

# Fife Council

## 2018/19 Annual Audit Report



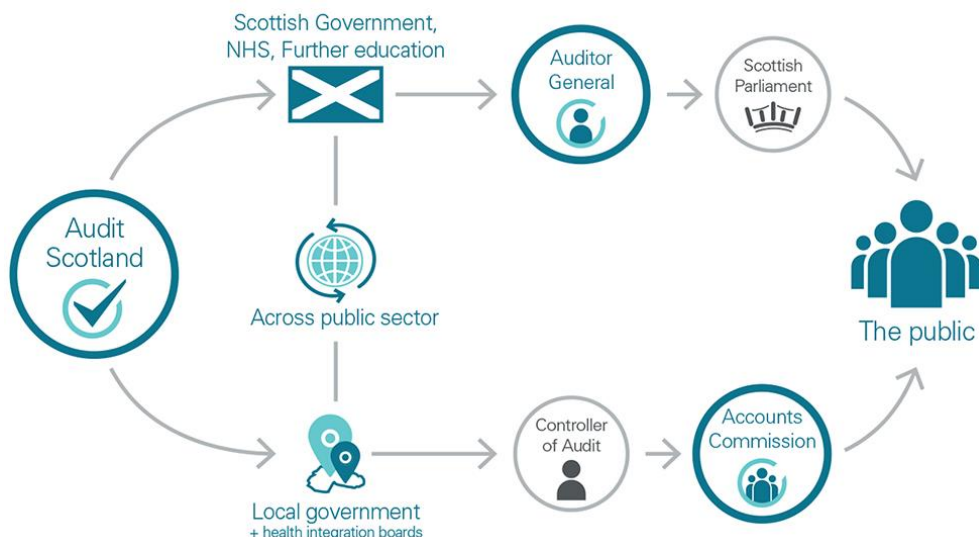
 AUDIT SCOTLAND

Prepared for the Members of Fife Council and the Controller of Audit  
30 September 2019

## Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

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

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

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2018/19 annual accounts

- 1 Our audit opinions on the annual accounts are all unqualified.
- 2 The schools estate revaluation was reduced by £380 million, following a review of the recent valuation and the pension liability increased by £22 million, partly due to decisions by the UK Supreme Court in June 2019.

## Financial management and sustainability

- 3 The Council recorded its first budget overspend in recent history. The outturn included underspends of £5 million with £3 million of this due to teacher vacancies. These underspends offset larger overspends in other areas. Some elements such as the children and families strategy have not delivered the expected savings.
- 4 The 2019/20 budget included a budget gap of £9 million which was met by council tax increases (£5 million) and savings targets (£5 million), but 2019/20 budget monitoring reports now forecast an overspend of £7.3 million. The Council's total General Fund balance has been deteriorating over the last three years and current overspends could deplete this further.
- 5 Medium- and long-term planning is good and the Council has developed a transformation programme: "changing to deliver".

## Governance, transparency and value for money

- 6 Appropriate governance arrangements are in place.
- 7 Progress against the Best Value Assurance Report Improvement Plan is due to be reported by December 2019.

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# Introduction

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1. This report summarises the findings arising from the 2018/19 audit of Fife Council (the Council) and its group. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 28 February 2019 meeting of the Standards and Audit Committee. This report comprises the findings from an audit of the annual report and accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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2. The main elements of our audit work in 2018/19 have been:
- an audit of the Council and its group 2018/19 annual report and accounts and the statement of accounts of the 48 section 106 charities administered by the Council including the issue of independent auditor's reports setting out our opinions
  - a review of the Council's key financial systems
  - audit work covering the Council's arrangements for securing best value relating to financial management, financial sustainability and governance and transparency
  - consideration of the four audit dimensions.

### Added value through the audit

3. We add value to Fife Council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
  - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
  - Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
4. We aim to help Fife Council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
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 our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
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 the steps being taken to implement them.
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 2018/19 audit fee of £513,420 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
12. 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](http://www.audit-scotland.gov.uk) in due course. We would like to thank all management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

**Fife Council and its group financial statements are unqualified.**

**All audit opinions for Fife section 106 charities were unqualified.**

**The schools estate valuation was reduced by £380 million from the unaudited accounts, following a review of the recent revaluation.**

**The pension liability increased by £22 million partly to decisions by the UK Supreme Court in June 2019 (McCloud) and revisions to estimates for the effect of GMP and updated asset values.**

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.

### Our audit opinions on the annual accounts are all unqualified

- 13.** The annual accounts for the Council and its group were approved by the Standards and Audit Committee on 27 September 2019. We reported, within our independent auditor's report that, in our opinion
- financial statements give a true and fair view and were properly prepared
  - the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance
- 14.** 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.

### The audit opinions on the section 106 charities are all unqualified

- 15.** A separate independent auditor's report is required for the statement of accounts of each registered charity where members of Fife Council are sole trustees. We received the charities' accounts in line with the agreed timetable and after completing our audit we issued an unqualified audit opinion on the 2018/19 statements.

### Two trusts have been transferred to an external charity

- 16.** During 2018/19 the Council transferred two trusts to an external charity. The transfer was approved by The Office of Scottish Charity Regulator (OSCR). Progress was also made to reduce the number of inactive trusts this year. The OSCR website states that "in general, if a charity does nothing for a prolonged period, it is unlikely to be providing public benefit and this may result in it failing the charity test". Audit testing found that 28 funds (58%) had been inactive for

the last three years and we continue to recommend further action is taken to address this issue. Refer [Appendix 1 b/f1](#)

### Finance staff provided good support to the audit team

17. We received the unaudited annual accounts on 28 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit.

### No objections were received on the annual accounts

18. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations and there were no objections to the accounts.

### The Whole of Government Accounts (WGA) assurance statement will be submitted in October

19. In accordance with the WGA guidance, the Council submitted a consolidation pack for the whole of government accounts audit in July 2019. The submission requires significant amendment to reflect adjustments in the audited annual accounts and we will complete the required assurance statement in October, rather than by the deadline of 27 September.

