

Stirling Council

2019/20 Annual Audit Report



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

26 November 2020

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Key messages

2019/20 annual accounts

- 1** Our audit opinions on the annual accounts of Stirling Council, its group and the section 106 charities administered by the Council are unqualified and report that the accounts present a true and fair view of the financial position of the Council.
- 2** The financial statements include an explanatory paragraph within Note 4 describing the effect of material uncertainties, caused by Covid-19, as declared in the valuation reports for property valuations. This is a significant management disclosure in the financial statements that impacts on the users understanding of the accounts. We have included an Emphasis of Matter referring to this paragraph in our independent auditor's report on the financial statements. Although the Emphasis of Matter paragraph constitutes a modification to our independent auditor's report our opinion on the financial statements is not qualified in respect of this matter.
- 3** On 16 July 2020, the UK Government released a consultation document on the remedy to the issues identified by the McCloud case. The Council has included an adjustment of £2.4 million in the audited accounts, which reflects a more accurate assessment of the pension liabilities, in line with the proposed remedy.
- 4** Covid-19 created additional challenges for both council and audit staff, with key dates in the financial reporting process updated to reflect the revised statutory deadlines.

Financial management

- 5** The Council incurred a deficit of £0.157 million in 2019/20. The Council has a track record of delivering savings and has developed a three-year savings plan to provide more stability.
- 6** The Council's strategic financial management is effective with strong budgeting, financial monitoring and reporting processes that are aligned to its corporate priorities which enables robust financial management to be focussed on the delivery of key outcomes.

Financial sustainability

- 7** The Council and its wider group financial position is sustainable into the foreseeable future, although Covid-19 is expected to have a significant financial impact for the Council in a number of different areas.
- 8** Increased levels of demand coupled with increasing costs and reductions in central funding will continue to place a strain on the Council's capacity to deliver services at current levels.
- 9** Medium financial plans are aligned to the Council's corporate priorities and clearly demonstrate how the organisation intends to address future financial challenges. The Council requires to update its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.

Governance and transparency

- 10** The Council has appropriate governance arrangements in place. We recognise that in responding to the COVID-19 pandemic the Council revised its governance arrangements. The new arrangements are appropriate and support good governance and accountability.
- 11** The Council should review the structure of its Senior Councillors to ensure it does not breach Regulation 9 of the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007.
- 12** Officers should work with elected members to ensure the training provided remains flexible and supports new ways of working.

Best Value

- 13** The Council has an appropriate and effective best value framework in place. The Council continues to make positive progress addressing the recommendations contained in our 2018/19 Best Value Assurance Report.
- 14** The Council actively considers performance against its corporate priorities and objectives and has established a range of improvement activities working in parallel which are clearly linked to key objectives and the budget setting process.

Introduction

1. This report summarises the findings arising from the 2019/20 audit of Stirling Council and its group (the Council). The scope of the audit was set out in our 2019/20 Annual Audit Plan.

2. Our Plan would normally be presented to the regular Audit Committee meeting held each year in March, however, due to COVID-19, this meeting was cancelled. Instead, the document was shared with members of the Audit Committee individually and discussed separately with the Convenor and Vice-Convenor of the Audit Committee in June 2020. 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 2019/20 have been:

- an audit of the Council and its group 2019/20 annual report and accounts and the statement of accounts of the 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 our follow up of the recommendations in the 2018/19 Best Value Assurance Report (BVAR)
- consideration of the four audit dimensions.

4. After the publication of the Annual Audit Plan, in common with all public bodies, the Council has had to respond to the global coronavirus pandemic. The impact of the global coronavirus pandemic during the final month of 2019/20 will continue to be felt into financial year 2020/21 and beyond. This has, and will continue to have, significant implications for the provision and costs of services including the suspension of planned projects and activities. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit.

5. Our approach to audit during these circumstances will be pragmatic, flexible and consistent. We issued a paper, [Covid-19 How public audit in Scotland is responding](#), setting out Audit Scotland's strategy and approach to our financial and performance audit programmes. It provided detail about the scope, timing and areas of focus for our audit work.

Adding value through the audit

6. We add value to the Council through the audit by:

- having regular dialogue with senior officers as the strategic and operational impact of Covid-19 developed and presenting to Audit and Risk Committee on key challenges in the Covid environment
- sharing learning from our experiences working with other bodies and agreed a clear, no surprises, approach for the remote audit of the 2019/20 accounts within a revised accounts and audit timetable
- making use of remote working to meet the revised 20 November 2020 audited annual report and accounts target date ahead of the revised statutory deadline of 30 November 2020
- reporting our findings and conclusions in public and sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

7. In doing so, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

8. 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.

9. 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.

10. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements

- the suitability and effectiveness of corporate governance arrangements
- the financial position and arrangements for securing financial sustainability
- Best Value arrangements.

11. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#), and supplementary guidance.

12. This report raises matters from our audit. 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.

13. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

Auditor Independence

14. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

15. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. The 2019/20 audit fee of £245,220 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

16. 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 in due course.

17. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit. This is especially appreciated during the particularly challenging circumstances arising due to the Covid-19 pandemic.

Part 1

Audit of 2019/20 annual accounts



Main judgements

Our audit opinions on the annual accounts of Stirling Council, its group and the section 106 charities administered by the Council are unqualified and report that the accounts present a true and fair view of the financial position of the Council.

The financial statements include an explanatory paragraph within Note 4 describing the effect of material uncertainties, caused by Covid-19, as declared in the valuation reports for property valuations. This is a significant management disclosure in the financial statements that impacts on the users understanding of the accounts. We have included an Emphasis of Matter referring to this paragraph in our independent auditor's report on the financial statements. Although the Emphasis of Matter paragraph constitutes a modification to our independent auditor's report our opinion on the financial statements is not qualified in respect of this matter.

On 16 July 2020, the UK Government released a consultation document on the remedy to the issues identified by the McCloud case. The Council has included an adjustment of £2.4 million in the audited accounts, which reflects a more accurate assessment of the pension liabilities, in line with the proposed remedy.

Covid-19 created additional challenges for both Council and audit staff, with key dates in the financial reporting process updated to reflect the revised statutory deadlines.

The annual accounts are the principal means of accounting for the stewardship of resources and performance.

Our audit opinions on the annual accounts are unmodified

18. The annual accounts for Stirling Council and its group for the year ended 31 March 2020 were approved by the Audit Committee on 26 November 2020. As reported in the independent auditor's report;

- the financial statements give a true and fair view of the financial position of the Council and were properly prepared in accordance with the financial reporting framework
- 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 proper accounting practices.

The Council highlighted an uncertainty in property valuations due to COVID-19

19. The 'Emphasis of Matter' section in our Independent Auditor's Report refers to the disclosures in note 4 of the financial statements, which identifies a material valuation uncertainty in respect of property valuations caused by the Covid-19 pandemic. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw user's attention to matters which are

fundamental to the understanding of the financial statements. Further information is contained in [Exhibit 3](#) below. The audit opinion is not modified in respect of this matter.

The annual accounts were signed off in line with the revised statutory deadlines

20. The Scottish Government has advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised timetable for the Annual Accounts. The Council did not need to use the powers in the 2020 Act to postpone the publication of the unaudited accounts, and these were submitted to us for audit on 18 June 2020 in line with the original timetable.

21. Remote working brought additional challenges to the audit process. This affected how we were able to work as an audit team and with council staff. Our planned audit work had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit. New ways of working and communicating with each other had to be implemented in order to deliver an efficient and effective audit that met our quality standards. Despite these challenges we were able to deliver the audit in line with the revised statutory deadline.

Our audit opinions on Section 106 charities were unmodified

22. 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.

