Stirling Council

2017/18 Annual Audit Report

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

5 September 2018

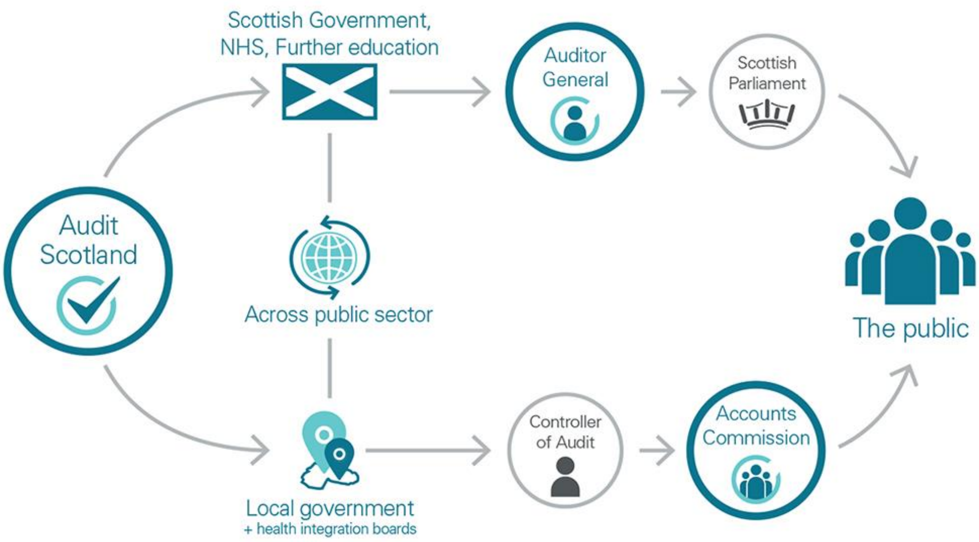
Who we are

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.

Contents

Key messages

2017/18 annual accounts

1 **In our opinion, Stirling Council and its group financial statements give a true and fair view and were properly prepared.**

2 **The audited part of the remuneration report, management commentary and annual governance statement are consistent with the financial statements and prepared in accordance with proper accounting practice.**

3 **The statement of accounts of the three section 106 charities administered by the Council are free from material misstatement.**

Financial management

4 **Financial management is effective with a budget process focussed on the Council's priorities.**

5 **Our testing of the 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

6 **The 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 £37 million have been identified since 2013/14, a funding gap of £20.5 million still requires to be identified for the period to 2022/23.**

7 **The Council has an adequate level of reserves, consistently contains its expenditure within annual budgets and has met most of 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. A longer term financial strategy and plan (covering longer than five years) has yet to be formally prepared.**

Governance and transparency

8 **The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council.**

9 **The Council is transparent in the way it conducts its business and the public can attend meetings of the Council and its standing committees.**

Value for money

10 **The Council demonstrated sustained good levels of performance in the latest year for which data is available across Scotland. 38% of indicators were in the top quartile (2015/16: 36%) and 16% were in the bottom quartile (2015/16: 16%). We will commence our Best Value review of the Council in October 2018.**

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Stirling Council and its group (the Council).

2. The scope of the audit was set out in our Annual Audit Plan presented to the 22 March 2018 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the annual accounts
- 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*

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

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

4. 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.

5. 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.

6. 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.

7. 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.

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

9. 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 their 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.

10. 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.

11. 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 £236,070 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

12. Our aim is to add value to Stirling 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.

13. 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.

14. 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

In our opinion, Stirling Council and its group financial statements give a true and fair view and were properly prepared;

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

The statement of accounts of the three section 106 charities administered by the Council are free from material misstatement.

Audit opinions on the annual accounts

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.

15. The annual accounts for the Council and its group for the year ended 31 March 2018 were approved by the Audit Committee on 30 August 2018. We reported, within our independent auditor's report that, in our opinion:

- The 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.

16. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

Audit opinions on section 106 charities

17. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Stirling Council are sole trustees, irrespective of the size of the charity.

18. Good progress was made during the year to reorganise some of the charities included within the Consolidated Small Charitable Trusts financial statements. This resulted in 9 of the 19 trusts being wound up during 2017/18, with their assets being transferred to other charitable organisations who are better placed to meet the purposes for which the trusts were established. The Council are working with OSCR to reach agreement to transfer the remaining trust balances as appropriate. Until then, the Council continues to administer these charitable trusts.

19. We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in our independent auditor's reports that, in our opinion:

- the financial statements give a true and fair view/ fairly present the section 106 charity's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

Submission of the Council and its group annual accounts for audit

20. We received the unaudited annual accounts on 24 May 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.

21. 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. This helped ensure that the audit of the annual accounts process ran smoothly.

Risk of material misstatement

22. 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

23. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

24. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in Exhibit 2. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

25. On receipt of the annual accounts we reviewed our planning 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	Amount
Overall materiality	£4.622 million
Performance materiality	£2.773 million
Reporting threshold	£0.050 million

Source: Audit Scotland

How we evaluate misstatements

26. It is our responsibility to request that all misstatements in excess of the clearly trivial 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.

27. There was a significant adjustment to the unaudited financial statements which had an impact on the Council's outturn as reported in the Comprehensive Income and Expenditure Account. This related to the over accrual of funds set aside to meet future risk fund requirements. This is explained at Exhibit 3 below. This had an impact of increasing the reported surplus by £0.441 million.

28. There was a further significant adjustment to the unaudited accounts before the accounts were finally authorised for issue. This related to the Council share of pension fund assets. This is an issue affecting pension funds, councils and other public bodies across the country. Further details are included in Exhibit 3. Officers have amended the accounts to reflect a more up to date estimate of pension fund assets.

29. As noted above, the Council has obtained a revised report from the actuary on their share of pension assets and liabilities, based on the updated estimate for the whole fund. The Council share of the pension asset value has increased to £495.154 million. This has resulted in the net pension liability in the balance sheet decreasing from £213.119 million to £210.965 million, with a matching increase in usable reserves. These adjustments have no impact on the general fund reserve balance.

30. There were three other misstatements which exceeded our reporting threshold of £0.050 million which have not been amended in the audited financial statements as management do not consider these to be material in the context of the financial statements. These are explained at Exhibit 3 below and reported in Appendix 3 uncorrected misstatements and their impact on the financial statements. We agree that these amounts are not material.

Significant findings from the audit in accordance with ISA 260

31. 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.

32. 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. Over accrual of Short Term Creditors Short term creditors include an amount of £0.441 million relating to sums set aside to finance posts that were in the process of being recruited at the year end. However, the appointments were made in 2018/19 and no liability or constructive obligation existed at the year end.	An appropriate correcting adjustment has been made to the audited accounts and this has the impact of increasing the outturn in the Comprehensive Income and Expenditure Account and in the Movement in Reserves Statement by £0.441 million; and reducing short term creditors at note 18 in the Balance Sheet from £44.664 million to £44.223 million.
2. Business Improvement Districts (BID) income The Council receives Business Improvement Districts (BID) income relating to BID projects carried out by third parties. During the year, most amounts received by the Council relating to BID projects were remitted/incurred as appropriate by the Council. However, at the year end, the Council had received £0.185 million which had not yet been incurred on the Stirling/ Dunblane BID projects. This has been included in the Council's income and general fund balance at 31 March 2018, whereas it should have been accounted for as a creditor.	We concur with the Council's view that this misstatement does not have a material impact on the financial statements. The residual BID income of £0.185 million will be incurred in 2018/19. We have included this in our schedule of unadjusted misstatements at appendix 3.
3. Payroll deductions creditor reconciliation Our testing of the payroll deductions creditor (i.e. PAYE, NIC, pension deductions at source) identified that the amount included in year end creditors was £0.090 million higher than the amount that was paid in respect of these in April 2018. The creditor balance is therefore overstated by £0.090 million. This partly arose due to the Council ceasing to prepare the monthly reconciliation for payroll deductions during the year.	We concur with the Council's view that this misstatement of £0.090 million does not have a material impact on the financial statements. We have included this in our schedule of unadjusted misstatements at appendix 3, and recommend that the payroll deduction reconciliation is re-introduced. Recommendation 1 (refer appendix 1, action plan)
4.Omission of year end debtor for rechargeable repairs Our audit testing of housing revenue account (HRA) debtors identified that some amounts due to the Council at the year end (£0.212 million) were not included in year end debtors. This has arisen because accounts raised for rechargeable repairs processed through the Academy (housing) system are not processed in the financial ledger until payment has been received.	We concur with the Council's view that this misstatement of £0.212 million does not have a material impact on the financial statements. We have included this in our schedule of unadjusted misstatements at appendix 3, and recommend that rechargeable repairs are captured in the financial ledger at the point the account is raised. Recommendation 2 (refer appendix 1, action plan)
5.Debtor reconciliations Our audit testing of the year end council tax debtor balance and the year end HRA debtors balance recorded in the accounts confirmed that each of these reconciled to the balances in the host system. However, there were differences between these balances and the list of balances that were used to calculate the bad debt provision. These differences	We are satisfied that the balances for HRA debtors and council tax debtors reported in the accounts are accurate, but we would recommend that any differences between the balances reported and the balances processed to calculate the bad debt provision are investigated.