### We identified and addressed risks of material misstatement

20. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

### Minor changes were made to our planned materiality values

21. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. On receipt of the annual report and accounts we reviewed our planning materiality and concluded that no changes were required to the materiality levels set for the Council with only minor changes made to the Charitable Trusts' materiality. These are shown at [Exhibit 2](#).

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## Exhibit 2 Materiality values

Materiality levels	Amount
<b>Fife Council</b>	
Overall materiality	£14 million
Performance materiality	£3.5 million
Reporting threshold	£250,000
<b>Charitable Trusts</b>	
Overall materiality	£16,000



Materiality levels	Amount
Performance materiality	£11,150
Transaction performance materiality	£400
Reporting threshold	£165

Source: Audit Scotland


## We have significant issues to report on the in-year revaluation and to the pension liability following the McCloud judgement


22. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. Significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

## Exhibit 3

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Revaluation of schools</b></p> <p>Fife Council has a rolling programme to revalue all property plant and equipment over a 5-year period. In 2018/19, this programme included schools and the unaudited value for these assets increased by £800 million, as a result. Since the last revaluation of the schools' estate there had been a change in Valuer (from an external company to in-house staff)</p> <p>Schools are valued using the depreciated replacement cost method (DRC). This involves estimating the build cost and applying a reduction for "obsolescence". Given the scale of increase in value we undertook further audit procedures and determined that there had been a different approach taken to the application of obsolescence. We estimated that this change accounted for around £400 million of the increase.</p> <p>We also completed a high-level comparison of asset values across councils and compared some aspects of the revaluation to another council. This supported our view that the increase in valuation was unusual.</p> <p>We asked officers to provide comparisons to other councils and to engage an external valuer to review the valuation. The internal comparison confirmed there was no consistent approach to DRC valuations. Fife's valuation was highest and the external valuation confirmed that the Council's approach complied with both the CIPFA Accounting Code of Practice and the RICS' Red Book. However it also identified significant differences in the calculation of primary schools floor space (this is based on school rolls rather than physical measurements), on the basis of a very limited sample.</p> <p>As a result of the external valuation, the primary school estate was recalculated and resulted in a £428 million reduction to the unaudited valuation.</p>	<p>This issue has been adjusted in the audited annual accounts.</p> <p>The schools valuation was reduced by £428 million. The schools valuation has been appropriately applied and comply with the relevant guidance.</p>

Issue	Resolution
<p><b>2. Indexation of building costs</b></p> <p>The Council valuations are based at 1 April each year and there has been a presumption that this valuation is materially consistent with the year end valuation at the following 31 March and that revisions are not required during the five-year period between valuations.</p> <p>The CIPFA Code requires a minimum revaluation every 5 years provided there has been no significant change in the reporting period.</p> <p>Officers identified that rebuilding costs based on BCIS indices in 2018/19 increased by 3.4 per cent and as a result we asked officers to apply indexation to the valuations for the first time.</p>	<p>This issue has been adjusted in the audited annual accounts.</p> <p>An indexation factor of £47 million has been applied in 2018/19 to reflect increases in build costs from the valuation date of 1 April 2018 to 31 March 2019.</p> <p> Recommendation 1 (refer <a href="#">appendix 1</a>, action plan)</p>
<p><b>3. Calculation error in leisure centre revaluation</b></p> <p>The revaluation of a sample of non-school assets was tested.</p> <p>When providing the accompanying spreadsheets for this testing officers identified a calculation error in their spreadsheet which meant one asset was overvalued by £14 million.</p>	<p>The issue has been adjusted in the audited annual accounts.</p> <p>We reviewed an additional sample of revaluations in year and identified no further errors.</p>
<p><b>4. Pension scheme valuations</b></p> <p>In January 2017 an employment tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to a new career average scheme, known widely as the McCloud case. This was included as a contingent liability in the Council's unaudited accounts.</p> <p>The UK Government sought leave to appeal this decision but in June 2019 the appeal was denied by the UK Supreme Court.</p> <p>This issue arose in June 2019 and has been treated as an adjusting event. The actuary, Hymans Robertson, produced revised (IAS19) reports for the Council and its subsidiaries to take account of the impact of the McCloud case.</p> <p>This has affected all final salary pension schemes across the public sector.</p>	<p>This issue has been adjusted in the audited annual accounts.</p> <p>The amendments resulted in an increase of £9 million (1%) of the pension liability of the Council.</p> <p>The Actuary also included an adjustment for the Guaranteed Minimum Pension liability. This is the minimum pension which a UK occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS). This resulted in a further increase in liabilities of £6.5 million. At the same time the value of fund assets at 31 March 2019 was recalculated from an earlier estimate and resulted in a reduction of £6 million.</p> <p>Overall the Council's pension liability increased by £22 million.</p> <p>Related adjustments for group bodies were calculated but were below our trivial threshold.</p> <p>In addition, in accordance with IAS10, a narrative disclosure has been included in Note 29.</p>
<p><b>5. Housing benefit subsidy income</b></p> <p>Fife Council received more housing benefit subsidy from the Department for Work &amp; Pensions (DWP) than they paid out to recipients. The difference should be deducted from income and a creditor created representing the amount owed back to DWP as a repayment. This year the journal was posted incorrectly and as a result both expenditure and income were overstated by £4 million.</p>	<p>This issue has been adjusted in the audited annual accounts.</p>

Issue	Resolution
<p><b>6. Invoices in CARS</b></p> <p>The sundry debtor balance in the unaudited accounts included housing benefit overpayments of £2.3 million, based on a system total. This was not supported by a detailed list of outstanding invoices. The new CARS (Corporate Arrears Recovery System) does not have the reporting capacity to produce an adequate audit trail to this detail. The Northgate system contains details of the individual housing benefits overpayments but this system does not provide a summary listing.</p>	<p>No adjustment was made to the accounts. We considered the figure to be reasonable and consistent with previous years and we undertake specific testing on housing benefits payments recorded in the Northgate system. The issue with supporting evidence needs to be addressed.</p> <p> Recommendation 2 (refer <a href="#">appendix 1</a>, action plan)</p>

Source Audit Scotland

## All material adjustments have been made in the audited statements

**23.** There were four material adjustments to the unaudited financial statements as outlined at points one to four in [Exhibit 3](#) above. Unadjusted errors are detailed in [Appendix 3](#). In each case we considered whether further audit procedures were necessary.