23. The Council are continuing to work with the Scottish Charity Regulator (OSCR) to reach agreement to reduce the number of Trust Funds and transfer the remaining trust balances as appropriate. Until then, the Council continues to administer these charitable trusts.

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

- the financial statements give a true and fair view of 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.

25. These were approved by the Audit Committee on 26 November and signed by the statutory deadline of 30 November.

No objections were received on the annual accounts

26. 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 2019/20 accounts.

Overall materiality is £5.6 million

27. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement in the annual accounts. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements.

28. On receipt of the unaudited annual accounts we reviewed our materiality judgements and concluded that they remained appropriate. 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.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£5.600 million
Performance materiality	£3.360 million
Reporting threshold	£0.250 million

Source: Audit Scotland, Annual Audit Plan 2019/20

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

29. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

Significant findings from our audit of the financial statements

30. International Standard on Auditing (UK) 260 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. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3 Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Property valuations and Covid-19 uncertainty</p> <p>The Balance Sheet includes property, plant and equipment with a total value of £705.788 million. The Council has a five-year rolling valuation programme as detailed in Note 12. The asset valuer has included a material uncertainty disclosure within the valuation report, which covers specific asset categories, in accordance with the rolling programme and was conducted as at 31 March 2020. We believe that, due to the impact of Covid-19 from mid-March 2020, there is a wider material uncertainty within the property valuation provided.</p>	<p>Property assets are material and the impact of Covid-19 has increased the uncertainty over associated valuations. The conclusion of the valuer on the rolling programme of valuation work have contributed to the view that less certainty can be attached to the valuation than would otherwise be the case.</p> <p>Conclusion: The accounts disclose this increased uncertainty at Note 4 – Critical Judgements in Applying Accounting Policies, and we have included an 'emphasis of matter' paragraph in our independent auditors' report to draw attention to the matter.</p>

Issue	Resolution
<p>2. Pension valuations – McCloud liability revision</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.</p> <p>On 16 July 2020, the UK Government released a consultation document on the remedy to the issues. This identified a proposed treatment for pension members affected.</p>	<p>The Council requested a revised valuation report from the actuary taking into account this remedy.</p> <p>The amendments resulted in an increase of £2.4 million for the pension liability in the accounts.</p> <p>Conclusion: The accounts now include the revised estimate for “McCloud”.</p>
<p>3. Income was not recorded in the correct financial year</p> <p>As part of our audit testing of income, we identified that income of £0.450 million that had been received in Period 1 2020/21 had been incorrectly recorded as income for 2019/20.</p> <p>The impact of this is that income in the 2019/20 accounts had been overstated by £0.450 million and the uncommitted reserves balance overstated by £0.450 million.</p>	<p>As the error was above our clearly trivial threshold, we asked the Council to correct this error.</p> <p>Conclusion: An adjustment has been made to the 2019/20 accounts. The impact of this is that income recorded in the Comprehensive Income & Expenditure Statement has decreased by £0.450 million and the uncommitted reserves held within the Balance Sheets has also decreased by £0.450 million.</p>

Source: Audit Scotland

31. Our audit identified several 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 have any impact on the council’s outturn for the year.

Good progress was made on prior year recommendations

32. The Council has made good progress in implementing our prior year audit recommendations. 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 incurred a deficit of £0.157 million in 2019/20. The Council has a track record of delivering savings and has developed a three-year savings plan to provide more stability.

The Council's strategic financial management is effective with strong budgeting, financial monitoring and reporting processes that are aligned to its corporate priorities which enables robust financial management to be focussed on the delivery of key outcomes.

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

Financial Performance in 2019/20

33. The Council approved its 2019/20 budget in February 2019. The budget was set at £213.8 million with no funding gap forecast for 2019/20. The budget was aligned to the Council's main priorities as outlined in the Council's five-year business plan.

Exhibit 4

Summary of significant under / overspends against 2019/20 budget

Underspends

Financing Costs	£1.500m	Loans charges savings
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Overspends

Environment and Place	£0.850m	Additional costs of Waste
Other Corporate Costs	£0.552m	£500k to Transformation Fund

Source: Stirling Council 2019/20 Annual Accounts

34. The overall general fund deficit recorded of £0.410 million disclosed in the movement in reserves statement represents an improvement against the forecast deficit of £2.538 million which was reported to the Finance & Economy Committee in February 2020. The improvement of £2.381 million mainly arose due to the Council **claw back** cost overspends from the Clackmannanshire & Stirling Integration Joint Board (IJB) as a result of the IJBs recovery plan and cost sharing agreement.

35. Senior management and members receive regular and accurate financial information on the Council's financial position. The Council has appropriate budget setting and monitoring arrangements.

36. The financial impact of Covid-19 was limited in the 2019/20 financial year as this ended on 31 March 2020, only a few weeks after the pandemic began to impact Scotland.

Housing revenue account operated within budget

37. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to a level which will at least cover the costs of its social housing provision. Dwelling rents income for the year increased by 5% which is in line with the approved rent increase of 4% in 2019/20 and an increased housing stock portfolio. This enabled the housing revenue account (HRA) to achieve a balanced budget for 2019/20.

38. This resulted in the HRA balance of £0.986 million at 31 March 2020 (2018/19: £0.986 million) which is held to enable the HRA to address any future requirement to fund emergency repairs or other emerging issues.

The level of General Fund reserves has remained stable

39. One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the Council as at 31 March 2020 was £36.902 million, an increase of £0.814 million from 2018/19 (£36.088 million).

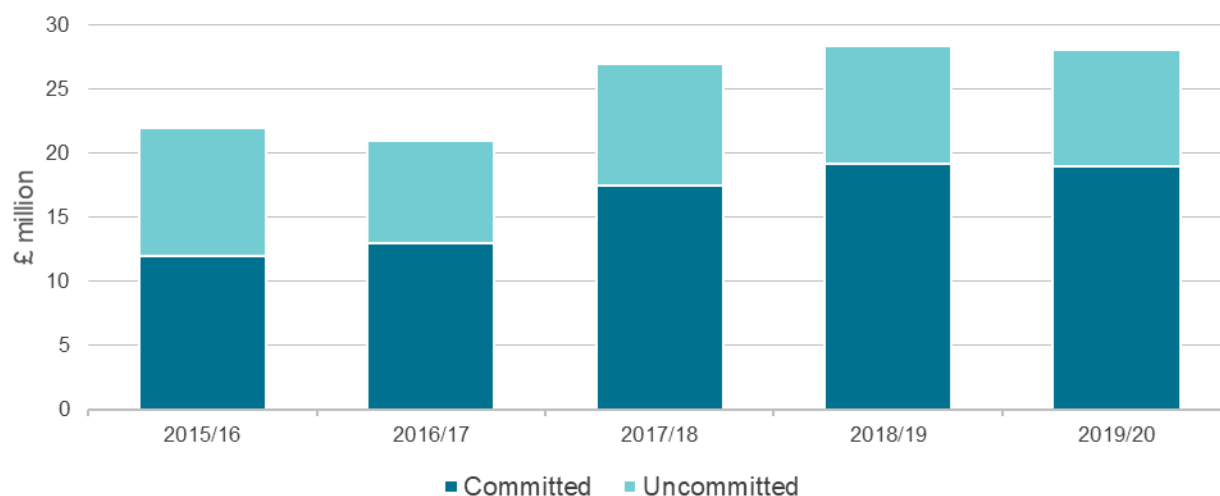
40. The general fund is the largest reserve and accounts for £28.504 million (77 per cent) of usable reserves. This reserve is used to fund the delivery of services and provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

41. The Council reviews the level of its uncommitted general fund balance 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 budget, while accepting that for a period of time they may be at a level higher than target. The level of uncommitted general fund reserves as at 31 March 2020 was £9.5 million which is approximately 4.3% of the net budget. This is in line with the flexibilities in the current reserves policy.