Finding	Resolution
were very minor and may be due to the reports being run at a different point in time using different parameters.	
6.Pension Scheme Valuation The Council accounts for its share of Falkirk Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports 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. A revised report from the actuary showed that the pension fund assets reported in the Council's balance sheet were understated by approximately £2.154 million.	The accounts have been adjusted to reflect the Council's share of the pension fund assets based on the revised valuation at 31 March 2018. This has the impact of reducing the pension fund liability and increasing the pension reserve by £2.154 million. As local government accounting regulations require the general fund to be charged with amounts payable to the pension fund or directly to pensioners during the year rather than amounts calculated according to IAS19, this adjustment does not impact the outturn for the year or the general fund balance.

Source: Audit of 2017/18 accounts

Good practice in financial reporting

33. The annual report and accounts reflect good practice as set out in Audit Scotland on 'Improving the quality of local authority accounts – expenditure and funding analysis'.

Follow up of prior year recommendations

34. 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).

35. In total, four agreed actions were raised in 2016/17. Of these:

- two have been fully implemented
- two are being monitored on an ongoing basis and continue to be relevant

36. Overall the Council has made reasonable 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.

Integration Joint Board

37. For the second year the Council included its share of the financial transactions of Clackmannanshire and Stirling Integration Joint Board (the IJB) within its group financial statements. We confirmed that the Council has processes in place for agreeing its transactions and year end balances with the IJB. In addition, we liaised with the auditor of the IJB to obtain assurances on the accuracy and completeness of IJB figures included in the accounts. Further information regarding the services transferred to the IJB is included in Part 4 section on Integration of H&SC.

Other findings

38. Our audit identified a small number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts. This is normal audit practice and none of the presentational changes were significant.

Objections

39. 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. There were no objections to the accounts.

Part 2

Financial management

Main judgements

Financial management is effective with a budget process focussed on the Council's priorities.

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 performance in 2017/18

40. In February 2017 the Council approved a budget of £208.709 million for 2017/18. The budget was aligned to the Council's main priorities as outlined in the Council's five year business plan. Amendments during the year resulted in a revised budget of £207.593 million.

41. The Council has a good track record over the last few years in delivering services within budget. The general fund surplus of £5.883 million disclosed in the movement in reserves statement includes a surplus of £4.214 million relating to the earmarked element of the general fund for spending in future years.

42. The final outturn reported to members on 14 June 2018 set out an underspend and increase in the uncommitted general fund of £1.670 million. This was an increase of £0.974 million from the provisional forecast in April 2018. The increase principally arose due to the Council clawing back £0.491 million of cost overspends from the Clackmannanshire & Stirling Integration Joint Board (IJB) as a result of the IJBs recovery plan; and additional government funding of £0.247 million to cover winter maintenance costs arising from the severe winter weather.

43. 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 2018 was £9.822 million which represents approximately 4.7% of the general fund budget and is in excess of the target of between 2% and 2.5%.

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

Exhibit 4
Summary of significant under / overspends against budget

Area	Under/over spend (£m)	Reason for variance
Underspends		
Children & Families	£0.959	Early intervention work in relation to child residential placements resulting in reduced numbers of external placements
Loan charges	£0.800	The short-term advantage of from the current treasury management strategy of delaying new long-term borrowing.
Overspends		
Clackmannanshire & Stirling IJB	£0.321	Increase in care home placements and an increase in care at home clients and hours

Source: Stirling Council General Fund Budget Outturn Report June 2018

45. We consider that the periodic general fund budget monitoring reports keep members fully informed of changes to forecast outturn for the financial year, and the reasons why budgets have moved since the initial budget was set. Explanations for budget variances, including those noted above, are identified and reported to members.

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

Housing revenue account

46. 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.

47. The HRA records expenditure in 2017/18 of £25.407 million (2016/17: £22.849 million). The increase was largely due to the movement in depreciation and impairment which was £14.473 million (2016/17: £12.796 million). This increase is mitigated in the movement in reserves statement by a statutory adjustment. Dwelling rents increased by 0.3% which is in line with the approved rent increase of 0.3% in the year.

48. Overall, the HRA records a surplus of £0.250 million in 2017/18 (2016/17: £0.250 million), resulting in an HRA balance of £0.986 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

49. 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.

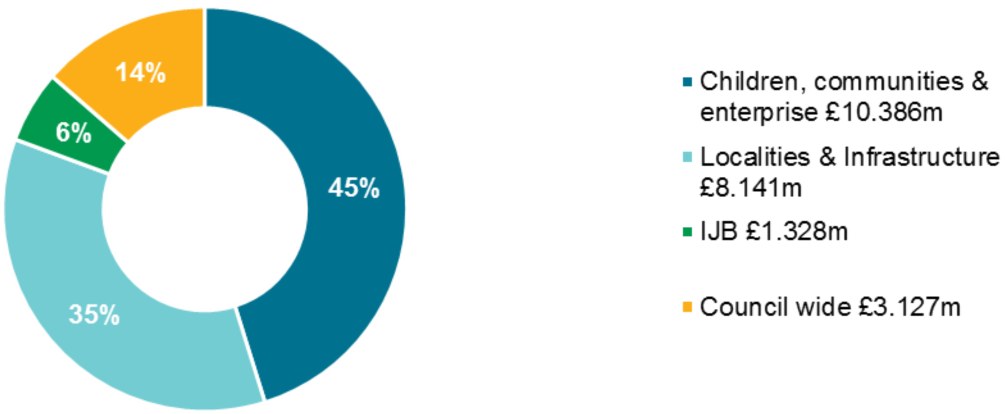
50. The 2017/18 budget was set using the council's Priority Based Budgeting (PBB) approach and identified savings options based on future requirements, aligned to Council priorities. Savings plans were the subject of consultation with members, staff and the public and the savings plans were risk assessed as part of the process.

51. Savings are monitored by the 'Performance Board'. This group meets every 2 weeks and reviews detailed progress reports from Services. Progress reports are also presented to the Finance and Economy Committee.

52. Some 33 efficiencies options totalling of £6.898 million were sought in 2017/18. Of these, only 1 option did not achieve the full in year savings target, resulting in £6.805 million (98.7%) of savings being achieved. We note that all £6.805 million of achieved savings are recurring (i.e. savings, that once achieved, recur year-on-year from that date).

53. The Council have achieved cumulative savings to 2017/18 of £22.982 million over the 4 years of PBB against a target of £23.075 million (99.6%). This level of savings is important in ensuring the Council continues to meet the savings targets it has identified for the period to 2022/23. An analysis of savings achieved is shown in Exhibit 5 below. The Council considers that all of these savings are recurring savings.

Exhibit 5
Cumulative efficiency savings achieved



Source: Stirling Council

Capital programme 2017/18

54. Total capital expenditure in 2017/18 was £37.928 million. Of this, £19.602 million was incurred on general fund capital expenditure (76.6% of the general fund capital budget of £25.580 million and 47.8% of the total capital budget for the year of £40.992 million). The main projects carried out during the year were: Gigabit High Speed Network Fibre across the City Centre, completion of Sports Village – National Curling Academy, Balvalachan Cemetery, Roads Improvements, Energy Efficient Street Lighting, completion of St Ninians Nursery and commencement of Strathyre Primary School refurbishment.

55. Slippage of £5.978 million arose during the year. This principally related to the Mercat Cross regeneration work, external fabric work to Wolfcraig – a listed building, and flood prevention scheme work at Stirling and Aberfoyle.

56. Members are provided with regular progress reports of the capital programme, and are made aware of slippage in any projects, together with the reasons why this occurred. All projects in the 2017/18 capital programme except one are categorised as “green” (which means it is progressing well). One project, Kerse Road Bridge Improvement, is categorised as “amber” (which means it is facing issues). There are no projects categorised as “red”. The projects that have slipped, but reprofiled into 2018/19, are assessed as Green as they were considered to still be on track to complete within the overall timescale for those projects. This method of reporting was brought in in the last year and the approach is still being refined. Going forward the Council will focus on making this clearer in capital programme monitoring reports.