- For the revaluation issue we asked the Council to obtain a second opinion on the approach taken by the in-house valuer and we also compared Fife Council's position to a sample of other councils. We also agreed an indexation increase to be applied to revalued assets and confirmed this had been correctly applied.
- In the case of the McCloud judgement we agreed with the Council that a revised IAS19 valuation would be obtained from the actuary reflecting this judgement. We also encouraged group auditors to do the same for their audits. The estimate of the total effect was identified in the revised IAS 19 report.
- For the non-schools revaluation we tested an additional sample of revaluations in year and identified no further errors.
- The housing benefit error was considered a unique transaction and further procedures were not necessary.

**24.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected.

## Slow progress is being made on prior year recommendations

**25.** The Council has made slow progress in implementing our prior year audit recommendations, with one action partially completed out of three. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

The Council recorded its first budget overspend in recent history.

The outturn included underspends of £5 million with £3 million of this due to teacher vacancies which offset larger overspends in other areas. The children and families strategy has not delivered all of the expected savings.

The Council has a track record of delivering most of its savings targets.

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

### The Council's 2018/19 budget was £789 million and included savings targets of £11 million

26. In February 2018 the Council approved a budget of £794 million for 2018/19. During the year the budget was amended to £789 million, adjusted to reflect:
- Expenditure funded from earmarked balances + £11 million
  - Change in treatment of ring-fenced grants - £19 million
  - Expenditure funded by additional Scottish Government grant + £2 million
  - Capital budget adjustments + £1 million.
27. There was a funding gap of £13 million against the original budget and the Council planned to close this without the use of reserves, by increasing Council Tax by 3 per cent (raising £4 million) and approved savings of £11 million proposed by service change plans. This generated an additional £2 million to be used on Council priorities.

### The Council recorded its first budget overspend in recent history

28. An overspend of £1.7m was reported against the revised budget. Officers were unable to recall the last time a deficit was recorded in the Council. The more significant under and overspends are summarised in [Exhibit 4](#).

## Exhibit 4

### Summary of significant under / overspends against budget

Area	Under/over spend (£m)	Reason for variance
<b>Overspends</b>		
Children & Families	4.4	Increase in purchased placements costs and continuing care costs
Health & Social Care	2.7	Increased demand for care and non-achievement of planned savings
<b>Underspends</b>		
Education	-3.1	Vacant teacher posts
Council Tax Reduction	-2.0	Council Tax Reduction Grant not required.

Source: Revenue Budget 2018-19: Provisional Outturn, report by Executive Director for Finance and Corporate Services to Policy & Co-ordination Committee 18th June 2019

### The 2018/19 outturn included underspends of £5 million, largely due to teacher vacancies. The children and families strategy has not delivered all of the expected savings.

29. 2018-19 is the first year of the Council's new medium-term financial strategy, which included a re-assessment of service budgets and the removal of some elements of contingency. Previously service overspends had been offset by underspends in other areas including the loans charges budget.
30. For the second year in a row the Council's outturn has benefited from underspends arising from vacant teachers posts. The children and families strategy has not yet delivered all of the anticipated savings in purchased placement costs.
31. The total overspend on Council delivered Health & Social Care services is £9.7 million arising from both increased demand and the failure to deliver operational savings. The cost to the Council is offset by additional funding from NHS Fife (£7 million) under the risk share arrangement.
32. We reported in our 2018/19 management report that the Council has a budget carry forward scheme in place which allows services to overspend, both planned and unplanned, on the basis that these are deducted from the following year's budget. This has not been applied to both Children & Families and Health & Social Care overspends, which have had to be funded from balances.

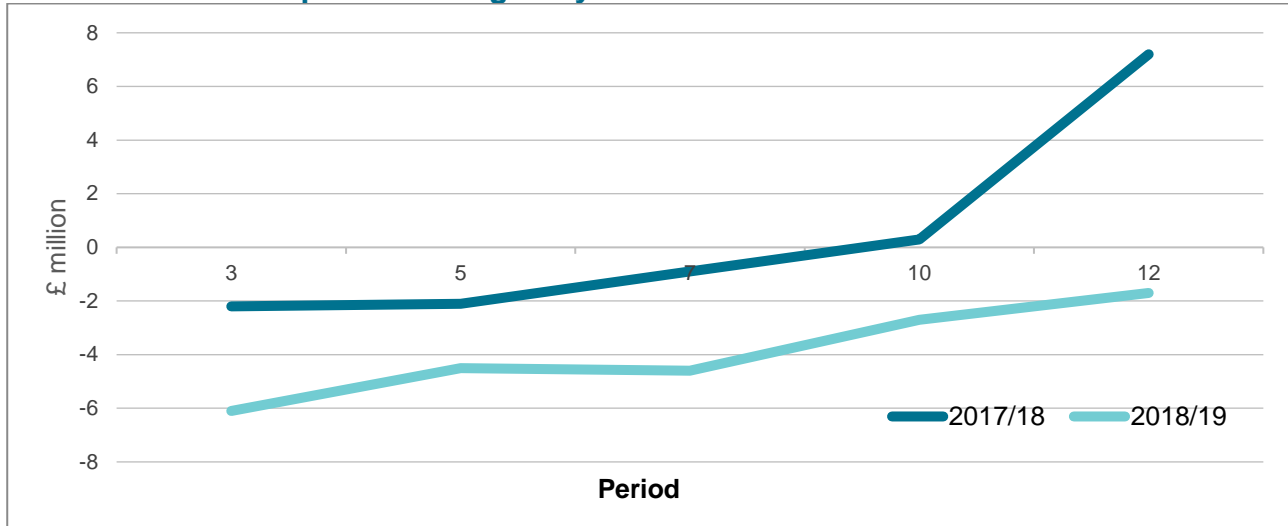
### Budget monitoring reports increased in frequency in 2018/19 and more accurately forecasted the outturn position

33. Budget monitoring procedures were more effectively aligned with the revised committee structure and as a result in year budget monitoring reports were submitted to both the Policy & Coordination Committee and service committees on four occasions.
34. [Exhibit 5](#) demonstrates how the year end outturn position developed and was reported to committee as an improving position in the forecast overspend

throughout the year. The year-end outturn was more accurately forecast than in the prior year.