42. [Exhibit 5](#) 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. Even prior to the current pandemic, the Council considered that the financial uncertainty around local government funding made it important for the Council to hold a sufficient level of reserves to help deal with the implementation of change needed to achieve balanced budgets, and to enable the costs of change to be met.

Exhibit 5

Analysis of general fund balance



Source: Stirling Council

43. Committed elements of the general fund balance was £19.018 million at 31 March 2020. This includes a number of corporate initiatives, including a transformation fund, which held a balance of £2.500 million at the year end, an increase of £0.500 million from the previous year, which will be used to help transform the Council's service delivery in future years.

44. The overall level of usable reserves (of which the general fund is the most significant) is around the median compared to other Scottish councils.

Planned efficiency savings were achieved

45. With reducing funding from government and increasing demand for Council financial services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

46. In previous years, the Council has set its budget using the Priority Based Budgeting (PBB) approach which identified savings options based on future requirements, aligned to Council priorities.

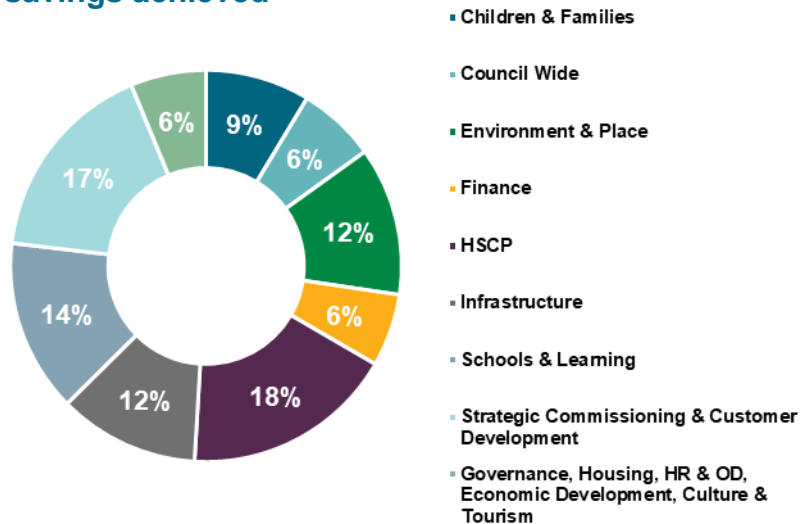
47. For 2019/20, the Council moved away from this approach, but still took action to ensure the same principles of longer-term planning and community engagement remained. Community engagement and discussion became a two-way process and was used to identify suitable savings proposals for both the Council and its communities. Each savings option needs to demonstrate how it will impact service priorities and risks, and a quality impact assessment is prepared for each option.

48. The Council achieved £7.002 million of its planned efficiency savings target of £7.252 million in 2019/20. The savings shortfall of £0.250 million was the result of planned income generation targets not being achieved. At a budget meeting held in July 2019, the Senior Management Team considered a report which highlighted that £2.624 million of the planned savings that the Council had planned to achieve during 2019/20 were at risk of not being achieved. In order to address the potential shortfall, the Senior Management Team held a number of budget challenge sessions which identified alternative budget savings proposals to address all of the £2.624 million savings shortfall which were successfully delivered.

49. To date the Council has achieved cumulative savings of £31.144 million since 2015/16 against a target of £32.284 (96.5% achieved). This level of savings is key to ensuring the Council meets its savings targets it has identified for the period to

2024/25. An analysis of savings achieved is shown in [Exhibit 6](#) below. Overall, 97 per cent of the savings achieved have been assessed as recurring savings.

Exhibit 6 Cumulative efficiency savings achieved



Source: Stirling Council

The Council delivered the capital programme in 2019/20

50. Total capital expenditure in 2019/20 was £42.968 million of which £25.240 million related to general services and £17.728 million to the housing revenue account.

51. The main general fund capital projects carried out during the year included:

- the major flood alleviation scheme – Bridge of Allan, Callander and Stirling
- roads improvement works
- investment in the education estate
- the early learning and childcare expansion project.

52. General fund capital projects reported slippage of £5.554 million (18%) in 2019/20 against a budget of £30.794 million. The main areas of slippage related to underspends in Participatory Budgeting, the Stevenson Bridge refurbishment project and the installation of solar canopies at Castleview Park & Ride.

53. 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. Progress is reported through the system of green, amber, red status updates. Projects assessed as green are progressing well and remain on track. Projects assessed as amber are facing some issues (time or cost variances) which could impact delivery. Projects assessed as red are facing issues which are causing progress to stop or stall.

54. The general services capital programme for 2020/21 approved by the Council on 12 March 2020 anticipated a level of underspend and re-profiling in the 2019/20 capital programme. A sum of £0.817 million was approved for carry forward for 2020/21 and a sum of £1.939 million was not approved. At the Council meeting held on 4 June 2020, £2.798 million was requested as additional carry forward commitments for the 2020/21 Capital Programme.

55. The housing capital programme was well managed and reported expenditure of £17.728 million in 2019/20, an overspend of £0.297 million (1.7%) against the budget of £17.431 million. In order to fund the HRA capital programme for 2019/20, the Council required to borrow £3.980 million, an underspend of £1.124 million against a budget of £5.105 million.

56. The slippage in the general fund capital programme continues a trend over the last five years. While we acknowledge that regular capital budget monitoring reports are provided to members, and these continue to demonstrate that most 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.

57. Whilst the Covid-19 pandemic is likely to have a significant impact on the capital programme in the short to medium term accurate information on reasons for slippage remains critical to ensure any re-profiling of the capital programme continues to support the Council’s strategic priorities.



Recommendation 1

Ensure that any slippage and reprofiling of general fund capital projects continues to support the Council’s strategic priorities.

Borrowing levels have also remained stable

58. At 31 March 2020, long term borrowing stood at £138.189 million an increase of £6.001 million on the 2019 level of £132.088 million. During the same period, short term borrowing decreased from £16.740 million to £15.201 million. This is in line with the Council’s approved borrowing strategy and wider financial plans and budgets.

59. The Council’s overall borrowing position, as a proportion of its income, is lower than the average for councils in Scotland and appears sustainable. The Council’s treasury management strategy highlights that it will continue to consider the affordability of future borrowing.

Financial systems of internal control operated effectively

60. As part of our audit we identify and assess 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 body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

61. Our findings were included in our management letter that was issued to the Accounts Operations Manager on 18 May 2020. We concluded that the key controls were operating effectively. Areas where the existing controls could be further improved were highlighted and we will review progress as part of our 2020/21 audit.

62. 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.

Internal audit

63. The Council’s internal audit function is provided by the in-house team. Each year we consider whether we can use the work of internal audit to avoid duplication of effort and reduce the audit burden on the Council. We reviewed the Council’s internal audit arrangements in accordance International Standard on Auditing (UK)

610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit.

64. While we did not rely on internal audit work regarding our audit of the Council's financial statements, we did use their work as part of our wider dimension work.

65. Internal audit completed all significant elements of the work contained in their 2019/20 audit plan and provided assurance on the Council's overall framework of control for the year to 31 March 2020. A small number of areas have been deferred until 2020/21 and the deferral of this work has no direct impact on our financial statements or wider dimensions work.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

66. 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. The anti-fraud strategy has been updated but due to Covid-19 there has been a delay in this being considered by the audit committee.

67. 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.

National Fraud Initiative activity for 2018/19 exercise has now concluded

68. 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.

69. The Council has now completed its review of matches from the 2018/19 NFI exercise as summarised in [Exhibit 7](#). Testing focused on matches identified as high risk, with others selected on a sample basis and reviewed by services.