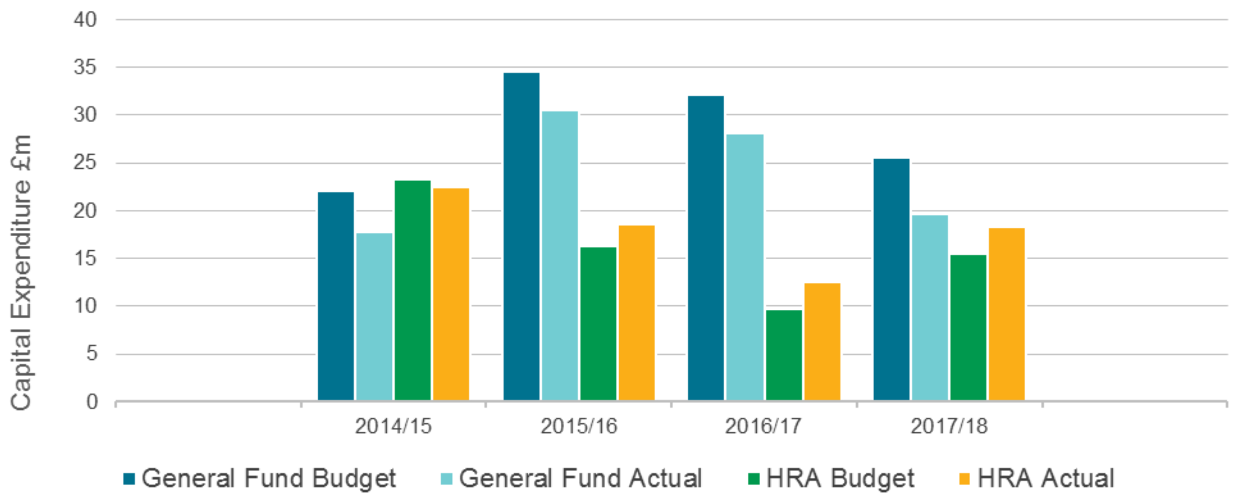
57. The Council approved the re-profiling of the general services capital slippage that arose in 2017/18 into the 2018/19 capital programme. £2.392 million of the re-profiling was approved by members during the financial year with a further £1.424 million approved for carry forward in June 2018 once the full extent of the slippage was known. However, in addition to this the Council received £2.162 million relating to developer’s contributions during the year which was not incorporated into the capital programme or any of the capital monitoring reports reported to the Finance & Economy Committee prior to June 2018.

Recommendation 3 (refer appendix 1, action plan)

58. The housing capital programme reported expenditure of £18.326 million in 2017/18, an overspend of £2.914 million (29.9%) against the budget of £15.412 million. This mainly arose due to the acquisition of 20 properties in Raploch at a cost of £2.252 million, and the early completion of a new build programme. This was partly offset by additional grant income and houses sales of £1.826 million. This resulted in borrowing of £4.961 million against a budget of £3.746 million.

59. Overall, capital expenditure was £3.064 million (7.5%) below budget. The slippage in the general fund capital programme and the overspend in the housing revenue account capital programme is outlined in Exhibit 6.

Exhibit 6
Capital slippage compared to budget (general fund and HRA)



Source: Stirling Council Annual Accounts 2014/15 to 2017/18

60. 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 6. While we acknowledge that regular capital budget monitoring reports are provided to members, and these continue to demonstrate that nearly all capital projects are categorised as “green” status, there is a risk that continued slippage on the general fund capital programme or re-profiling of capital expenditure into future years could impact on service delivery in future.

Recommendation 4 (refer appendix 1, action plan)

Borrowing in 2017/18

61. The Council's outstanding loans at 31st March 2018 were £156.409 million, an increase of £1.203 million on the previous year. Despite the overall increase, the Council has maintained its under borrowed position in accordance with its approved strategy and operational boundary.

62. Interest payable on borrowing, excluding PFI/PPP fell by £0.382 million in 2017/18 to £7.777 million. This was achieved through prioritising internal and temporary borrowing at lower interest rates. Long term loans at 31 March 2018, such as PWLB, were £136.409 million with an average interest rate of 5.56% (2016/17: 6.03%). Temporary borrowing at 31 March 2018 totalled £20.000 million with an average interest rate of 0.61% (2016/17: 0.4%). The average interest rate for all loan debt held at 31 March 2018 (excluding PFI/PPP) was 4.93% (2016/17: 5.09%), all of which is held on fixed repayment terms.

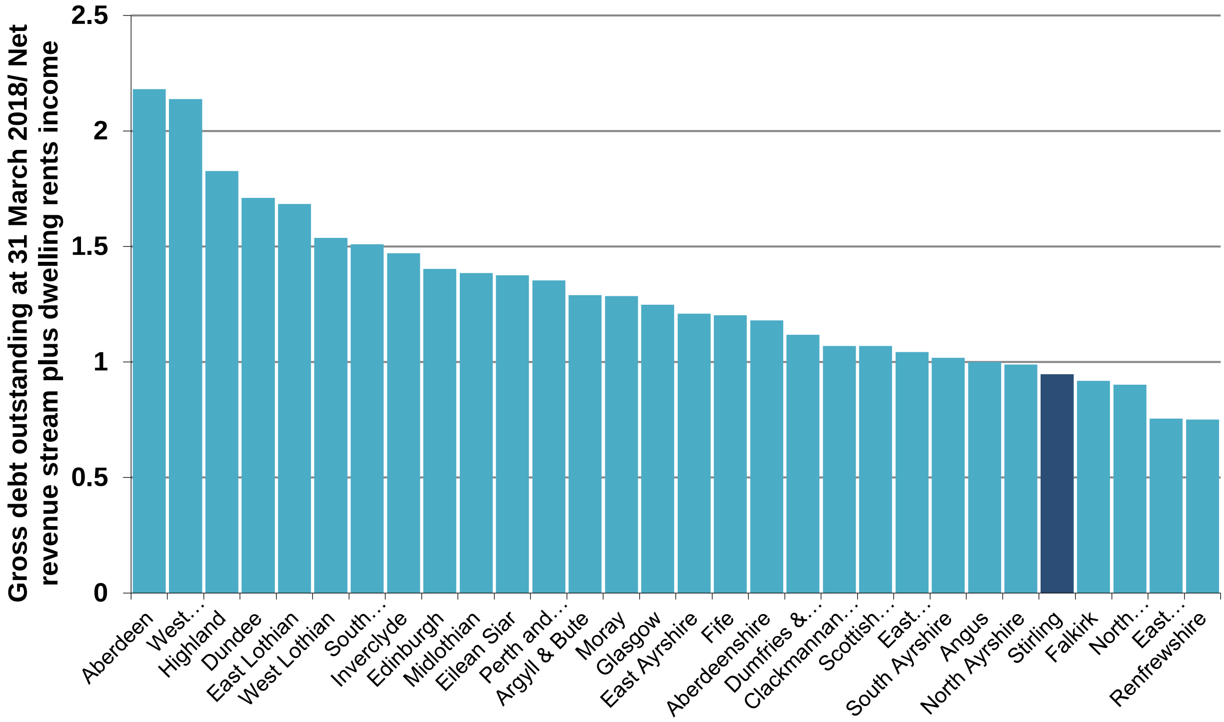
63. The PFI contract for Balfron High School and the Stirling Schools PPP contract end in 2026 and 2040 respectively. Over the remaining life of these contracts, the Council expects to pay £348.837 million (2016/17: £357.594 million) in unitary charges covering service costs, interest payments and repayment 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.

64. The capital balance outstanding on PFI/PPP contracts at 31 March 2018 was £60.206 million, a reduction of £1.973 million from the previous year. The interest charge increased from £6.195 million in 2016/17 to £6.407 million in 2017/18. This is equivalent to a rate of 10.6% (2016/17: 9.9%) of the PFI/PPP finance lease liability at the year end (£60.206 million).

65. When compared to other Scottish councils in Exhibit 7, 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 7

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



Source: Audit Scotland database (note: net revenue stream consists of council tax income, general government grant income, NDR income and dwelling rents income)

66. The composite interest rate for Stirling Council for all debt (including its PFI/PPP finance lease liability) was 6.5% in 2017/18 (2016/17: 6.5%). This places Stirling Council as having the second highest composite interest rate in Scotland in terms of the average interest rate paid for debt outstanding. The average interest rate on external debt for Scottish councils ranged between 3.3% and 6.8% in 2017/18. The Council should continue to ensure that it is obtaining best value in this area.

Budgetary process

67. The Council's budget and savings plan is aligned to the Council priorities as set out in its five-year Business Plan which is consistent with good practice.

68. The detailed scrutiny of financial performance is delegated to the Finance and Economy Committee which receives regular revenue and capital monitoring reports. During the year the forecast surplus on uncommitted balances increased from £0.349 million to £1.670 million. The principal movement is as described at paragraph 40 and all changes in forecast outturn were reported to the Strategic Leadership Group and to members during the year. Overall, from our review of these reports and attendance at committee meetings 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.

Systems of internal control

69. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce 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.

70. Our findings were included in a management report that was presented to the Audit Committee in May 2018. 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 2018/19 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 and thus result in a material misstatement in the financial statements.

