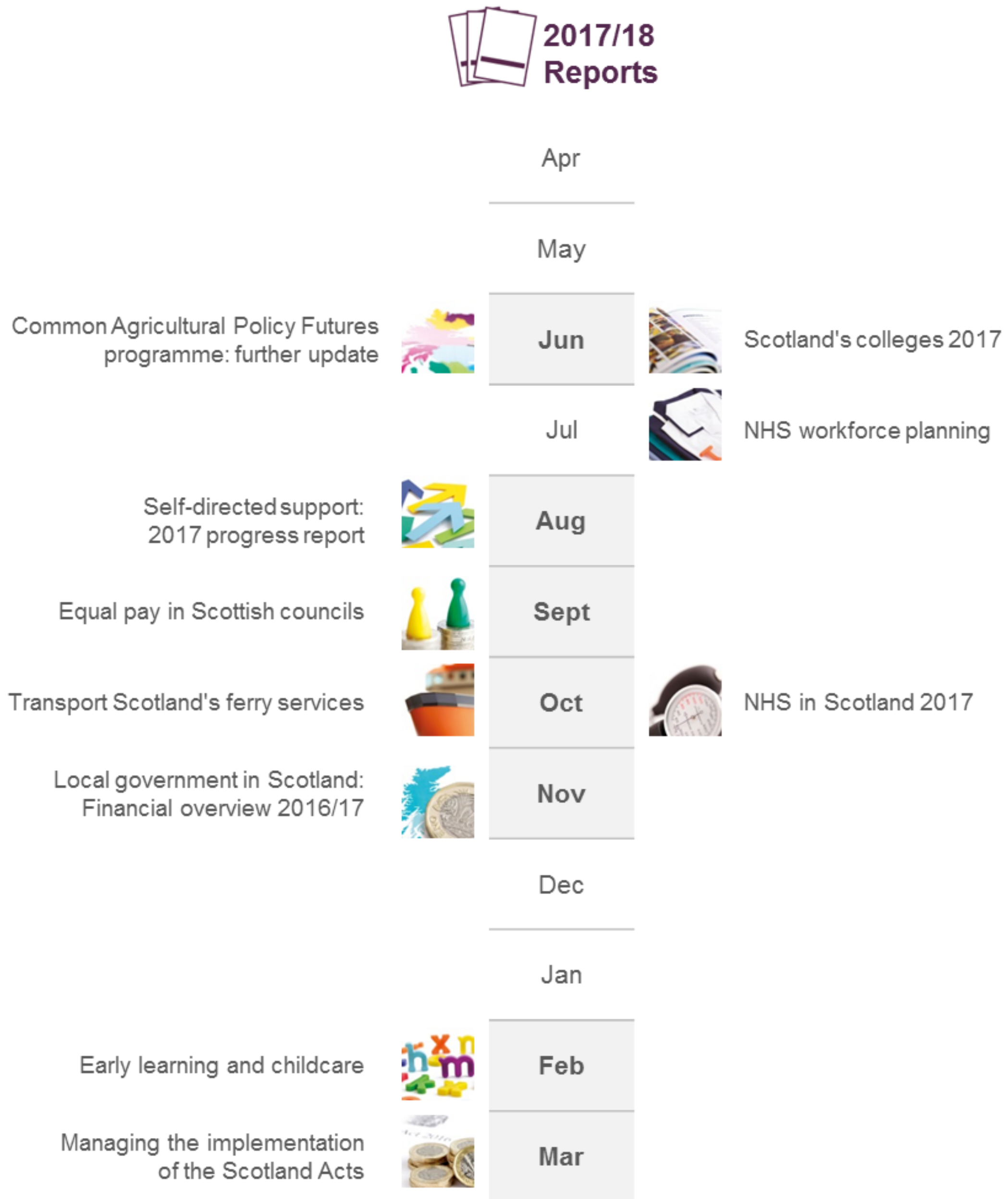
No.	Account areas	Comprehensive income and expenditure statement		Balance sheet		Movement in Reserves Statement	
		Dr £000	Cr £000	Dr £000	Cr £000	Dr £000	Cr £000
Council Accounts							
1	Provisions			228			
	Facilities expenditure		(228)				
2	Revaluation of Fixed Assets	821					
	Repairs and Maintenance		(821)				
3	Assets Under Construction			1,100			
	Land & Buildings				(1,100)		
4	Interest Payable	826					
	Interest Receivable		(826)				
5	Utilities Expenditure	1,099					
	Prepayments				(709)		
	Intangible Assets				(390)		
6	Expenditure in relation to change in fair value of financial asset	170					
	Investments				(170)		

No.	Account areas	Comprehensive income and expenditure statement	Balance sheet	Movement in Reserves Statement
Group Accounts				
7	Pension Reserve			(2,700)
	Pension Liability		2,700	
Net impact		**1,041**	**1,659**	**(2,700)**

Notes:
Entry 1 (MA 21042) is an over provision for dilapidation expenses
Entry 2 (MA 22748) is a misclassification error between capital and revenue expenditure on Housing Assets
Entry 3 (MA 23359) relates to a school extension which was transferred to land & buildings before available for use
Entry 4 (MA 23418) is an understatement of external interest payable and receivable which should be shown gross in accounts
Entry 5 (MA 23500) is an accounting error relating to the Carbon Reduction Commitment (CRC) Scheme
Entry 6 (MA 23718) relates to a fall in fair value of an investment which was not processed due to late receipt of valuation
Entry 7 (MA 23246) relates to a revised IAS19 for council subsidiaries which was not adjusted for in the accounts

Appendix 4

Summary of national performance reports 2017/18



Local government relevant reports

Principles for a digital future – May 2017

Self-directed support: 2017 progress report – August 2017

Equal pay in Scottish councils – September 2017

Local government in Scotland: Financial overview 2016/17 – November 2017

Fife Council

2017/18 Annual Audit Report

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