## Exhibit 5

### Forecast outturn reported during the year



Source: Fife Council Revenue Budget Financial Monitoring 2018-19 Reports to Policy & Coordination Committee

## The general fund balance fell by £12 million

35. As shown by [Exhibit 6](#) the impact of the 2018/19 financial outturn has had a significant impact on the overall balance in the General fund.

## Exhibit 6

### Elements of the financial outturn (£million)

	2018/19 £m	2017/18 £m	2016/17 £m
Surplus/(deficit) against budget	(1.7)	7.2	13.9
Expenditure funded from balances	(10.7)	(13.3)	(15.2)
Reduction in general fund	(12.4)	(6.1)	(1.3)

Source: Fife Council Annual Accounts 2018-19 and Revenue Budget 2018-19: Provisional Outturn, report by Executive Director for Finance and Corporate Services to Policy & Co-ordination Committee 18<sup>th</sup> June 2019

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

## **The Council has a track record of delivering most of its savings targets**

- 37.** The Council has a track record in delivering most of its savings targets, with 82 per cent achieved in 2018/19 (76 per cent in 2017/18 and 87 per cent in 2016/17) on a recurrent basis.

## **The HRA achieved a surplus of £0.5 million**

- 38.** The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to a level which will at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year.
- 39.** The housing revenue account achieved a surplus of £0.5 million, increasing its reserve to £2.5 million
- 40.** The current HRA capital investment plan includes significant expenditure on both new and existing housing stock. This year a decision was taken to increase reserves to mitigate against risks such as the impact of the rollout of Universal Credit (as identified in the HRA Medium Term Financial Strategy) rather than use the surplus to fund investment and reduce the need to borrow.

## **There was an overall underspend against the capital budget**

- 41.** Total capital expenditure in 2018/19 was £144 million of which £72 million was on general services and £72 million on housing. Capital spend was £40 million below budget.
- 42.** There was a significant (£17 million) underspend on the Affordable Housing programme, as part of the £10 million underspend in the housing budget, due to delays in project advancement. The programme is ongoing until 2022-23 and the project is in its early phases, so no overspends or delays are being reported against this overall deadline. Other projects in the capital plan were advanced meaning £7 million was applied ahead of plan.

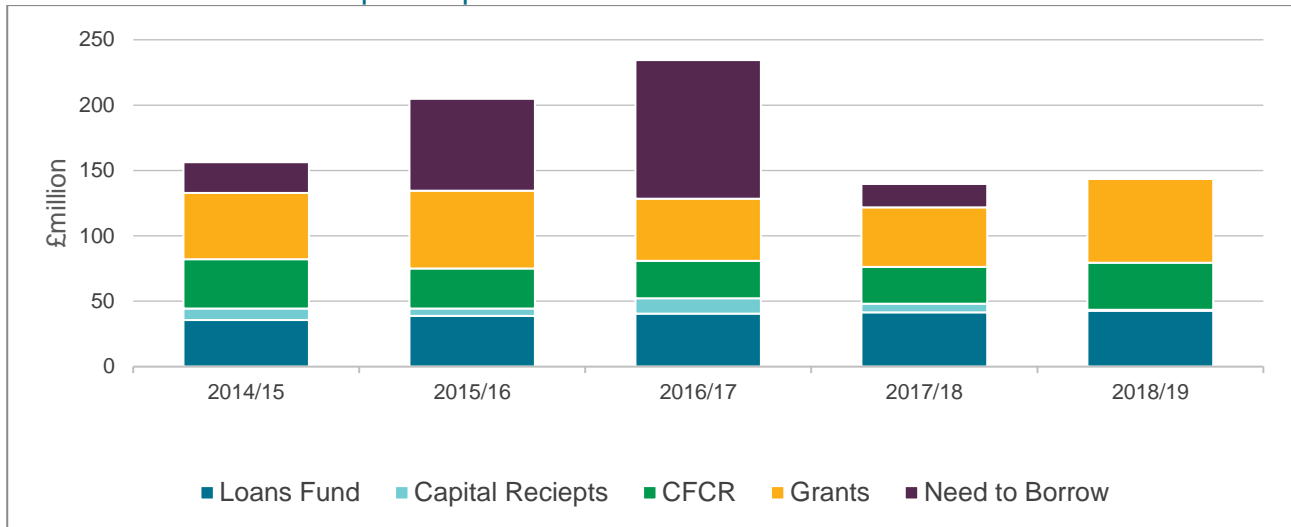
## **The Council did not require further borrowing in 2018/19**

- 43.** The Council's capital programme is financed from internal loans funds repayments, from current revenue and from grants. The underlying need to borrow did not change, as shown in Exhibit 7.



## Exhibit 7

### Sources of finance for capital expenditure



Source: Fife Council Annual Accounts

### Financial system controls are operating effectively in most areas, but there were some weaknesses

44. 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.
45. Our findings were included in our management report presented to the Standards and Audit Committee on 20 June 2019. We concluded that the key controls were operating effectively. We identified several control weaknesses covering the timely completion of reconciliations, payroll validation checks and access to the debtors system. We revised our audit approach in response to the weaknesses identified to enable us to obtain sufficient assurance to conclude on the 2018/19 annual accounts.