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 £37 million have been identified since 2013/14, further savings of £20.5 million still require to be identified for the period to 2022/23.

The Council has an adequate level of reserves, consistently contains its expenditure within annual budgets and has met most of 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

71. 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.

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

72. 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 to drive service improvements. Budget reductions of £37 million have already been approved through PBB phases 1 to 5.

73. PBB is in the process of being refreshed. It is expected that the mechanisms of PBB will remain in place, but with an increased focus on public consultation and further development of option appraisal. PBB has provided a good foundation for the Council to match its funding to its business plan objectives, and we would recommend that the key mechanisms of PBB continue to be in place following the refresh.

74. The Council's five-year business plan 2018-2023 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.

75. 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.

76. The Council does not have a long term financial strategy that extends beyond five years. There are currently informal arrangements in place regarding the assessment of future economic drivers. The Council intend to carry out further development work on their longer term financial strategy and make this a more formal process. This will be completed prior to agreeing the 2019/20 budget, which is likely to include longer term projections.

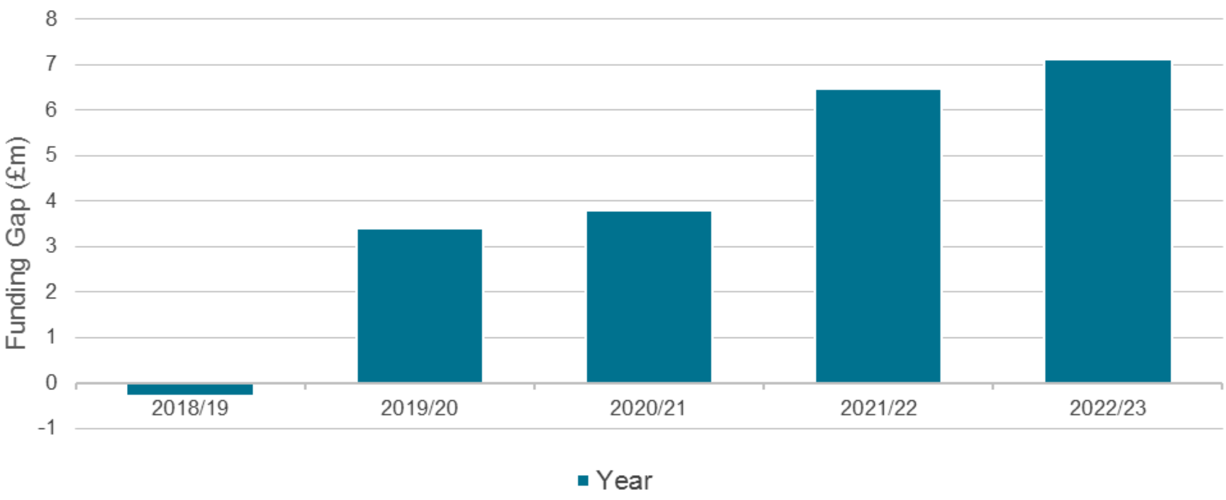
Funding position

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

78. A surplus of £0.285 million is budgeted for 2018/19, based on spending of £213.2 million. However, when setting the 2018/19 budget in February 2018, the cumulative budget gap over the five-year period to 2022/23 is £20.500 million as outlined in Exhibit 8 below.

Exhibit 8

Identified funding gaps 2018/19 – 2022/23



Source: Stirling Council: PBB5 approved February 2018

79. The cumulative budget gap has increased by £9.485 million since the 2017/18 budget was approved in February 2017. In line with the 5 year business plan, work will continue to set balanced budgets for future years. A key part of this is to encompass greater community involvement in the decision-making process through participatory budgeting, as a progression from PBB.

80. The cumulative budget gap incorporates £11.422 million of existing recurring savings requirements approved over the last four years of PBB, together with £2.516 million of new recurring savings that were approved through PBB5. As noted in paragraph 51, the Council has achieved most 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 5 (refer appendix 1, action plan)

New Financial Powers

81. Proposals have been made for changes to the Scottish Budget process, with these likely to be introduced for the 2019/20 budget. A financial strategy update report to the Council in June 2018 highlighted the potential impact that this could have for future funding. It highlights that the Scottish Government's Medium Term Financial Strategy (MTFS) confirmed its spending priorities are in health, police, early learning and childcare, attainment, higher education, and social security. The financial strategy update report to members highlighted that funding from these priority areas is forecast to increase from 56% in 2019/20 to 64% in 2022/23.

82. When setting the 2018/19 budget and projecting for the following four years, the Council took the view that the impact of new financial powers and other economic forecasts indicate a challenging financial environment. The Council have incorporated 2% reductions in grant in cash terms each year from 2019/20 to 2020/23. This is in accordance with the MTFS "central" scenario. Council tax income is projected to rise by 3% each year from 2018/19 to 2022/23.

83. Overall, we concluded that the Council is facing a challenging situation in the short term. Rising costs, ending of the public sector pay cap combined with small increases in funding and dependency on efficiency savings will make it difficult to achieve financial balance.

84. The medium to longer term financial position is difficult to predict given the uncertainty around EU withdrawal and New Financial Powers and future funding settlements. The Council needs to consider and plan for these events using all the information it has at its disposal. A revised budget scenario, including 10 year forecasts, will be presented by officers to the Finance & Economy Committee in September 2018.

Reserves

85. 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 increased from £26.645 million in 2016/17 to £32.502 million in 2017/18 as illustrated in Exhibit 9. This was mainly attributable to the general fund surplus generated during the year.

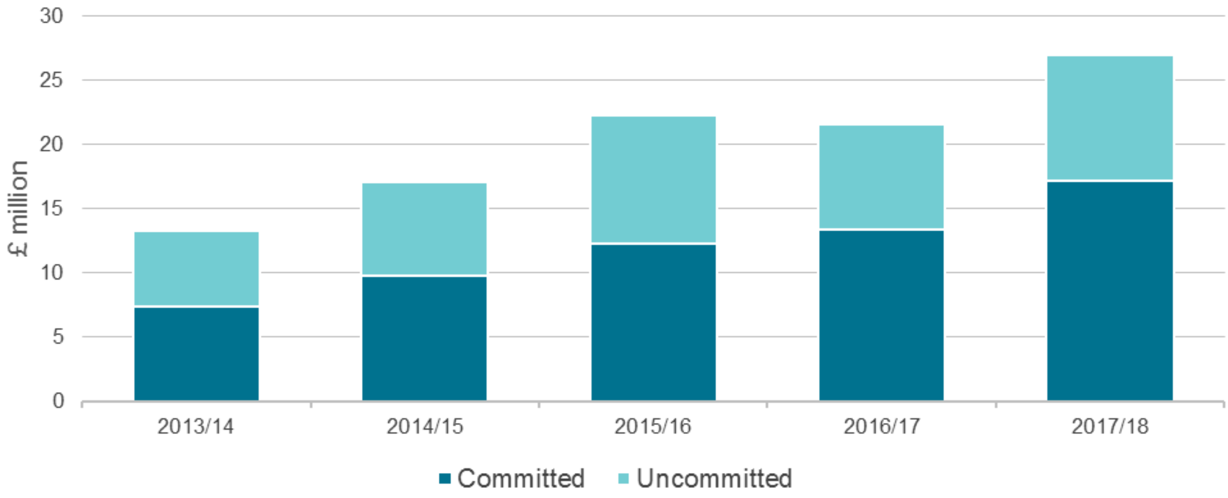
86. The general fund is the largest reserve and accounts for £27.433 million (84%) of usable reserves. This reserve is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

87. 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 2018 was £9.822 million, which is approximately 4.7% of the net budget.

88. Exhibit 9 provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. This shows a considerable increase in recent years in both the committed and uncommitted element. The Council considers that the financial uncertainty around local government funding makes it important for the Council to hold a sufficient level of reserves to help deal with the implementation of change that will be needed to achieve balanced budgets, and to enable the costs of change to be met.

