

Fife Council

Management Report 2019/20



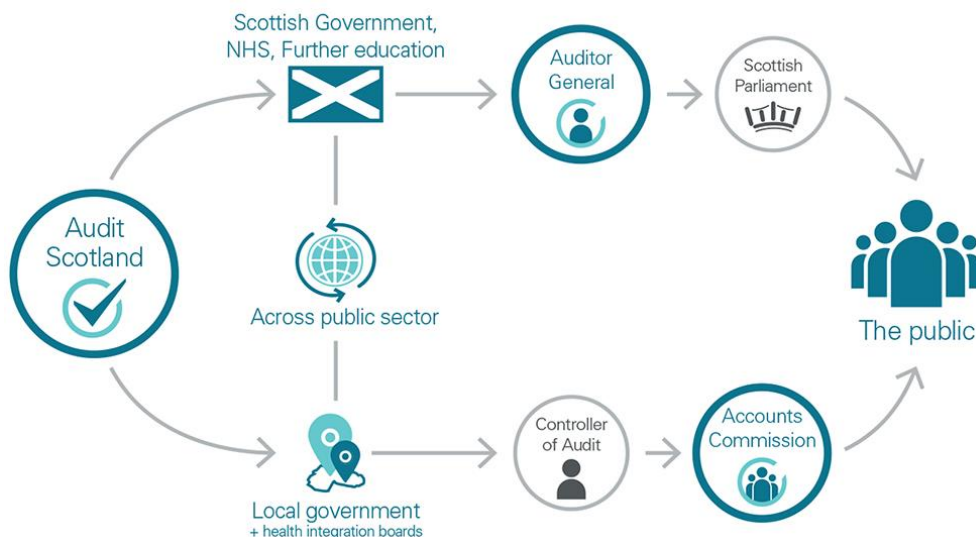
 AUDIT SCOTLAND

Prepared for Fife Council
August 2020

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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Audit findings

Introduction

1. This report contains a summary of the key findings from our interim audit work at Fife Council. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan and develop an effective audit approach for the annual accounts. They also require us to work closely with internal audit to make best use of the available resources and avoid duplication of effort.

2. This is reflected in our responsibilities under the [Code of Audit Practice](#) which requires us to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. In addition, we carried out work on the audit dimensions, as required by the [Code of Audit Practice](#), which can be found in [Exhibit 1](#). Further work on these areas will be included in our annual audit report.

Exhibit 1 Audit dimensions



4. Scotland's public services are under exceptional pressure due to the COVID-19 pandemic. Our approach to audit during these circumstances will be pragmatic, flexible and consistent. We have issued a paper, [COVID-19 What it means for public audit in Scotland](#), setting out the principles of Audit Scotland's approach to our financial and performance audit programmes. It also outlines our plans for assessing the impact of COVID-19 on public bodies and reviewing the Scottish public sector's response to the pandemic.

5. We recognise that the operation of the control environment may be impacted by the necessary changes.

6. The weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Fife Council.

7. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Conclusion

9. Overall, we found the key controls in place within Fife Council's main financial systems operate satisfactorily. We identified some financial control weaknesses as summarised in [Exhibit 3](#) where we will need to carry out additional work to enable us to obtain the required assurance for our audit of the annual accounts.

10. We have also looked at some significant aspects of Treasury Management arrangements. We identified some areas where there is scope for improvement as set out in [Exhibit 3](#).

11. In general, the Council has been slow to fully implement the recommendations set out in our 2018 Best Value Assurance Report. Some actions have progressed during 2019/20 but there is still some way to go to fully deliver our recommendations. Going forward, the Council needs to ensure it has sufficient management resources to deliver planned changes and support improvement in outcomes.

Internal control systems and action plan

12. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work once we have confirmed that the control environment and operation remain unchanged and no significant weaknesses exist.

13. Our 2019/20 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, we tested controls in the following areas: budget monitoring and control; feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims.



Budget monitoring



Payroll controls



IT access



Journals

14. Our controls testing was carried out prior to the working restrictions now in place as a result of the COVID-19 pandemic. We recognise that the operation of the control environment may be impacted by COVID-19. As a result of social distancing restrictions, we have also been unable to complete some of our controls testing and we have taken this into account in revisions to our audit approach.

15. Per our Annual Audit Plan, we reviewed and placed reliance on the work of Internal Audit for controls in relation to:

- processing council tax discounts and exemptions, and
- reconciliations of the council tax system to the ledger.

Wider dimension audit work

Treasury Management

The Council has proposed a new Loans Fund Repayment Policy

16. Following the introduction of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, Councils have greater flexibility over the way resources are set aside internally for the repayment of debt. Councils are required to set a prudent loans fund repayment policy.

17. The Council's treasury management and investment strategy, approved by the Policy and Co-ordination Committee in February 2019, confirmed the continuance of the existing loans fund repayment policy for 2019/20.