# Part 3

## Financial sustainability



### Main judgements

The 2019/20 budget included a budget gap of £9 million which was met by council tax increases (£5 million) and savings targets (£5 million)

Fife Council has three-year budgets for its services.

2019/20 budget monitoring reports forecast an overspend of £7.3 million

The Council's total General Fund balance has been deteriorating over the last three years and current overspends could deplete this further

Medium- and long-term planning is good and the Council has developed a transformation programme: "changing to deliver".

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

### The 2019/20 budget included a budget gap of £9 million which was met by council tax increases (£5 million) and savings targets (£5 million)

46. The Council agreed its £789 million 2019/20 budget in February 2019. This identified a £9 million budget gap, which was met by:
- increasing council tax by 3 per cent (raising £4.7 million),
  - approved savings of £5 million proposed by service change plans, £5 million of further savings proposed by officers were rejected by the Administration.
47. The excess savings allowed an additional £1 million to be used on Council priorities.

### Fife Council has allocated services three-year budgets

48. This was the second budget set under the Council's Medium-Term Financial Strategy (MTFS), which saw services allocated three-year budgets based on the Council's long-term financial model.

### 2019/20 budget monitoring reports forecast an overspend of £7.3 million

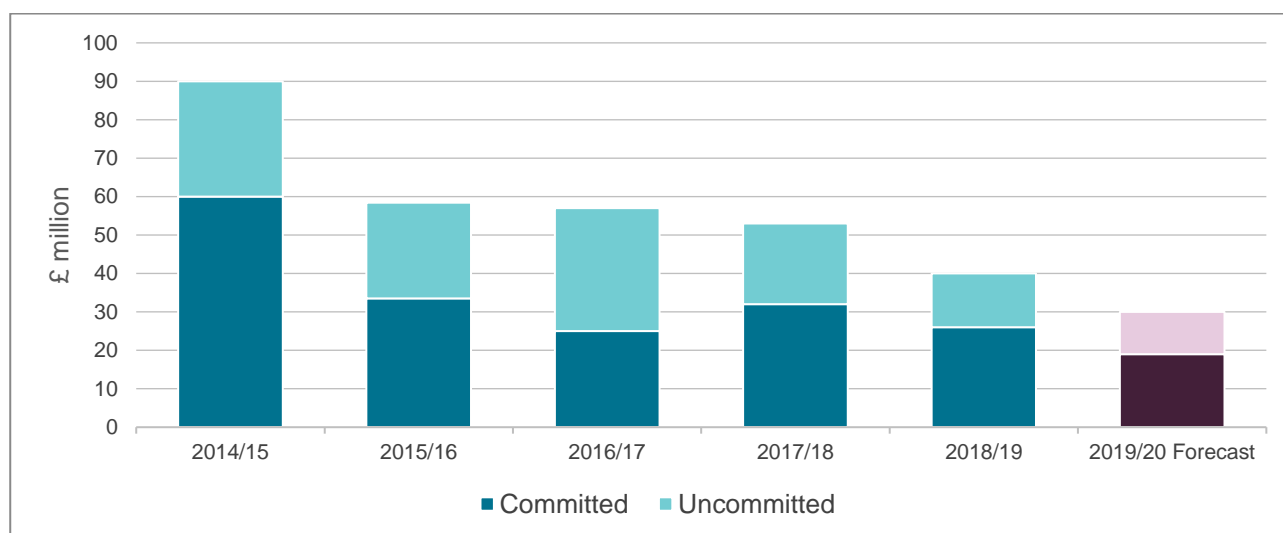
49. The first budget monitoring report for 2019/20 identifies a forecast overspend of £7.3 million. The overspends are expected in Children's & Families (£8 million) and Health & Social Care services delivered on behalf of the IJB (£3 million).

## The Council's total General Fund balance has been deteriorating over the last three years and current overspends could deplete this further.

50. General fund balances fell by £12.4 million in 2018/19 to £40 million, as illustrated in [Exhibit 8](#). The General fund has been reducing over the last three years and the total balance represents about seven years remaining at the average rate of use over this period.
51. The total includes a number of earmarked balances. The uncommitted balance remaining of £14 million, is 1.8 per cent of net expenditure. The Council has a policy of maintaining an uncommitted reserve at 2 per cent, but reserve levels are also assessed against the maximum amount of financial risk identified within the Council's risk register. In August 2019 the projected uncommitted General Fund covered just 23 per cent of identified risks and while the Executive Director of Finance and Corporate Services assessed this as adequate, she has signalled that "*Consideration needs to be given to budgeting to restore the level of reserves if the current year overspend is not addressed*"

### Exhibit 8

#### Analysis of general fund over last five years and forecast 2019/20 position



Source: Fife Council audited accounts 2014-19

## Over the medium term the Council continues to forecast significant funding gaps and has developed a “changing to deliver” programme

52. The Council continues to have good medium- and long-term planning. The August 2019 Policy & Co-ordination Committee was given an outline forecast in advance of the budget setting process for 2020/21. The forecast is based on the Council's sophisticated long-term planning model and contains sensitivity analysis against the main assumptions.
53. The Council's budget information/financial projections for 2020/21, 2021/22, and 2022/23 are forecasting funding gaps of £10.6 million, £17.6 million and £29.5 million. These gaps assume a 3 per cent increase in council tax and do not include estimates of demographic growth pressures in line with the MTFS.

- 54.** As reported in [paragraph 38](#), the Council has a history of achieving the majority of planned savings with detailed and specific service savings plans. In order to assist services with identifying further savings a wider council-wide transformation programme entitled “Changing to Deliver” has been developed. It is aiming to generate £27 million of financial benefits, the majority through changes to procurement. Once clearly identified, specific actions are included in the service change plans. Fifteen savings totalling £1.9 million were included in the 2019/22 budget.

# Part 4

## Governance and transparency



### Main Judgements

**Appropriate governance arrangements are in place and these have been strengthened.**

**Key supplier dependency does not feature in resilience plans and is not well embedded in service planning**

**The council is reasonably prepared for EU withdrawal**

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.