89. Committed elements of the general fund balance increased to £17.611 million at 31 March 2018. This includes a number of corporate initiatives, including a risk fund, which held a combined balance of £8.820 million at the year end, an increase of £1.948 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

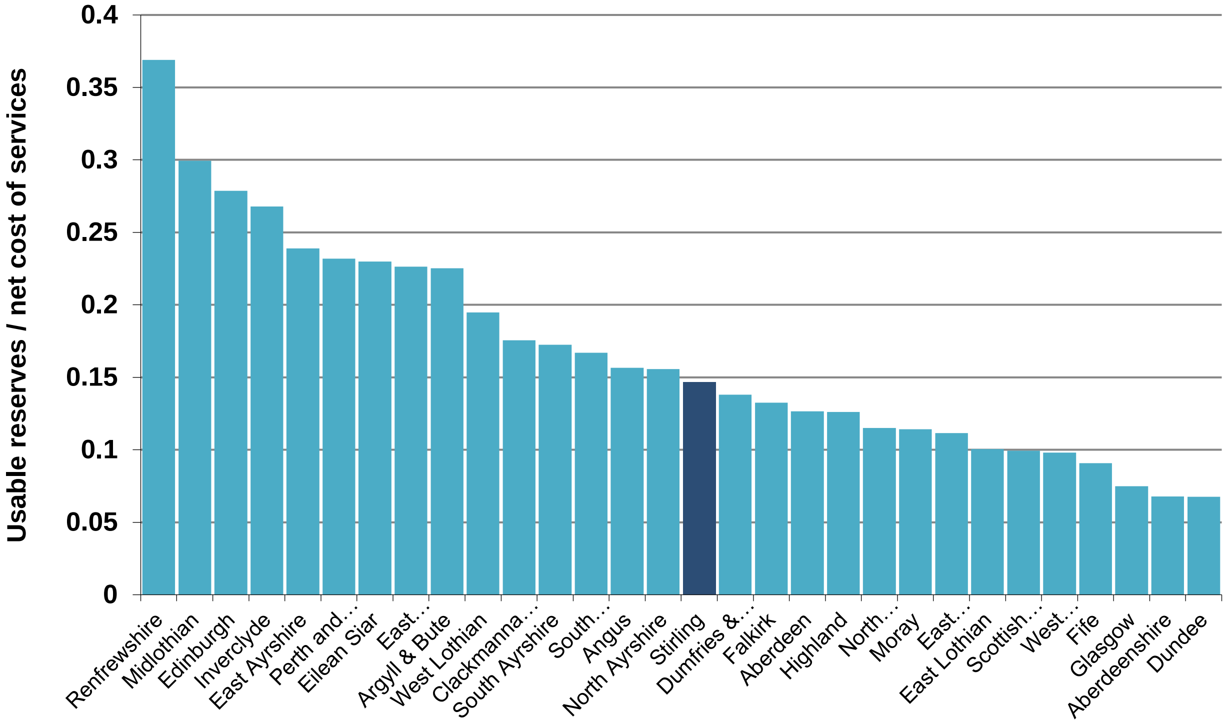


Source: Stirling Council annual accounts 2013/14 to 2017/18

90. While there has been an increase in the general fund over recent years, 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

Usable reserves as a proportion of net cost of services



Source: Audit Scotland database July 2018

Ending of public sector pay cap

91. The Council's 2018/19 budget contains full provision for 3%/ 2% pay increases in line with the Scottish Government public sector pay statement.

92. The pay claims made by employee representations present a challenge to the Council's financial resources. The cost of existing claims, over and above the Council's budgetary provision, is estimated at £6.6 million, which could make it more challenging to maintain financial balance. The Council are working with COSLA to agree a pay settlement and to establish the impact on the Council's budget if this is not accepted.

EU withdrawal

93. 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.

94. The Council are aware of the potential risks and have reflected on these areas. Until the impact of Brexit becomes clearer, the Council do not consider they are significantly exposed to these risks. The Council employs around 90 EU nationals, mainly in non- skilled areas. The Council considers that its use of EU funding is relatively low and, while the Council has received ERDF funding, there are guarantees in place from the UK government regarding all existing projects. Future funding and projects not yet committed to could, however, be impacted.

Good practice points

95. The Council's PBB has been in place for five years. This is, therefore, an established process which brings together the budget, the five-year business plan and the strategic workforce plan. Each of these are refreshed concurrently each year in advance of the budget being set. The five-year business plan provides an update on the cost pressures, planning assumptions and Scottish Government settlement figures. It also sets out how services will be delivered in line with the Council's key priorities. The strategic workforce plan is aligned to the five-year business plan and the PBB.

Part 4
Governance and transparency

Main Judgements

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 its business and the public can attend meetings of the Council and its standing committees.

Governance arrangements

96. The Council has a committee structure in place which is underpinned by clear roles for members and officers; and procedural documentation regarding decision making. The Council's decision and delegation arrangements, and its organisational structure are regularly reviewed and updated to ensure they continue to support its key priorities.

97. We attended all Audit Committee meetings, most Finance & Economy Committee meetings and some Council meetings during 2017/18. The papers provided by officers are of a good standard and provide members with a good overview of the issues being covered, together with more detailed information as appropriate. This helps to ensure that issues are debated at committee meetings.

98. Our review of the register of all training courses run for members during the year identified that there was a mixed level of attendance, including some members who have attended very few of the training offered. We would recommend that members continue to be encouraged to attend training that is relevant to their role in the Council.

99. Our 2016/17 annual audit report highlighted that the council's Local Code of Corporate Governance was last updated and approved in 2013 and required to be updated. The Council updated and approved a revised Local Code of Corporate Governance in March 2018.

100. We note that the Council's Chief Executive left the Council on 31 August 2018. The Depute Chief Executive has taken up the position of Interim Chief Executive with immediate effect.

101. Based on our observations and audit work, our overall conclusion is that the governance arrangements within Stirling Council are operating effectively and support good governance and accountability.

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.

Transparency

102. Transparency means that the public 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.

103. There is evidence from several sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council and other committees. Minutes of these committee meetings and supporting papers are available on the Council's website. Most items on committee agendas are covered in open session at meetings rather than in private.

104. 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.

105. As participatory budgeting evolves, this will involve four area partnership's being established, with up to 30 representatives on each of the area partnerships to ensure a wide breadth of representation. One of its roles will be to determine and set its outcomes and priorities for a five-year period, aligned to the Stirling Council plan.

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

Internal audit

108. 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.

109. Internal audit were externally quality assessed in 2018 as required every five years by PSIAS requirements. This review was carried out by the Chief Internal Auditor of Aberdeenshire Council in early 2018, with the final report issued to the council's Audit Manager in April 2018. The results of this review were satisfactory.

110. To avoid duplication of work we placed 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: workforce planning, emergency planning and business continuity and a review of the Local Code of Corporate Governance.

111. Internal Audit reports, together with progress of the work contained in their annual audit plan are reported to each meeting of the Audit Committee. 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 2018.

Management commentary, annual governance statement and remuneration report

112. The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) 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 clearly address the longer-term financial sustainability of the body.

113. 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.

National Fraud Initiative

114. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated 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 irregularity.

115. NFI activity is summarised in Exhibit 11. This covers the latest NFI review which covered 2016/17 matches and was completed in February 2018 The NFI secure website lists a total of 4,122 data matches for this review with 1,092 of these classed as ‘recommended’ matches (high risk) for investigation.

Exhibit 11
NFI activity

4,122	1,092	2,255
Matches	**Recommended for investigation**	**Completed/closed investigations**

Source: NFI secure website: www.nfi.gov.uk

116. The council completed investigations for 2,255 ‘core’ matches, identifying six instances of fraud and eight errors. The total value of these cases of fraud or error was £40,496. A Fraud & Irregularities Report was presented to the Audit Committee in May 2018 which summarised the NFI activity carried out to date. The Counter Fraud Officer, who is responsible for directing and reviewing NFI work, continues to co-ordinate and support the work of key officers involved in investigating or re-checking matches. In our interim report issued in May 2018 we noted that there is scope for the approach for re-checking investigations to be more risk based.

117. From work carried out and through discussion with key officers involved in the process, we concluded that the Council are engaged with the NFI exercise. Investigation of recommended matches is good and appropriate action has been taken in cases where fraud is alleged. Periodic update reports are presented to the Audit Committee therefore members are kept informed of progress towards completing investigations and are aware of the amounts of any frauds or errors identified.

Standards of conduct for prevention and detection of fraud and error

118. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud and anti-corruption 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.

119. We concluded that the Council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

Cyber security

120. The Council achieved Cyber Essentials accreditation in March 2018. Cyber Essentials is a scheme sponsored by the National Cyber Security Centre that aims to guard against the most common cyber threats and demonstrate commitment to cyber security. This accreditation will be reviewed on an annual basis with the next review scheduled for March 2019

121. In response to recent cyber-attacks which have affected the public sector, the Scottish Government's Cyber Resilience Unit created a Public Sector Action Plan which the Council have agreed to follow. This, and the accompanying Cyber Security Incident Response Plan, have been used in the preparation of the Council's new Cyber Security Strategy, which was approved in June 2018.

122. The Council have developed a cyber security training module which is mandatory for all staff. Cyber risks are now highlighted in the strategic risk register, which is regularly monitored by the Audit Committee and demonstrates the actions being taken to mitigate the impact of any potential cyber threats. Overall, we have concluded that the Council is strengthening its cyber resilience arrangements.

Public Services Network (PSN)

123. To provide the performance, resilience, and security required by the public sector, the PSN is unified by an agreed set of standards which all users, suppliers and customers must comply with. These standards and conditions are administered by the Cabinet Office's Digital Service. PSN compliance guarantees a common approach to information assurance, technical interoperability, service management, and governance.