Exhibit 7

NFI activity



4,144

Matches



2,059

Recommended for
investigation



2,059

Completed/closed
investigations

Source: Stirling Council; Internal Audit

Arrangements for preventing fraud and corruption in the procurement function are appropriate.

70. The consideration of financial management includes evaluating the arrangements in place for fraud and corruption. Instances of fraud and corruption are particularly prevalent in the procurement function.

71. We carried out an assessment of the arrangements in place at the Council to prevent fraud and corruption in the procurement function. This included confirmation of the processes staff undertake during tendering, ensuring that appropriate segregation is in place and that approval arrangements ensured senior management were kept informed of significant contracts being awarded by the Council.

72. We concluded that appropriate arrangements were in place at the Council.

Part 3

Financial sustainability



Main judgements

The Council and its wider group financial position is sustainable into the foreseeable future, although Covid-19 is expected to have a significant financial impact for the Council in a number of different areas.

Increased levels of demand coupled with increasing costs and reductions in central funding will continue to place a strain on the Council's capacity to deliver services at current levels.

Medium financial plans are aligned to the Council's corporate priorities and clearly demonstrate how the organisation intends to address future financial challenges. The Council requires to update its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.

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

The financial impact of the COVID-19 pandemic will be significant

73. The Council approved its 2020/21 budget in early March 2020, prior to the impact of the Covid-19 pandemic. Net expenditure was expected to be £225.116 million and initial projections were that the Council would achieve a break-even position, as shown in [Exhibit 8](#).

74. The Chief Finance Officer presented a paper to the 30 June Council meeting which outlined that the financial impact of COVID-19 to the Council was estimated at £12.6 million. The paper also outlined that the Council intended to produce a revised budget as a result of the pandemic.

75. The Council produced the revised budget for 2020/21 which was presented to members in October 2020. The budget identified changes from initial budget projections and provided further clarity on the cost impact of COVID-19 on the financial year and beyond. The revised budget outlines that the Scottish Government will provide an additional £7.2 million of revenue grant support and £0.9 million of capital grant support in 2020/21.

76. The Council has projected that its mobilisation and response costs to the pandemic will be in the region of £6.7 million. The Council anticipate further additional costs and lost income will total £9.7 million for the remainder of 2020/21. This will be partly offset by expected reduced costs of £2.2 million.

77. As a result, the Council anticipate the net additional financial impact for 2020/21 will be approximately £7.6million, [Exhibit 8](#). The papers make it clear that this figure is still an estimation and could be subject to change due to ongoing government restrictions. The budget papers outline that the earmarked reserves totalling £6.7 million will be repurposed in order to meet the financial challenge in 2020/21.

Exhibit 8

Impact of Covid-19 on the 2020/21 budget

		(£ millions)
<i>Original forecast in budget set pre-Covid-19</i>	Income	(224.008)
	Expenditure	225.116
	Savings Options	(2.050)
	Policy Growth Options	1.022
	Surplus	0
<i>Revised forecast per Financial Outlook Report in October 2020</i>	Additional pressures due to Covid-19*	14.794
	Additional Government funding*	(7.223)
	Deficit*	7.571

*mid-point of council estimate

Source: Council Financial Reports

Medium term financial plans are in place but will have to be updated for the impact of Covid-19

78. 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 that forecast the impact of relevant pressures on the Council.

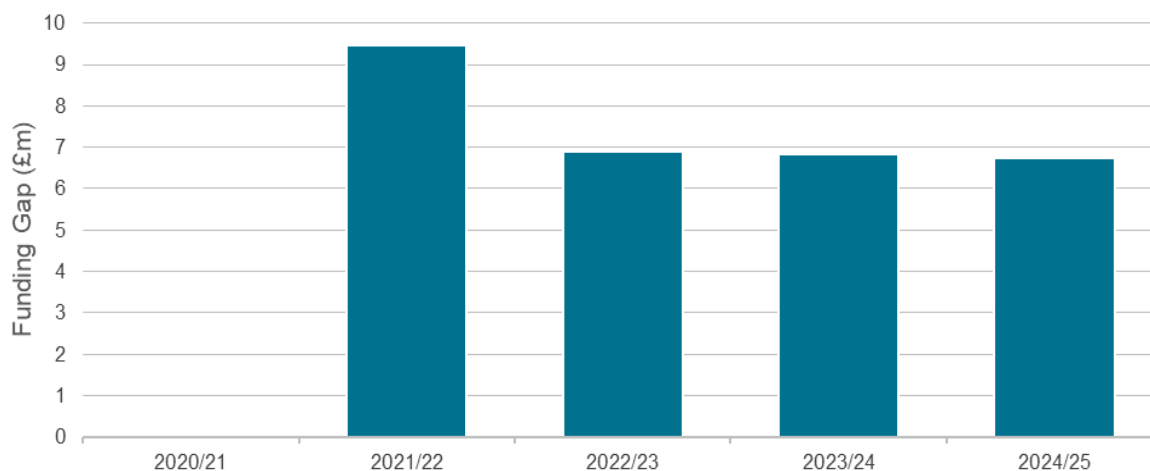
79. The Council's five-year business plan 2020-2025 sets out how services will be delivered in line with the key priorities and outlines the anticipated financial position over this period. It is refreshed each year and is updated to reflect a more detailed understanding of the cost pressures, planning assumptions and Scottish Government settlement figures.

80. 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. The Council is facing several challenges in maintaining a sustainable financial position over the medium to long term. These include rising demands for services, increasing cost of services and reductions in funding from central government.

81. Prior to the Covid-19 pandemic, the Council reported a break-even budget for 2020/21, based on projected spending of £225.116 million. However, when setting the 2020/21 budget in March 2020, the cumulative budget gap over the five-year period to 2024/25 was £29.942 million as outlined in [Exhibit 9](#) below.

Exhibit 9

Identified annual funding gaps 2020/21 – 2024/25



Source: Stirling Council: 5-year budget scenario (March 2020)

82. In September 2018, the Council introduced a ten-year financial outlook which was last updated in June 2019. Its format is in line with the five-year plan and considers the estimations and financial assumptions over a longer period. It also considers different scenarios and the impact this could have on future funding gaps.

83. Due to the additional challenges presented by the Covid-19 pandemic, the existing financial outlook plan is no longer accurate. It is important that the Council updates its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.



Recommendation 2

The Council should update its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.

84. The scale of the financial challenge is such that the Council will not be able to successfully deliver the required savings in isolation and it will need to actively engage with local and national partners to identify areas, and initiate action, to deliver the required level of efficiencies and savings. Success in this area will inevitably require difficult decisions on the part of Elected Members.

The Council transformation programme has been set up to explore more efficient service delivery

85. In recent years, the Council has started to increase the General Fund reserve for Transformational activities. At the Finance & Economy Committee meeting on 13 February 2020, the committee approved a further transfer of funds totalling £0.500 million from uncommitted General Fund reserves to the Transformation Fund. The Transformation Fund now totals £2.500 million and the Council were intending to use the fund to explore ways to deliver service in a more efficient manner. At the Council meeting held on 4 June 2020, the Council approved a further transfer to the Transformation Fund of £0.500 million.

Part 4

Governance and transparency



Main Judgements

The Council has appropriate governance arrangements in place. We recognise that in responding to the COVID-19 pandemic the Council revised its governance arrangements. The new arrangements are appropriate and support good governance and accountability.

The Council should review the structure of its Senior Councillors to ensure it does not breach Regulation 9 of the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007.

Officers should work with elected members to ensure the training provided remains flexible and supports new ways of working.

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.

Governance and transparency arrangements were appropriate

86. 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.

87. The papers provided by officers to support Committee and Council business are of a good standard and provide members with a clear overview of the issues being covered, together with more detailed information as appropriate. This helps to ensure that issues are debated at committee meetings.