### Appropriate governance arrangements are in place and have been reviewed and strengthened

- 55.** Since May 2017 Fife Council has had a Joint Administration (Labour and SNP). The two parties agreed a Programme for Administration and each contributed a co-leader. There are five service aligned strategic committees and one overarching Policy & Co-ordination committee. These six committees replaced the previous Executive Committee. There is also a Standards & Audit Committee and a Scrutiny Committee.
- 56.** In June 2019 the Council agreed further changes to governance arrangements including:
- establishing an extra Scrutiny Committee – one will cover Education and Children’s Services, Health and Social Care and the other will cover Environment, Finance and Communities
  - merging West and Central Planning Committees
  - changes to the remits of Standards and Audit, and Superannuation Fund and Pensions Sub-Committee (now to be a committee in its own right)
  - the creation of a separate sub-committee dealing solely with investment decisions for the common good and trust funds
- 57.** The Standing Orders and List of Committee Powers were updated to reflect these changes.

### Standards of conduct and procedures for preventing and detecting fraud and corruption are appropriate

- 58.** The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to

ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current. We are not aware of any specific issues we require to bring to your attention.

## The Council has made reasonable progress in investigating National Fraud Initiative matches

59. 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.
60. NFI activity is summarised in [Exhibit 9](#). As at 5 September 2019 only 10% of matches had been completed, but these concentrate on the high-risk matches. The Council has committed to completing these investigations by the end of September 2019.

### Exhibit 9 NFI activity (excluding pensions)



11,691

Matches



1,204 (10%)

Completed/closed  
investigations



21

In progress

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

61. A report was taken to the November 2018 Standards and Audit Committee (SAC) to inform members of requirements of the 2018/19 NFI exercise and a report on the outcomes of the exercise will be taken to the December 2019 meeting of the SAC. As at 5 September 2019 eight errors with a total value of £25,000 have been identified, none of which were frauds.

## Key supplier dependency does not feature in resilience plans and is not well embedded in-service planning

62. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services.
63. A contracts register is in place which records whether goods/services or suppliers are critical to the Council delivering its services. We reported in our 2018/19 management report that this register is relatively new and may not include a risk category for all contracts in place; key supplier dependency does not feature in the Council's resilience management policy and framework and could be better embedded in service level planning. Work is on-going as part of the procurement project in partnership with Scotland Excel to get a consistent approach.
64. The Council's contracts register identifies 65 critical suppliers with a value of £26 million but only three of these, with an annual value of £2 million, are considered high risk.

## The Council is reasonably prepared for EU withdrawal

- 65.** We reported in our 2018/19 management report that the Council had identified and was managing risks arising from the UK's withdrawal from the European Union (EU).
- 66.** Since then the Council have been operating an ongoing census of Fife Council employees to determine their nationality. As of September 2019, 53 per cent have responded, of this figure 2 per cent are non-UK EU nationals. The new Brexit Incident Management Team replaced the CET – Brexit Preparedness group and met in September 2019. Category statements for areas of procurement expenditure are updated to reflect new information and risks relating to EU withdrawal.

# Part 5

## Value for money



### Main judgements

**Progress against the Best Value Assurance Report Improvement Plan is due to be reported by December 2019**

**The Council has appropriate arrangements in place for collecting statutory performance indicators (SPIs)**

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

### Progress against the Best Value Assurance Report Improvement Plan is due to be reported by December 2019

67. The [BVAR report for Fife Council](#) was published in May 2018. There were eight recommendations made in the report to support further improvement at the Council.
68. At its meeting on 28 June 2018 the Council considered the findings and recommendations in the BVAR and agreed that monitoring of the improvements actions would be done by the Standards & Audit Committee. A progress report is due to go to the December 2019 meeting. We will monitor and report on the Council's progress against the improvement actions in future annual audit reports.

### Performance management information is publicly available

69. Information on how Fife Council is performing is publicly available on the performance page of its website. Information is gathered from statutory performance indicators, local government benchmarking framework indicators and other sources. The website previously contained a vast array of links with further detail on the Council's performance but this approach has been simplified to make the site easier and quicker for members of the public to use.
70. Steps have been taken from September 2019 to improve scrutiny of performance indicators through bi-annual exception reporting to the Chief Executive's Team (CET) and reporting service specific indicators to committees.
71. A 2018/19 Public Performance Report is due to go to committee in November 2019.

### The Council has appropriate arrangements in place for collecting statutory performance indicators (SPIs)

72. For 2018/19 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](#).

**73.** The Council's key outcomes and priorities are set out in the Plan for Fife, Fife's community plan which was published in April 2018 and work is on-going to align indicators to the Plan for Fife.

**74.** Fife Council uses the Pentana Performance Management System for collecting and analysing its performance information. The system is updated and verified by services. Tolerance levels are built into the system to prevent errors in inputting data and the Planning and Performance team is responsible for maintaining the system.

### **National performance audit reports**

**75.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports which are of direct interest to the Council. These are outlined in [Appendix 4](#).

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

# Appendix 1

## Action plan 2018/19



### Issue/risk



### Recommendation



### Agreed management action/timing

1	<p><b>Revaluation of Council assets</b></p> <p>The revaluation of schools this year highlighted an issue with the on-going value of property plant and equipment in the balance sheet. A five-year revaluation programme is in place but any significant movements in values in the intervening period may not be identified.</p> <p><b>Risk</b> - The Council's balance sheet does not include up to date asset valuations.</p>	<p>Annual reviews should be carried out to determine whether interim revaluations are required to any specific class of assets to ensure the balance sheet value is up to date.</p> <p><a href="#">Paragraph 22 and Exhibit 3</a></p>	<p>A new governance process will be introduced to review changes in value/costs. This change will be overseen by the Service Manager, Estates</p> <p><b>Service Manager, Estates</b></p> <p><b>31 January 2020.</b></p>
2	<p><b>Housing benefits overpayments</b></p> <p>CARS (Corporate Arrears Recovery System) is not an invoicing system and amendments have been made to generate "invoices". These invoices are journaled into the ledger but the journal is not supported by a detailed list of amounts outstanding.</p> <p><b>Risk</b> - The Council does not have an adequate audit trail to support then information in the ledger.</p>	<p>A robust audit trail to support invoicing from the CARS system must be developed as soon as possible.</p> <p><a href="#">Paragraph 22 and Exhibit 3</a></p>	<p>Recommendation accepted. Work will be advanced to implement an audit trail</p> <p><b>Head of Finance</b></p> <p><b>31 March 2020</b></p>