124. The Council do not currently have PSN accreditation. However, following an IT Health Check assessment by an independent assessor the Council prepared a remediation action plan for completion prior to making a second PSN submission. Following the implementation of the remediation actions, the Council anticipate submitting the updated PSN application to the Cabinet Office in August 2018. We will continue to monitor progress.

General Data Protection Regulation

125. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018, along with the Data Protection Act 2018. These replaced the UK Data Protection Act 1998 (DPA). As a Regulation, all EU member states must implement it in the same way. GDPR sets out further requirements than the DPA and has introduced new and significantly changed data protection concepts. Failure to comply with new GDPR data handling arrangements could result in the Council incurring significant fines.

126. The Council's Audit Service Manager was appointed to the role of Data Protection Officer (DPO) in February 2018. Following this, a Data Compliance Officer (DCO) was appointed to help ensure ongoing compliance with the new regulations.

127. The Council has a register which outlines how services collect and process information. This is used to assess and monitor compliance with GDPR and identify high risk processing. The Council has considered its arrangements for processing personal data and identified areas which require further work.

128. GDPR training for all staff was rolled out in advance of the GDPR date in May 2018. This included an online training module for which completion is mandatory for all council employees. Although full compliance with this has not yet been achieved, the DPO monitors this, with monthly updates on progress to achieving this provided to the council's Corporate Management Team (CMT).

129. The DPO will continue to develop the Council's compliance programme. As part of this, a commitment has been made to report annually to the Council's Audit Committee, providing elected members with important information on the Council's progress and continued compliance with regulations.

130. We concluded that the Council are making good progress in updating its information governance procedures to ensure compliance with GDPR. However, Council management and the Data Protection Officer should continue to monitor the initial uptake and ongoing delivery of data protection training to all staff.

Integration of health and social care

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

132. In October 2017, the Council set out how it proposed to transfer full operational management responsibility of adult care services to the IJB in a way that would minimise risk to service users and ensure a seamless transition of staff. Since then, a Transition Board and an operation working group has been in place to oversee this and to develop a detailed plan and process for transferring work streams and staff. It was recently confirmed that operational responsibility will transfer to the Chief Officer of the IJB on or before 1 September 2018.

133. 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.

134. The unaudited accounts of the IJB show that it incurred a deficit of £1.053 million. The Council's outturn in the areas within the strategic responsibility of the IJB was an overspend of £0.321 million. The IJBs financial position was regularly monitored during the financial year. As the extent of the IJB overspend became clear, a recovery plan was agreed between the partners which helped to mitigate the overspend.

135. The overspend in services provided by the Council to the IJB is partly due to the increase in care home placements since April 2017 from 532 to 564 by October, but then ending at 535 at the year end. This has coincided with the introduction of the national delayed discharge target to two weeks which has led to an acceleration in assessments and people being placed in care. This, and other cost increases associated with transforming care such as increasing care at home clients and hours will continue to place a financial strain for both the Council and the IJB.

136. The National Records for Scotland indicates that from 2014 to 2039, Stirling's population of over 65 year olds are expected to increase by 32% and the over 75 age group will almost double. This will continue to place demand pressures on adult social care services.

137. The IJBs performance against the national Health and Wellbeing Outcomes is good, with the IJB performing above or in line with the national average in 12 out of the 17 national core integration indicators reported nationally thus far for 2017/18

Local scrutiny plan

138. The 2018/19 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to Management in April 2018 and presented to the Audit Committee in May 2018.

139. The LAN concluded that no scrutiny risks were identified which require specific scrutiny work by the LAN in 2018/19. 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, including the forthcoming Best Value work by Audit Scotland.

Community Empowerment

140. The Community Empowerment Act 2015 gave local communities new powers to take control of and manage community assets. The Council has taken steps to engage with local communities and published an information leaflet on the website in February 2018 to help support communities and local groups and organisations to understand and use the Act effectively.

141. The Act requires the Community Planning Partnership (CPP) to publish a Local Outcomes Improvement Plan (LOIP). The Council approved their LOIP, known as 'The Stirling Plan', during 2017/18. This is a 10 year strategic plan setting out the high-level outcomes that the partnership wants to achieve. The LOIP replaces the existing Single Outcome Agreement.

142. The Council propose to work on a three-tier approach to ensure a mix of governance and local participation. These three tiers are the establishment of a CPP Leadership Group; development of Place Based Partnerships and the implementation of Locality Action Plans.

143. As part of the requirements of the Act, the Council are taking steps to focus on improving outcomes within the most disadvantaged communities. For these communities the place based partnerships will develop targeted Locality Action Plans that set out the specific actions to be taken to close the inequality gaps and promote fairness. The first Locality Action Plan has been produced for Raploch as evidence indicated this area should be treated as highest priority.

144. The Council aims to develop further Locality Action Plans through a participatory approach with local people and organisations as well as public sector partners.

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 management and financial sustainability. 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 positive levels of performance in the latest year for which data is available across Scotland. 38% of indicators were in the top quartile (2015/16: 36%) and 16% were in the bottom quartile (2015/16: 16%).

Best value

145. Best value is assessed over the five-year audit appointment as part of the annual audit work. 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 2019, with the review commencing in October 2018.

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

146. The Best value audit work carried out this year focussed on the Council's arrangements for demonstrating Best Value in financial management and financial sustainability. 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

147. 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.

148. Audit Scotland carried out a performance audit of Scottish councils' use of arms-length external organisations (ALEOs) during 2017/18. Findings from this work are included in the '*Council's Use of Arm's Length Organisations'* report and this is available on our website here. The aim of the report was to support councils by identifying good practice and lessons learned, and give assurance to the public over this means of service delivery.

149. Stirling Council was one of a sample of nine councils selected for more detailed review. The report includes specific references to good practice examples identified within the sampled councils, including Stirling's effective policies and guidelines for governing how councillors and officers should be involved with ALEOs.

150. We concluded that the Council has appropriate arrangements for ensuring compliance with the Local Code of Practice: Following the Public Pound.

Performance management

151. The Council's performance management arrangements were subject to a significant refresh during 2017/18. This involved the development of an organisational wide Performance Management and Reporting Framework (PMRF).

152. The main objectives of the new PMRF are to strengthen the links between strategic priorities and service planning; ensure the effective use of data to make improvements by ensuring appropriate indicators and targets are used; and to raise awareness, define ownership and deliver training to support the new arrangements. The Council also took in to account statutory performance requirements as well as a need to develop revised corporate, committee and service scorecards.

153. The early stages of the development of the PMRF involved a workshop with key staff involved in the process, including the Senior Management Team. This focused on establishing how the PMRF would link to and align with the corporate approach across the organisation, and the most appropriate means of measuring performance information for the newly developed scorecards. The existing facility, Covalent, was proposed along with Power BI, to provide a more interactive data visualisation tool providing instant access to live performance information.

154. All service scorecards were built within Covalent by January 2018. There have been some refinements to Performance Indicators and dashboard reports are provided to management. This provided the CMT with access to all performance information in one central repository for the first time. It was agreed with members that committee scorecards would be subject to review 6 months after implementation.

155. It is currently too early to conclude on the effectiveness of the Council's new performance management arrangements. However, developments undertaken during 2017/18 should lead to a more robust and comprehensive reporting framework being in place for 2018/19. This will be considered in more detail as part of our Best Value.

Overview of performance targets

156. 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.

157. The most recent *National Benchmarking Overview Report 2016/17* by the Improvement Service was published in February 2018 and covered the 2016/17 reporting period. This report was submitted to the council's Corporate Management Team (CMT) in March 2018. The overall conclusion was that the Council continues to perform well in comparison to other councils.

158. 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 74 indicators measured as part of the 2016/17 reporting period, 28 were within the upper quartile. This represents 38% of indicators (36% in 2015/16). Areas performing well include attainment levels within Children's Services, sickness absence for teaching and non-teaching staff, the average time taken to complete non-emergency repairs and home care costs per hour for people aged 65 or over.

159. Performance in the bottom quartile of councils was noted in areas such as net cost per waste collection per premise, percentage of adults satisfied with refuse collection and percentage of unemployed people assisted into work from council operated / funded employability programmes. In total, there were 12 indicators noted as being in the bottom quartile. This represents 16% (16% in 2015/16).

160. The Council's key service committees receive regular performance reports throughout the year. These monitor progress against the Council's key priorities. Performance scorecards and progress reports are currently being updated to reflect the six priorities set by the Council to be delivered over the five years of the new administration's term.

Statutory performance indicators (SPIs)

161. 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.

162. 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.

163. We reviewed the Council's arrangements for collecting, recording and publishing data in 2017/18. Overall, we concluded that they are satisfactory. Information is publicly available on the Council website.