88. Councillors provide effective scrutiny and challenge across all service committees. Specifically, the Council's Audit Committee comprises six elected members and is well attended by relevant officers. The role of convener is undertaken by the leader of the opposition party.

89. We noted in our BVAR that there is an extensive training and development programme for councillors in place, but uptake has been variable. Members have a responsibility to take advantage of the training opportunities available. We recommended that officers work with members to understand reasons for low attendance and agree on actions to improve attendance. In addition, members should review their personal training and development needs and discuss these with officers to ensure they have the skills required to effectively fulfil their scrutiny and challenge roles.

90. The recommendation from the BVAR remains more relevant than ever as officers and elected members adapt to the additional financial and governance challenges resulting from COVID-19. Officers should work with elected members to ensure the training provided remains flexible and supports new ways of working.

91. Regulation 9 of the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 states that the total yearly amount payable by each local authority for the remuneration of all its Senior Councillors should not exceed a specific figure. This figure is calculated by using an equation set out in the regulations. The equation identifies that the maximum the Council could spend remunerating Senior Councillors in 2019/20 was £176,682. The total spent by the Council during 2019/20 was £191,961 meaning that the actual remuneration paid to Senior Councillors exceeded the maximum allowed by £15,279.

92. At its statutory meeting on 24 May 2017, the Council agreed to designate nine post holders as Senior Councillors. One of the Senior Councillors is not remunerated for this position and only receives a regular Councillor salary. However, as this individual is classified as a Senior Councillor, it means the Council has nine individuals designated as Senior Councillors, which results in Council to be in breach of the regulations.



Recommendation 3

The Council should review the structure of its Senior Councillors to ensure it does not breach Regulation 9 of the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007.

93. Overall, the governance arrangements within Stirling Council are operating effectively and support good governance and accountability.

The COVID-19 pandemic had a significant impact on governance arrangements from March 2020

94. The impact of COVID-19 from March 2020 has been set out in the Annual Governance Statement in the Council's annual accounts. These were significant and allowed the Council to manage the unprecedented nature and scale of the threat to its communities and staff. We note that the following steps were taken to allow the Council staff to prioritise their response to the outbreak.

95. The Council's governance and political decision-making arrangements were impacted, with the temporary suspension of Council, Committee and Panel meetings. The Chief Executive was given temporary powers to make urgent business decisions in their absence.

96. New arrangements were put in place which enabled the council to carry out a reduced programme of virtual meetings starting in June 2020. The arrangements for the virtual meetings are similar to previous arrangements, with relevant pre-agenda meetings taking place prior to finalised papers being published on the Council website in advance of the meeting.

97. Covid-19 has exacerbated many pre-existing risks and challenges facing public bodies in areas such as financial sustainability and service demand pressures. We recognise that audit committees have a crucial role to play in providing effective scrutiny and challenge as they help public bodies focus on important aspects of the business and maintain effective oversight of spending, performance and governance arrangements.

98. As public bodies manage their business during this global pandemic, the role of audit committees becomes even more important. We recently issued a [Guide for audit and risk committees](#) which draws on our recent experience of auditing public bodies during this pandemic.

99. The revised governance arrangements in place within the Council are reasonable and effective in supporting good governance and accountability.

Openness and transparency

100. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

101. A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

102. There is evidence from several sources which demonstrate the Council's commitment to transparency. Prior to the pandemic, members of the public were able to attend meetings of the full Council and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website. Most items on committee agendas are covered in open session at meetings rather than in private. Virtual meetings are now recorded and uploaded onto the website to allow members of the public to have access to view the decisions made by the Council.

103. 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 participatory budgeting process and welcomes suggestions on how services might be delivered in a more effective and efficient manner.

104. The management commentary that accompanies the financial statements clearly explains to readers how the Council has performed against its revenue and capital budgets and how this is reconciled to the financial statements.

105. Participatory budgeting is a way of giving local people a greater say in how the council spends some of its money. Stirling Council is committed to enabling citizens to make decisions on at least one per cent of its mainstream budgets through participatory budgeting by 2020/21. In 2019/20, £700,000 will be divided equally between the seven council ward areas based on priorities identified locally.

106. The Council conducts its business in an open and transparent manner.

Part 5

Best Value



Main judgements

The Council has an appropriate and effective best value framework in place. The Council continues to make positive progress addressing the recommendations contained in our 2018/19 Best Value Assurance Report.

The Council actively considers performance against its corporate priorities and objectives and has established a range of improvement activities working in parallel which are clearly linked to key objectives and the budget setting process.

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

The Council is making good progress in securing Best Value

107. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this period. The BVAR report for the Council was published in April 2019.

108. In the BVAR, we highlighted key areas where the Council should focus its improvement activities on going forward. The report made ten recommendations relating to areas for further development including:

- the need to introduce a structured approach to self-evaluation to deliver continuous improvement
- demonstrating the use of benchmarking and customer satisfaction information to identify areas for improvement
- improving public performance reporting, to show a summary of the Council's performance against the business plan objectives
- developing a more regular and structured approach to staff consultation and engagement.

109. As part of our audit work in 2019/20, we carried out a follow up review to the BVAR in order to establish the arrangements the Council has put in place in response to our recommendations. This work included meeting the Chief Executive and members of the senior management team in order to gain a full understanding of the work carried out and the plans the Council intended to put in place in the future.

110. In June 2019, the Council established an Improvement Action Plan (IAP) to address our BVAR recommendations. The Improvement Action Plan provides details of each recommendation made in the BVAR alongside the improvement action that will be implemented. It also identifies an accountable officer for each action, the expected start and completion date and the level of priority for the Council (high or medium).

111. An initial six-month progress update was provided to the Council meeting held in December 2019. The intention at the time was to present six-monthly updates on progress made around the recommendations, however the suspension of Committee meetings prevented this from taking place.

112. We noted the following from our follow up review work:

- the Council are still in the early stages of implementing the new approach to self-evaluation - the process has been slow due to the restructure within the function itself (which was outlined in the IAP) and as such progress in creating plans has been limited. The Council has created a draft Continuous Improvement & Self-Assessment Strategy and must ensure this is approved and put into action, to ensure further progress to be made.
- the Council recognised the need to assess and review its approach to the Local Government Benchmark Framework (LGBF) reporting, which has resulted in the development of a more robust approach to LGBF improvement action planning and tracking. The IAP outlines the individual action plans put in place for each service - the action plans contain the LGBF indicators that are relevant for each service and identifies the improvement action required for each indicator.
- we recommended the Council improve its public performance, including showing a summary of performance against business plan objectives. The Council reports performance through the 'Amazing Stirling' Annual report and the Council's reporting of performance indicators now shows much clearer links to the objectives set out in the five-year business plan.
- in response to the BVAR, the Council completed its Residents Survey in November 2019. The survey was accessible online, via local libraries or at Customer First. The survey found that 87 per cent of tenants were satisfied overall with the services provided by the Council's Housing Service. This is higher than the local authority average of 86 per cent. However, this was a decrease in satisfaction levels of 93 per cent recorded in 2016. An Action Plan has been developed in order to implement improvements in the Housing Service to improve satisfaction levels in the future.
- the Council has developed outstanding locality plans in order to comply with the Community Empowerment (2015) Scotland Act. The Council developed eight locality plans for the areas where there is most deprivation and inequality across Stirling. The process to formally approve the plans through the correct committee structures has been delayed due to the suspension of Committees as a result of Covid-19.
- the Council and the Community Planning Partnership (CPP) have completed the review of reporting structures which has resulted in more defined reporting lines being in place. Members of the CPP have been reminded of their responsibilities around attendance at CPP meetings so sustain progress. Furthermore, the CPP has implemented a new structure for reporting performance going forward, ensuring that quarterly updates are provided to the Community Planning & Regeneration Committee prior to the publication of the year end Annual Report.
- the Council has undertaken a thorough review of the structure of its ALEOs, with a focus on certain ALEOs. The Council has now put in place specific reporting arrangements for ALEOs which outlines which committee each ALEO should report to and identifies the timeframe for reporting to committee.