### Issue/risk



### Recommendation



### Agreed management action/timing

Follow up of prior year recommendations

b/f 1	<b>Compliance with the charity test</b>	The review of the ability of the 48 trusts to meet the charity test should be undertaken as a matter of priority and the decision not to reduce the number of charitable trusts should be reconsidered.	<p><b>Partially completed</b></p> <p>Audit testing found that 28 funds (58%) (prior year 32 funds (67%)) had been inactive for the last three years.</p> <p><b>Management response:</b> Review of the Trusts and discussion with services continues to be held to pursue amalgamation or use of Trusts for original purpose</p> <p><b>Head of Communities</b></p> <p><b>31 March 2020</b></p>
b/f 2	<b>Charitable trust bank balance</b>	The level of cash balances required should be reviewed and any surplus funds invested to achieve a better return.	<p><b>Outstanding</b></p> <p>This was due to be reviewed by March 2019 but has been delayed until March 2020.</p> <p><b>Management response:</b> The investment of cash balances is being progressed. Area Committees have been advised that a review is progressing. The level of investment proposed will be reported and approved by the Area Committees. The first of these reports will be in December 2019. Investment will be progress in line with Committee approvals</p> <p><b>Head of Finance</b></p> <p><b>31 March 2020</b></p>



### Issue/risk



### Recommendation



### Agreed management action/timing

b/f 3

**Health and social care challenges**

The Council should work closely with its health and social care partners to accelerate the redesign of adult health and social care services and mitigate medium term financial pressures.

**On- going**

The IJB required to be deficit funded again in 2018/19 and transformation projects are not progressing as quickly as anticipated.

**Management response:** A three-year financial strategy was agreed by partners to allow financial balance to be reached within the Partnership by 2020/21. The Council will continue to have regular liaison with the IJB and NHS Fife to ensure that the redesign of Adult Health and Social Care Services is advanced given the financial pressures.

**Chief Executive**

**On-going**

# 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
<b>Financial statements issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>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 to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p><b>Results</b> – Our work on journals, accruals and prepayments did not identify any evidence of management interference. Our review of the current year valuation exercise is considered under the estimation and judgements risk below. There were no significant transactions outside the normal course of business.</p> <p><b>Conclusion</b> – No issues were identified that indicate management override of controls.</p>
<p><b>2 Risk of fraud over income</b></p> <p>Fife Council receives a significant amount of income from several sources including income from fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>Establish and test the operation of key controls over income systems including care income assessments.</li> <li>Analytical procedures on income streams.</li> <li>Detailed substantive testing of revenue transactions focusing on the areas of greatest risk</li> </ul>	<p><b>Results</b> – We did not identify any significant issues from our testing of income controls and transactions.</p> <p><b>Conclusion</b> – No fraud issues identified.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. Fife Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants and therefore there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>Establish and test the operation of key controls over expenditure systems</li> <li>Detailed substantive testing of expenditure transactions focusing on the areas of greatest risk including social care and housing benefit payments</li> </ul>	<p><b>Results</b> – We reported in our 2018/19 Management Report that some bank and feeder system reconciliations were not reviewed by a manager/ independent officer. Substantive testing at the year end did not identify any significant errors.</p> <p>Work on NFI is in progress and the Council has committed to a deadline of end September 2019 for the completion of high-risk investigations.</p> <p><b>Conclusion</b> – No fraud issues have been identified from the investigation of NFI matches to date.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Assessment of the scope, independence and competence of the professionals engaged</li> <li>• Substantive testing of journals and disclosures in connection with these estimates</li> <li>• Review of the appropriateness of actuarial results including comparison with other councils.</li> <li>• Assessment of the appropriateness of the actuarial assumptions.</li> <li>• Establish officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end.</li> <li>• Review actual experience of significant estimates made at previous year end.</li> <li>• Review officers' assessment of other significant accruals and provisions at the year end.</li> </ul>	<p><b>Results</b> - We raised a query over the reasonableness of the valuation methodology used in carrying out the 2018/19 school estate valuations. We requested Fife Council to obtain an independent valuation and reviewed the results. This confirmed that the Council's approach complied with both the CIPFA Accounting Code and the RICS Red Book, but that the primary school estate was overstated.</p> <p>We identified an arithmetic error in the non-schools estate valuation and extended our testing to ensure there were no other errors of this nature</p> <p>A ruling on the McCloud case by the Supreme Court, in June 2019, meant that an additional pension liability should be recognised in the accounts of bodies that are members of the LGPS. A revised IAS 19 report was prepared by the Actuary which led to an adjustment in the accounts. The revised IAS 19 report also revalued the scheme assets as at the year end.</p> <p><b>Conclusion</b> – The asset and pensions valuations were amended in the audited financial statements</p>