164. In 2016/17, we reported that the Council's Annual Report for 2015/16 did not contain information about performance indicators. Following this, the Council's Annual Report for 2016/17 has included comprehensive information on performance. This indicates that the Council have taken on board the recommendation from our Annual Audit Report and have improved the transparency and accessibility of this information. The Annual Report is easy to understand, ensuring that this is a useful document for the public and other stakeholders.

National performance audit reports

165. 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 which are of direct interest to the Council. These are outlined in Appendix 4.

166. 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 dependent on the nature of the national report and the service to which it relates.

Good practice points

167. As part of a revision to the Local Code of Practice: Following the Public Pound, the Council committed to preparing and presenting an annual report on the activity and performance of all Council ALEOs and other strategically funded organisations which are funded annually by the Council in excess of £75,000 and fall within the scope of the Local Code of Practice: Following the Public Pound and Funding External Bodies.

168. The first annual report was presented to the Audit Committee in January 2018. This report provided an update on the performance and activity of each of the council's ALEOs and strategically funded bodies, along with any that are consolidated within the council's annual group accounts. The report reaffirmed the commitment to ensuring that any organisation the Council establishes or funds can demonstrate best value in its use of public money, and recognises that there are ongoing financial and reputational risks relating to the relationships they have with ALEOs. Officers have noted that the format and content of this report will evolve over time, within the context of further strengthening governance arrangements and taking on board the recommendations from the Audit Scotland national report referred to above.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Payroll deductions creditor reconciliation** The Council stopped preparing payroll deduction reconciliations during the year. This resulted in the balance reported in the accounts being overstated by £0.090 million. **Risk:** The payroll deductions creditor could be misstated.	The payroll deductions creditor reconciliation should be re-introduced. Exhibit 3	The Payroll Team has reinstated the process of monthly reconciliations. **Responsible Officer**: Payroll Manager **Target Date**: June 2018
2	**Rechargeable repairs debtor** Charges for rechargeable repairs are processed in the housing service Academy system. However, these are not input to the financial ledger until payment is received by the Council. **Risk:** HRA debtors and income could be understated	Charges for rechargeable repairs should be captured in the financial ledger at the point the account is raised. Exhibit 3	As part of the year-end rent suspense reconciliation exercise, procedures will be put in place to ensure that all outstanding debtor balances are correctly accounted for within the Council's financial ledger and annual accounts. **Responsible Officer**: Housing Accountant **Target Date**: March/April 2019
3	**Capital programme monitoring** The Council received £2.162 million in the form of developer's contributions which was not incorporated into the capital expenditure plans or monitoring reports reported to the Finance & Economy committee. **Risk** The capital programme may not reflect all the capital funding available for spending on capital projects.	The Council should ensure that developer's contributions, together with any other external funding towards capital expenditure, is incorporated into the capital programme and all subsequent capital programme progress reports. Paragraph 57	The £2.162m comprised a balance brought forward from previous years of £1.859m, with £0.504m new contributions received in 2017/18 and £0.201m used. Amounts were incorporated into capital monitoring once spent and were included in the total capital expenditure amount for the year. These will be included in capital expenditure reports to CMT & F&E in 2018/19 as part of the continued improvements

No.	Issue/risk	Recommendation	Agreed management action/timing
			to capital monitoring reporting. Developers contributions, where known, will be incorporated into capital expenditure programmes. **Responsible Officer**: Senior Manager Infrastructure & Chief Finance Officer **Target Date**: November 2018
4	**General fund capital slippage** The general fund has experienced slippage in each of the last four financial years. **Risk** There is a risk that ongoing slippage could impact the Council's priorities.	The Council should ensure that slippage and reprofiling of general fund capital projects does not have a significant impact on strategic priorities that are dependent on capital projects being completed on time. Paragraph 60	The progress of all capital programme projects is reported to CMT on a monthly basis, and to members via F&E committee cycles, to ensure that action is taken at the earliest opportunity to ensure that strategic priorities are not affected by any project slippage that might occur, and will continue to be reported on this basis for 2018/19 and future years. A 10 year capital programme setting project is currently underway and will help ensure capital programmes are planned & delivered to meet strategic priorities. **Responsible Officer**: Senior Manager Infrastructure & Chief Finance Officer **Target Date**: Ongoing
5	**Funding position** The cumulative budget gap over the five-year period to 2022/23 is £20.500 million. This is a £9.485 million increase over the equivalent budget gap reported last year. **Risk** 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 £20.500 million for the five-year period to 2022/23 will be made. Paragraph 80	The projected budget gaps are not static and will inevitably change over time. The Council will be presented with updated projections on anticipated funding, cost increase pressures and service demand pressures that reflect the most up to date circumstances nationally and locally. Future updates may have the effect of increasing the budget gaps. Information will be presented that will forecast for a longer 10 year

No.	Issue/risk	Recommendation	Agreed management action/timing
			planning horizon, rather than the current 5 year period. As well as presenting the Council with information on the financial outlook, the Management Team are currently developing options for addressing the future budget position, although these will still focus on the current medium term 5 year period. **Responsible Officer**: Chief Executive & Chief Finance Officer **Target Date**: February 2019
Follow up of prior year recommendations			
b/f	**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.	**Updated response**: The Finance team now hold regular meetings with colleagues in Estates to ensure that lease details are up to date and accurate. Further to this, any changes in lease arrangements are picked up by the Finance team as part of the insurance process. Substantive testing of leases as part of our financial statements audit did not identify any issues. **Responsible officer**: Senior Manager - Infrastructure **Revised date:** n/a implemented
b/f	**2. General fund capital slippage** The general fund capital programme has experienced	The Council should ensure that slippage and rescheduling of general fund capital projects does not have a significant impact on Council strategic priorities	**Updated response**: The progress of all capital programme projects is regularly reported to members and approval to carry forward the unspent

No.	Issue/risk	Recommendation	Agreed management action/timing
	slippage in each of the last three financial years. There is a risk that slippage could impact the council's strategic priorities.	that are dependent on capital projects being completed on time	element of the project is approved. However, as the capital programme has not been delivered closer to budget as agreed in our 2016/17 report, this matter has been carried forward at issue 4 above. **Revised action**: see issue 4 above **Responsible officer**: Chief Finance Officer
b/f	**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.	**Updated response**: PBB 5 approved new savings options which will provide recurring savings of £2.516 million. However, the projected funding gap over the next five-year period has increased to £20.500 million. This matter has been carried forward at issue 5 above. **Revised action**: see issue 5 above **Responsible officer**: Chief Finance Officer
b/f	**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. 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.	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.	**Updated response**: The Council's Local Code of Corporate Governance was finalised and approved in March 2018. **Responsible officer**: Chief Officer - Governance **Revised date:** n/a implemented

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.	*Owing to the nature of this risk, assurances from management are not applicable in this instance*	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. **Conclusion: there is no evidence of management override of controls at the Council**.
2 Risk of fraud over income 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.	Appropriate processes for the authorisation, separation of duties and workflow associated with income. Internal audit's plan includes a rolling review of core financial controls.	Analytical procedures were carried out over all income streams and satisfactory responses were provided for all significant variances. Detailed testing of revenue transactions confirmed these were normal business transactions and had been accounted for in the correct year. There is clear segregation of duties between those raising accounts/ credit notes and staff who process income. No significant frauds specific to Stirling Council were reported by internal audit. **Conclusion: no evidence of fraud over income.**

Audit risk	Assurance procedure	Results and conclusions
3 Risk of fraud over expenditure Most public sector bodies are net expenditure bodies, therefore the risk of fraud is more likely to occur over expenditure, due to the variety and extent of expenditure in delivering services. Stirling Council incurs significant expenditure in areas such as welfare benefits and social care payments. There is therefore an inherent risk of fraud.	Clear schemes of delegation and authorised signatory databases are regularly updated. Appropriate processes for the authorisation, separation of duties and workflow associated with expenditure. Member scrutiny through regular cycle of committee reporting. Internal audit's plan includes a rolling review of core financial controls.	Completion of the NFI audit questionnaire identified good progress had been made by Stirling Council for recommended matches. A review of the Internal Audit Annual Report provided assurance on fraud over expenditure. Detailed testing of expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year. There is adequate separation of duties between those generating transactions and amending supplier standing data from staff who process payments **Conclusion: no evidence of fraud over expenditure.**
4 Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and pension valuations. This subjectivity represents an increased risk of misstatement in the financial statements.		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. **Conclusion: estimations and judgements included in the financial statements are supported by evidence.**
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
5 Financial sustainability Councils are continuing to face significant financial challenges through funding pressures and an increased demand for services. As part of the 2018/19 budget setting process, the Council agreed a 5 year financial plan to 2022/23. This sets out the likely level of resources available and considers the level of provision required to meet ongoing cost pressures. This is the Council's fifth priority based budget plan (PBB5) and it identifies a remaining savings target of	The Council carried out an extensive priority based budgeting exercise that reviewed all costs over the next 5 year period. This is aligned to key objectives contained in the five-year business plan and the workforce plan. Savings proposals of £2.5 million for the five-year period to 2022/23 were approved when the 2018/19 budget was set.	The Council has considered what the impact of new financial powers and the ending of the public sector pay cap will have on future funding. The five-year outlook reflects this, however, any pay agreement over the public sector pay statement would be unaffordable. The PBB process continued into year 5 (2018/19). This identified savings new savings options to be implemented from 2018/19, together with the budget gap over the five-year period to 2022/23.