113. Overall, we have concluded that the Council has made positive progress in implementing the recommendations from the 2018/19 BVAR. It should be noted that we carried out our follow-up review in February 2020, prior to the start of the Covid-19 pandemic. We will continue to review progress as part of our 2020/21 audit.

Appropriate arrangements are in place for following the public pound

114. 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.

115. Stirling Council has 12 Arm's Length External Organisations (ALEOs). There are service level agreements in place with all ALEOs. Funding provided by the Council to these bodies in 2019/20 totalled £1.974 million, the majority of which was paid to Active Stirling. The other ALEOs provide a range of services including employability and skills training in Stirling and the wider area; corporate geographical information services; and the promotion of industrial and commercial activities that make accommodation available for letting.

116. There are effective governance arrangements in place to monitor the performance of ALEOs. An annual report has been in place since 2016/17 which is presented to the Audit Committee. It covers the activity and performance of the Council's ALEOs and strategically funded bodies. The Audit Committee is provided with a summary of the relevant decision-making committees who receive more detailed reports for each body, together with the reporting frequency to committees.

117. Our 2018/19 BVAR recommended that the Council should review and report on whether the structure of its ALEOs remain fit for purpose. The Council has now implemented a much clearer governance structure for its ALEOs. It has created a plan which ensures that all ALEOs report to the Council at least on an annual basis, with some having to report quarterly.

Performance management arrangements provide a sound base for improvement

118. The Council's performance management arrangements were considered in our BVAR issued in April 2019. We identified that while the Council has an established performance management framework in place, improvements were still required. At the time of our BVAR audit, the Council were unable to demonstrate that this framework had been effective in focusing improvement against its priorities. Our report highlighted that the Council should improve how it uses benchmarking to identify where improvements should be made.

119. As part of our BVAR follow up work outlined above, we have confirmed that the Council has developed a more robust approach to LGBF improvement action planning and tracking. The Council has also created a Key Priorities Performance report that is produced quarterly for elected members.

120. The planned actions the Council will take to address each priority is identified in the report, with updates provided on how services are progressing each priority. The Council track and monitor progress of the planned actions through the Council's performance management system. This provides evidence of how each service is contributing to the achievement of the Council's key priorities.

Statutory performance indicators (SPIs) are being met

121. 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.

122. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes

- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

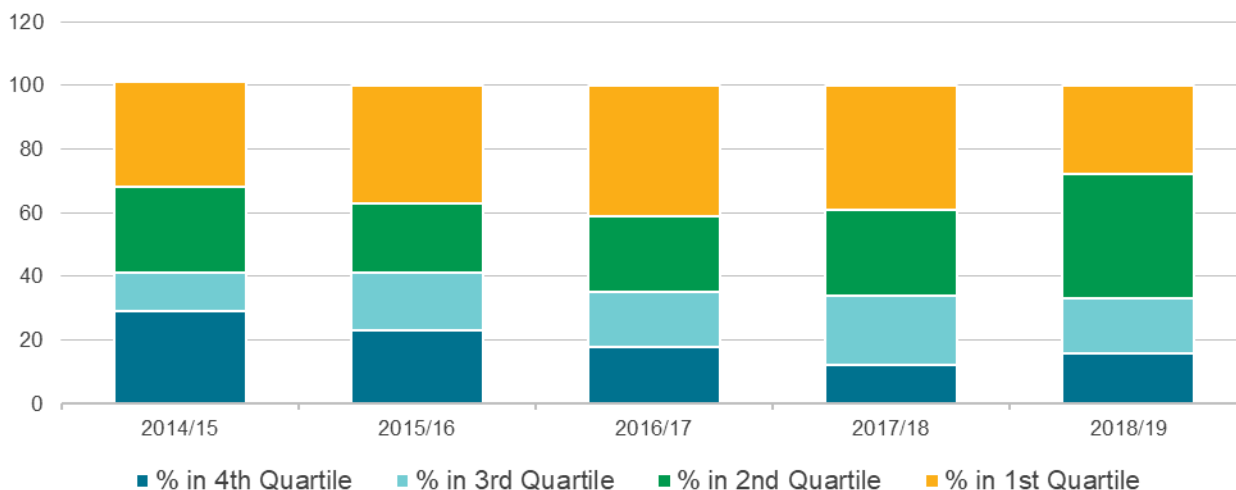
123. As part of our audit work in 2019/20, we confirmed that that the Council is complying with the Statutory Performance Information Direction issued by the Accounts Commission. The Council is reporting performance against the objectives in the Business Plan through the 'Amazing Stirling' Annual Report and relevant council committees. The Council has responded to our recommendation in the BVAR report to start a process of making improvements to services in line with its BV requirements. There is also an improved level of engagement with communities, particularly with regards to the budgeting process for the 2020/21 budget.

Service performance levels are in line with agreed targets

124. 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.

125. The most recent [National Benchmarking Overview Report 2018/19](#) by the Improvement Service was submitted to the Corporate Management Team (CMT). The Operational Governance Board has been set up which will review Council performance at a corporate level and make recommendations to the CMT. Their remit includes reviewing all Council performance data including LGBF data. The Council continues to perform well in comparison to other councils as shown in [Exhibit 10](#).

Exhibit 10 Stirling Council LGBF relative performance 2014/15 to 2018/19



Note: Measuring council performance involves considering how all councils are performing, from lowest to highest for each indicator. From this, it is possible to see how one council compares with all other councils. Relative performance against other councils is divided into four equal bands, or quartiles. The first quartile contains the best-performing councils for that indicator and the fourth quartile contains the poorest-performing councils. The above data is based on 49 indicators which have been reported every year in the LGBF since 2013/14. Percentage figures will not always come to 100 per cent due to rounding.

Source: Audit Scotland, and Local Government Benchmarking Framework, Improvement Service, 2018/19

126. Areas that are underperforming according to the Council's analysis are cost of waste services, waste collection rates, and the cost per pre-school education place. The issues in Waste services have been ongoing for several years and the Council introduced bespoke technology during 2019 to better support route

planning and help to increase staff engagement. The effects of this are not yet seen in the LGBF results but it is hoped this will make an impact in future years.

National performance audit reports

127. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 3](#).