### Fife Council Charitable Trusts risks

<p><b>5 Inactive trusts</b></p> <p>Only 6 of the 48 charitable trusts paid out grants in 2017/18 (12 in 2016/17) and there is an on-going risk that trusts not providing a public benefit will fail the Charity test set out in guidance issued by the Office of Scottish Charity Regulator (OSCR). There are several small trusts with similar purposes which could be merged to provide a larger pool of funds and by reducing the number of charitable trusts alleviate this risk.</p>	<ul style="list-style-type: none"> <li>• Review the activity of charitable trusts in the year and report any breaches of the charity test through the annual audit report and to OSCR.</li> </ul>	<p><b>Results</b> – The issue was raised with OSCR in 2017/18 and action to address the issue agreed.</p> <p><b>Conclusion</b> – There has been a small increase in activity during 2018/19 but overall there is still a high level of inactivity across the trusts and further action is required.</p>
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Audit risk	Assurance procedure	Results and conclusions
<b>Wider dimension issues and risks</b>		
<p><b>6 Best Value Assurance Report (BVAR) recommendations</b></p> <p>The BVAR made a number of recommendations related to the wider dimension risks. These covered areas including:</p> <ul style="list-style-type: none"> <li>• identifying neighbourhood plans for priority</li> <li>• managing performance against the Plan for Fife</li> <li>• developing a range of delivery plans to support the Plan for Fife</li> <li>• working with Fife Health &amp; Social Care Partnership (FHSCP) to accelerate redesign of services</li> <li>• agreeing roles and responsibilities with FHSCP to ensure governance arrangements support service redesign</li> <li>• aligning the aims in the Plan for Fife with service change plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of progress against agreed best value improvement plan actions.</li> <li>• Focused reviews in line with strategic best value audit plan</li> </ul>	<p><b>Results</b> – The Council is preparing a Best Value Assurance Report Improvement Plan – Annual Update 2019 which will be presented to the December meeting of the SAC.</p> <p><b>Conclusion</b> –We will review the Improvement Plan as part of our 2019/20 audit.</p>
<p><b>7 Financial management and sustainability</b></p> <p>Current budget monitoring reports project a year end overspend of £4.5 million. This is largely due to overspends on health and social care of £5.6 million. The financial difficulties at the Fife Integration Joint Board (IJB) have been recognised and a three-year recovery plan 2018-20 was agreed by the partners, but to date the recovery plan has not identified where efficiencies can be made and the position has deteriorated further (planned overspend of £4.5 million in 2018/19, projecting £10 million). The council is liable for 28% of the IJB overspend through the risk share agreement with NHS Fife. In addition, the council</p>	<ul style="list-style-type: none"> <li>• Review budget monitoring reports and the financial position at the year end.</li> <li>• Consider the robustness and completeness of financial monitoring through the year and activities to deliver proposed savings.</li> <li>• Assess the impact of 2018/19 financial performance on future financial sustainability including the impact of the risk share arrangements for the FHSCP.</li> <li>• Review the reasonableness of assumptions used in long- and medium-term financial planning.</li> </ul>	<p><b>Results</b> – The Council recorded a deficit of £1.7 million against its final budget of £789 million contributing to a fall in the general fund balance by £12.4 million. It achieved 80 per cent of agreed efficiency savings.</p> <p>The 2019/20 budget was set without a planned use of reserves, however initial forecasts are for a £7.3 million overspend which will put further strain on the General Fund reserve. Long term planning model has forecast a £82.5 million funding gap by 2029/30</p> <p>The full overspend on council delivered HSCP services was £9.7 million, which was offset by £7million contribution from NHS Fife. Financial challenges facing FHSCP continue to be significant with increased demand for care packages, and delays in delivering approved savings.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>expects 82% of its planned 2018/19 savings will be achieved this year. The increasing pressures on health and social care and the expected shortfall in planned savings continue to pose a risk to the council's level of uncommitted reserves.</p>		<p><b>Conclusion</b> – Financial management and sustainability is an ongoing risk for the Council.</p>
<p><b>8 EU withdrawal</b></p> <p>There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses.</p> <p>There is a risk that the Council is not prepared for the impact of EU withdrawal on the delivery of services.</p>	<ul style="list-style-type: none"> <li>Assess how the council has assessed its risks and prepared for EU withdrawal, including the specific work on workforce impact and dependency on key suppliers.</li> <li>Consider how the council responds to any emerging issues after March 2019.</li> </ul>	<p><b>Results</b> – Fife Council are taking steps to identify workforce risk by identifying the nationalities of employees.</p> <p>Category management documents are being updated to take account of supply risk in the event of a no-deal EU withdrawal scenario</p> <p><b>Conclusion</b> – The Council identified risks from EU withdrawal and has assessed and managed these risks.</p>
<p><b>9 Dependency on key suppliers</b></p> <p>Dependency on a key supplier could expose the council to service delivery issues should the supplier fail. Where a significant supplier dependency exists there should be monitoring and business continuity arrangements to ensure the council is able to respond to significant issues.</p> <p>There is a risk that the council is unable to deliver services if it is not aware of its key supplier dependencies and / or fails to have sufficient business continuity arrangements in place.</p>	<ul style="list-style-type: none"> <li>Undertake work to establish the extent, value and nature of key supplier dependencies, including considering the councils work planning for EU withdrawal.</li> <li>Where issues are identified consider the robustness of the business monitoring and continuity arrangements in place.</li> </ul>	<p><b>Results</b> –The Council's contracts register identifies 65 critical suppliers with a value of £26 million but only three of these, with an annual value of £2 million, are considered high risk. Key supplier dependency does not feature in the Council's resilience management policy and framework and could be better embedded in service level planning.</p> <p><b>Conclusion</b> -We did not identify any significant risk with key supplier dependencies but the management of any dependencies could be more robust.</p>



# Appendix 3

## Summary of uncorrected misstatements

**We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000 and request they be corrected.**

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 3](#). We are satisfied that these errors do not have a material impact on the financial statements.

#	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Income	1,590			
	Deferred Income				1,590
2	Impairment Reversal (Cost of Services)		265		
	Revaluation Reserve			265	
<b>Net impact</b>		<b>1325</b>		<b>1325</b>	

Notes:

Entry 1 (MA 33393) relates to a lease premium received in year, this was recognised as income in full while accounting standards state it should be amortised over the lifetime of the lease.

Entry 2 (MA 34786) relates to an impairment reversal which was credited to the revaluation reserve when the original impairment was charged to cost of services.

# Appendix 4

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

# Fife Council

## 2018/19 Annual Audit Report

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