	Audit risk	Assurance procedure	Results and conclusions
	£20.5 million over the five-year period that it will be necessary to achieve to deliver a balanced budget. This includes the delivery of savings of £0.9 million in 2018/19. The longer term financial position, beyond the 5 year period, has not been formally considered. There is a risk that the Council is unable to identify or achieve the necessary sustainable savings measures or meet cost pressures as they arise.	The five-year business plan is reviewed every year and updated in line with changes in the Council's priorities. This is reflected in PBB5. Regular financial monitoring reports are scrutinised by the Finance & Economy Committee.	Usable reserves held by the council increased to £32.502 million in 2017/18. Uncommitted general fund reserves at as 31st March 2018 were £9.822 million, which represents around 4.7% of the net budget. This is in excess of the target level of between 2% and 2.5%. The year end outturn was better than forecast and narrative explanations for the improvement and the movement in forecasts over the year were contained with regular reports presented to committee. The Council is provided with periodic updates in financial strategy which inform members of the key issues facing local government funding and costs, together with their impact on Stirling Council **Conclusion; the Council has a robust PBB process and an adequate level of reserves, however, the Council will continue to face significant financial challenges through funding pressures and an increased demand for services.**
6	**Financial management – impact of Health & Social Care Partnership (HSCP)** The most recent Finance Monitoring report presented to the Clackmannanshire & Stirling IJB on 13th December 2017 projects a year end overspend of £3.316 million. Of this amount, £0.776 million relates to services related to Stirling Council. Whilst a recovery plan is in place, it is not yet clear how this will impact the projected overspend, or any further contribution required by the Council. To the extent that the projected overspend cannot be fully mitigated there is a risk that the Council will require to meet a	A recovery plan will be presented to partner bodies. Partners are working on individual and joint action plans to address this as far as possible in the current financial year. Partner bodies will agree how any residual overspends are to be accounted for.	A recovery plan was presented to the partner bodies. This, together with the IJB using some of its reserves, resulted in the IJB reporting an overspend of £1.053m of which £0.321 million related to Stirling Council. Partners agreed the basis for agreeing the overspends in 2017/18 on a non-recurring basis. IJB funding for 2018/19 has been agreed with partners. This requires the IJB to make efficiencies of around £4.9 million to break even. **Conclusion: transactions and balances of the IJB was correctly classified within the Stirling Council ledger. Balances between the Council and the IJB were agreed timescale. However, the IJB overspends continue to**

	Audit risk	Assurance procedure	Results and conclusions
	share of the year end financial pressures on IJB services.		**present a financial risk to the Council.**
7	**PSN compliance** Stirling Council, in common with other public sector bodies, is at risk from cyber-attacks and losses of personal data. In addition, the Council currently does not have a valid Public Sector Network (PSN) certificate. An action plan has been implemented to address concerns and a new application will be submitted in April 2018. There is a risk that a cyber-attack or continued non-compliance with PSN could lead to disruption to services, together with financial and reputational losses for the Council.	Health check exercise will be carried out in March 2018 for compliance with PSN and CyberEssentials, as required by Scottish Government. Outputs will allow a Mediation Plan to be produced. The Council Management Team will receive the new Cyber Security Strategy by June 2018. Council has introduced a revised system patching regime in line with the requirements of CyberEssentials. Emerging & developing threats will be monitored and responded to as appropriate	The Council expect to submit a new application for PSN accreditation to the Cabinet Office in August 2018. This follows an extensive exercise to carry out the requirements of the Mediation Plan, with significant improvements made during 2017/18. CyberEssentials accreditation was achieved in March 2018. This will be reviewed again in March 2019. The new Cyber Security Strategy is now in place, in line with proposed timescales. **Conclusion: The Council continued to work towards the requirements of achieving PSN accreditation, with good progress and improvements in cyber security arrangements noted during 2017/18.**

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £0.050 million.

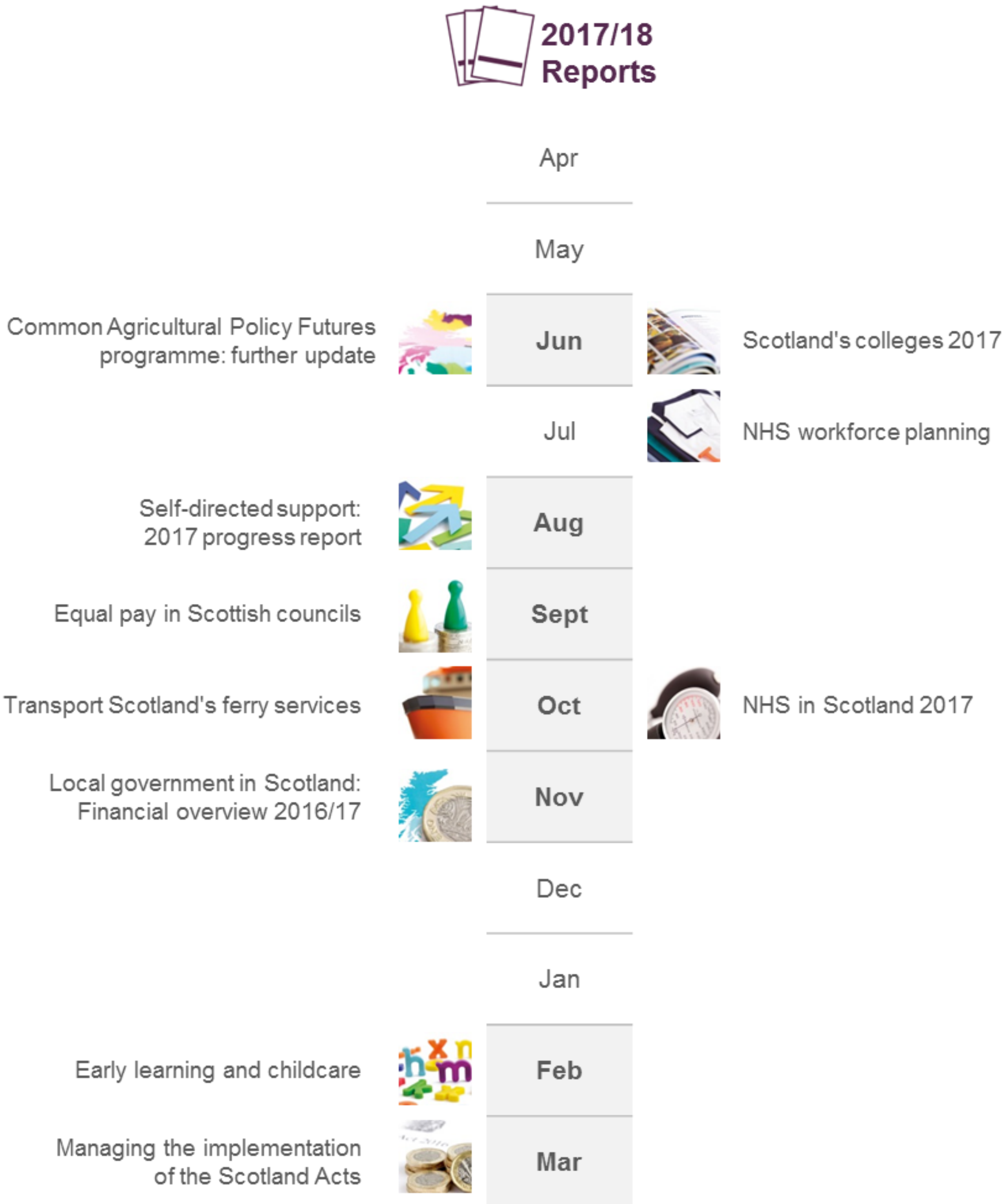
The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material 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	
1	Income	185				185
	Short term creditors				185	
2	Short term creditors			90		
	Payroll costs		90			(90)
3	Short Term Debtors			212		
	HRA income		212			(212)
Net Impact		**185**	**302**	**302**	**185**	**(117)**

Notes:
Entry 1 relates to Business Improvement Districts income which requires to be paid out to third party and should not be recognised as income in the 2017/18 accounts.
Entry 2 relates to the overstatement of the payroll deductions creditor at 31 March 2018.
Entry 3 relates to the omission of the year end rechargeable repairs debtor.

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

Stirling Council
2017/18 Annual Audit Report

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