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Capital Programme</p> <p>The general fund capital programme experienced slippage in 2019/20. The general fund has experienced slippage in each of the last six financial years.</p> <p>Risk: There is a risk that ongoing slippage could impact the Council's priorities.</p>	<p>The Council should ensure that any slippage and reprofiling of general fund capital projects continues to support the Council's strategic priorities.</p>	<p>Agreed action:</p> <p>The unprecedented nature of the COVID-19 pandemic has resulted in an increased risk to the delivery of the capital programme for 20/21. The capital programme has been re-profiled based on an assessment of the impact to date, and assumptions on the deliverability of the programme over the remainder of the financial year. However, there is still uncertainty about the full impact of the pandemic on contractors and supply chains to deliver the diverse nature of the Council's capital programme. The impact of a new 5-tier restriction system is also uncertain.</p> <p>Officers will continue to keep the delivery of individual projects under close review. At this time, there is no full and complete certainty over the anticipated delivery phases of all projects due to the continued risk and impact of the pandemic. Capital Programme risks are documented on Project Risk Registers managed by Officers at individual project/programme level on an ongoing basis. Issues and risks are escalated to Capital Delivery Group and Committees as appropriate. Projects within the programme are all intended to support the Council's strategic priorities.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			<p>Responsible officer: Chief Finance Officer</p> <p>Agreed date: with immediate effect</p>
2	<p>Financial Sustainability</p> <p>The Covid-19 pandemic has introduced further financial challenges.</p> <p>Risk:</p> <p>The Council may not be able to deal with future financial challenges and deliver required savings without adversely impacting service delivery.</p>	<p>The Council should update its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.</p>	<p>Agreed action:</p> <p>The Council will be receiving an update on its financial plan at its meeting of 10 December 2020. As well as updating the general considerations feeding into the plan (pay awards, inflation, government grant, etc.) the financial impact of Covid-19 will also feature heavily in that report. Given the constantly fluid situation, officers will be updating the ongoing impact of Covid-19 on a rolling basis, both in terms of the current financial year (2020/21) impact, as well as the impact on next and future financial years.</p> <p>Responsible officer: Chief Finance Officer</p> <p>Agreed date: with immediate effect and on a rolling basis</p>
3	<p>Senior Councillor remuneration</p> <p>The total spent by the Council during 2019/20 was £191,961 meaning that the actual remuneration paid to Senior Councillors exceeded the maximum allowed by £15,279.</p> <p>Risk:</p> <p>There is a risk the Council continue to breach the regulations.</p>	<p>The Council should review the structure of its Senior Councillors to ensure it does not breach Regulation 9 of the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007.</p>	<p>Agreed action:</p> <p>The recent resignation of an elected member from the Council's Administration has had the impact of reducing the number of Senior Councillors by one.</p> <p>The Council will review the structure of its Senior Councillors immediately following the next Council elections in May 2022.</p> <p>Responsible officer: Chief Governance Officer</p> <p>Agreed date: with immediate effect and with a further review in May 2022</p>
Follow up of prior year recommendations			
3	<p>Severance costs - authorisation</p>	<p>The council should ensure that a comprehensive impact assessment on service</p>	Complete



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Our audit testing of the three severance cases resulting from the organisational restructure in May 2018 highlighted that there was no evidence of a comprehensive assessment of the impact on service delivery or the financial implications as required by the council's voluntary severance scheme, nor was there evidence of them being authorised by the senior manager responsible for the service in which the staff member worked.</p> <p>Risk: Severances may not be in accordance with the Council's voluntary severance scheme</p>	<p>delivery is always completed and approved in accordance with its voluntary severance scheme</p>	<p>Our audit testing of severance packages in 2019/20 confirmed that the council were now considering the impact on service delivery and the financial implications when agreeing severance packages.</p>
4	<p>Severance costs – payback period</p> <p>Our audit testing of the payback period in the three severance cases we tested did not take any potential service redesign costs into account. For example, we are aware of one case where the appointment of a new post would take on some of the old post's responsibilities.</p> <p>Risk: The payback period may be longer than reported. This could impact the viability of the approved severance.</p>	<p>The council should fully consider and document the impact of any new costs as a result of any approved severances and make this more explicit in the calculation of the payback period.</p>	<p>Complete</p> <p>Our audit testing of severance packages confirmed that the council were now taking account of all costs involved in agreeing the severance package.</p>
5	<p>Debtor balances used to calculate the bad debt provision</p> <p>For council tax debtors, HRA debtors, and sundry debtors there were differences between the debtor balance in the accounts and the debtor balance used to calculate the bad debt provision.</p> <p>Risk: The bad debt provision could be misstated.</p>	<p>The reasons for the minor differences between the balances reported and the age analysis balances used to calculate the bad debt provision for council tax and HRA debtors should be investigated and documented. In the case of sundry debtors, a clearer audit trail should be provided to demonstrate how the age analysis balance used to calculate the bad debt provision is arrived at.</p>	<p>Complete</p> <p>We confirmed that there remained minor differences in these figures at year end 2019/20. The finance team outlined that the reasons for the difference was due to debts already being paid in early April and as such, are not included in the Bad Debt Provision calculation.</p>
6	<p>Capital programme 2018/19 - slippage</p>	<p>Ensure that slippage and reprofiling of capital projects does not have a significant</p>	<p>Updated response: The 10-year capital programme setting project helps ensure</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Both the general fund and HRA capital programmes experienced slippage in 2018/19. The general fund has experienced slippage in each of the last five financial years.</p> <p>Risk: There is a risk that ongoing slippage could impact the Council's priorities.</p>	<p>impact on strategic priorities that are dependent on capital projects being completed on time.</p>	<p>capital programmes are planned & delivered to meet strategic priorities. The progress of all capital programme projects is regularly reported to members and approval to carry forward the unspent element of the project is approved. However, as the capital programme has not been delivered closer to budget as agreed in our 2018/19 report, this matter has been carried forward at issue 1 above.</p> <p>Revised action: see issue 1 above.</p> <p>Responsible officer: Chief Operating Officer – Infrastructure & Environment and Chief Finance Officer</p>
7	<p>Funding position and medium-term financial planning</p> <p>The cumulative budget gap over the five-year period from 2019/20 to 2023/24 is £33.545 million. This is an increase of £13.045 million over the five-year budget gap for the period from 2018/19 to 2022/23 when the 2018/19 budget was approved in February 2018.</p> <p>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.</p>	<p>The council must ensure that its transformation programme identifies and delivers the savings required to meet the projected funding gap. This will include identifying alternative means of service delivery and, in some cases, may result in service reductions. As part of this, the council should work with its local and national partners to identify the key areas where efficiencies and savings can be made achieved.</p>	<p>Updated response: The projected funding gap over the next five-year period is projected to be increased to £29.942 million. This matter has been carried forward at issue 2 above.</p> <p>Revised action: see issue 2 above.</p> <p>Responsible officer: Chief Finance Officer</p>
8	<p>Integration of health and social care</p> <p>The council's Adult Services and the IJB have incurred significant overspends in each of the last two years. Projected increases in the number of people over 75 living in Stirling will increase demand on this service.</p>	<p>The Council should continue to work with its IJB partners to ensure the Council's adult care services are provided on a sustainable basis and are aligned with the IJBs strategic priorities.</p>	<p>The Council continues to work with its IJB partners in line with the established reporting and governance arrangements to ensure services are provided on a sustainable basis and aligned to the strategic priorities.</p> <p>Ongoing</p>



No. Issue/risk

Recommendation

Agreed management action/timing

Risk: services cannot continue to be provided from within the council's budget.

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](#).

Include any audit risks arising from COVID-19

Risks of material misstatement in the financial statements

<p>1 Management override of controls</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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>Focussed testing of regularity and cut-off assertions showed controls were operating effectively.</p> <p>No significant transactions outside the normal course of council business were identified.</p> <p>Conclusion: there is no evidence of management override of controls at the Council.</p>
<p>2 Fraud in income recognition</p> <p>Under ISA 240 there is a presumed risk that income may be fraudulently misstated due to improper recognition of income.</p>	<p>Stirling Council receives a significant element of its income from central government grant, council tax, NDR, and housing revenue account income, all of which have predictable income patterns. The remaining income is received from a variety of sources. As this limits the opportunity for manipulation, we have rebutted the presumed risk of improper recognition of income.</p> <p>A sound system of budgetary control is in place. This includes regular budget monitoring reports being provided to members.</p> <p>Segregation of duties are in place between those responsible for generation invoices from those processing</p>	<p>Analytical procedures were carried out over all income streams and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of revenue transactions confirmed these were normal business transactions and had been accounted for in the correct year.</p> <p>There is clear segregation of duties between those raising accounts/ credit notes and staff who process income.</p> <p>No significant frauds specific to Stirling Council were reported by internal audit.</p> <p>Conclusion: there is no evidence of fraud over income.</p>

income in the accounting records.

<p>3 Fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure, due to the variety and extent of expenditure in delivering services.</p> <p>Stirling Council incurs significant expenditure on a range of activities. The extent of expenditure means there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.</p>	<p>Clear schemes of delegation and authorised signatory databases are regularly updated.</p> <p>Appropriate processes for the authorisation, separation of duties and workflow associated with expenditure.</p> <p>A sound system of budgetary control is in place. This includes regular budget monitoring reports being provided to members.</p> <p>Internal audit's plan includes a rolling review of core financial controls.</p>	<p>Completion of the NFI audit questionnaire identified good progress had been made by Stirling Council for recommended matches.</p> <p>A review of the Internal Audit Annual Report provided assurance on fraud over expenditure.</p> <p>Detailed testing of expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year.</p> <p>There is adequate separation of duties between those generating transactions and amending supplier standing data from staff who process payments.</p> <p>Conclusion: there is no evidence of fraud over expenditure.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pension costs/ liabilities.</p> <p>The council holds a material amount of non-current assets at fair value. The valuations are significant estimates which are based on specialist and management assumptions. A number of asset categories will be subject to revaluation in 2019/20 including council libraries, bridges and cemeteries.</p> <p>The council's share of the Falkirk Pension Fund net liability at 31 March 2019 was £255.034 million. This value is an estimate based on a number of assumptions</p> <p>This subjectivity of each of these valuations represents an increased risk of misstatement in the financial statements.</p>	<p>Non-current asset valuations are completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors in accordance with instructions issued by the council.</p> <p>Robust controls over the process for updating the asset register for in-year valuations.</p> <p>The year-end pension valuation is completed by qualified actuaries based on instructions and on-going correspondence with the council.</p> <p>Actuarial assumptions are reviewed by officers to ensure they are appropriate.</p>	<p>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.</p> <p>We tested samples of accruals and provisions and confirmed them to appropriate back up evidence.</p> <p>The Council's accounting policies are appropriate.</p> <p>Conclusion: estimations and judgements included in the financial statements are reasonable and evidence based.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

5 Financial sustainability

Local Authorities are continuing to face significant financial challenges through funding pressures and an increased demand for services.

The council's five-year budget (for the period from 2019/20 to 2023/24) shows a budget gap of £33.545 million. This is an increase of £13.045 million to the five-year budget gap that was presented to members in 2018, covering the five-year forecast from 2018/19.

The council also prepare a ten-year financial scenario which shows the financial outlook over the ten-year period (2019/20 to 2029/30) based on a range of assumptions. This shows that the council forecasts a budget gap of £60 million over this period. This represents a major challenge for the council over the longer-term period.

The scale, combined with the year on year increase in the funding gap, presents a significant risk that the council is unable to identify or achieve the necessary sustainable savings measures in order to deliver a balanced budget in future years

Periodic updates to the 10-year financial strategy are provided to members.

Budget monitoring reports advise members of the progress of savings options and provide an update to the five-year funding gap.

The council's rolling five-year budget is aligned to key objectives contained in the five-year business plan and the workforce plan.

The five-year business plan is reviewed every year and updated in line with changes in the council's priorities.

The council's is reviewing its transformation programme to ensure it is aligned to the five-year business plan. A risk fund of £2.5 million is earmarked to finance future spend to save projects

The Council continued to spend at or around its agreed budget, with explanations for movements in forecast outturn for the year contained within regular reports to members.

The five-year outlook and the ten-year financial strategy contain a range of estimates and assumptions which we consider to be robust. The Council is provided with periodic updates to its financial outlook which inform members of the key issues facing local government funding and costs, together with their impact on Stirling Council. The medium to longer term financial plans will require to be updated due to the ongoing Covid-19 pandemic.

The budget setting process continue identified new savings options to be implemented from 2020/21, together with the budget gap over the five-year period to 2023/24. The five-year budget gap is estimated to be £29.9 million.

The general fund balance decreased from £28.463 million to £28.053 million at the year end. We consider this to be a reasonable level of general fund balance for the council to hold.

The council intend to use an estimated £6.7 million of earmarked balances in order to manage the expected additional costs resulting from the COVID-19 pandemic.

The council have also transferred £2.5 million into a Transformation Fund in order to finance the transformation projects that are necessary to reshape services and reduce recurring costs in future years.

Conclusion: the council has a robust budgeting process and a good track record in delivering required efficiency savings in order to deliver a balanced budget. This has enabled them to build up an adequate level of reserves However, the Council will continue to face significant financial challenges, and a great deal of uncertainty due to the Covid-19 pandemic, which will increase funding pressures in future years.

6 Financial management - impact of Health & Social Care Partnership (HSCP)

The most recent budget monitoring report to members in February 2020 shows a projected overspend of £2.179 million for services provided to Clackmannanshire & Stirling Integration Joint Board (IJB). This reflects a continuation of the pressures faced in 2018/19 and contributes to a forecast overspend in 2019/20 by the IJB.

The IJB, in consultation with its health board and council partners, has some budget recovery measures in place, however these are unlikely to enable them to break even. Partners have yet to agree how any losses are to be distributed between the partners.

Both the council's Adult Services and the IJB have incurred significant overspends in each of the last three years. There is a risk that services cannot continue to be fully provided to the IJB from within the council's budget.

The council, in conjunction with its IJB partners, will continue to look at ways to mitigate the projected overspend whilst setting out and agreeing plans to bring the partnership into financial balance on a recurrent basis.

Partners will meet to agree the basis for financing the projected 2019/20 overspend

The Council element of the IJB overspend, prior to the recovery plan, was £2.010 million.

The council benefited financially from the basis agreed by partners to finance the IJB overspend, however, this basis applied to 2019/20 only and partners will review this in 2020/21.











IJB funding for 2020/21 has been agreed with partners. The IJB needs to make efficiency savings of around £4.7 million to break even in 2020/21, of which around £3.7million is considered to be at risk as a result of Covid-19. It is assessing how this will be achieved over the five-year period to 2024/25

Conclusion: the IJB overspends continue to present a financial risk to the Council and its partners.

Appendix 3

Summary of national performance reports 2019/20



		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

Appendix 4

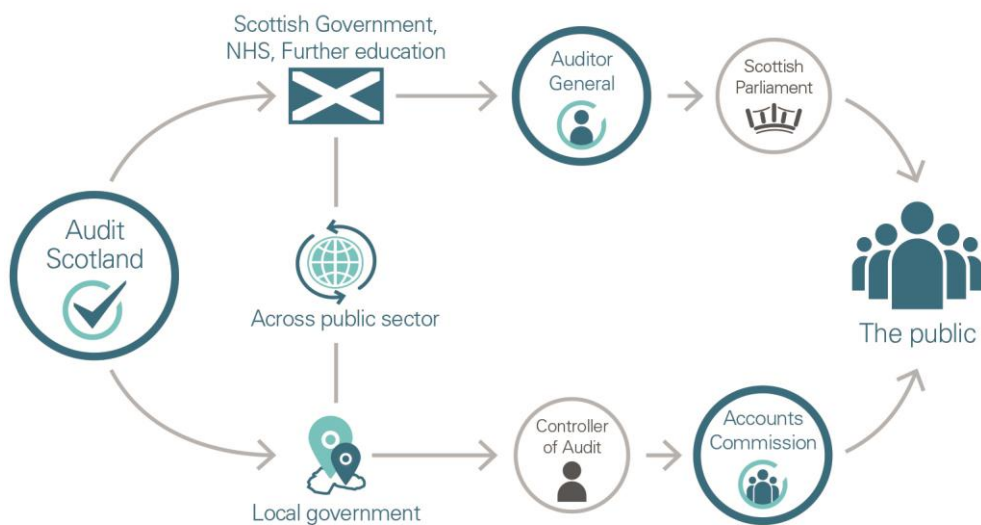
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 - reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Stirling Council

2019/20 Annual Audit Report

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