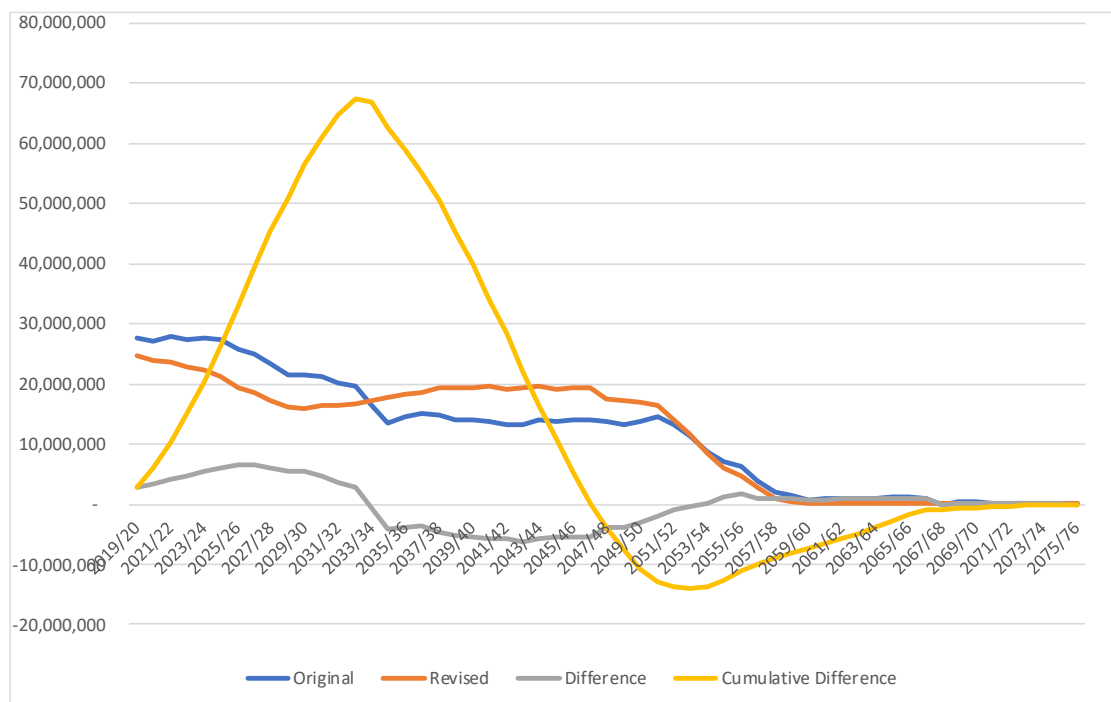
18. Towards the end of 2019 officers concluded a review of the loans fund repayment policy and proposed to revise it with effect for 2019-20 and future years. Officers recommended to move from the established 'statutory method' to an asset lives approach. The asset lives approach bases the repayment periods on the average lives of assets to which the expenditure relates. Under the statutory approach, advance periods are set out for different types of capital expenditure.

19. Moving to a loans fund repayment policy based on asset lives basis, with the re-profiling of loans fund balances brought forward, results in a reduction in the amount the Council sets aside for repayment of debt in 2019/20 and the subsequent 13 years, with compensating higher repayments thereafter as illustrated in [Exhibit 2](#).

Exhibit 2

Loans fund repayment policy – amounts set aside

The proposed loans fund repayment policy sees reduced set aside in 2019-20 and the following 13 years.



20. The reduced set aside arising from the proposed change in the loans fund repayment policy will result in lower charges to services for debt repayment over the first 14 years, which also means there will be less to re-invest in capital expenditure and this may lead to further borrowing.

21. The capital finance and accounting regulations require that the loans fund repayment policy remains prudent. Whilst the proposed changes see a reduction to amounts set aside, officers believe the repayment periods proposed remain reasonably commensurate with the benefits from the capital expenditure accruing from the capital expenditure financed.

22. Statutory guidance that supports relevant regulations requires approval by full Council. Under emergency governance arrangements introduced in light of the COVID-19 pandemic the policy was approved by the Executive Director of Finance and Corporate Services in April 2020. This decision should be ratified by the Council as soon as practically possible to ensure compliance with statutory regulations.

The Council's redemption of their inverse LOBO loan will generate savings providing interest rates remain low over the medium term

23. As reported to the Policy and Co-ordination Committee on 7 November 2019 the Council incurred a premium of £18.5m on the early repayment of its Inverse Floater Lender Option Borrower Option (LOBO) borrowing.

24. A LOBO is a particular type of loan instrument taken out with a financial institution that includes break clauses when the lender can exercise options to vary the terms of the agreement and at which point the borrower can exercise an option accept the change or repay the loan. LOBOs usually exhibit the characteristics of the fixed rate loan apart from including these break clauses when rates can be varied. However, an Inverse Floater LOBOs include an embedded interest rate swap meaning that not only is the

interest rate variable but that it moves in the opposite direction to market interest rates.

25. The Council originally entered into a £20m inverse floater arrangement in February 2012, following advice from its treasury advisor, as a way of hedging against the potential impact of an increase in interest rates. However, market interest rates in subsequent years fell and have remained low, resulting in increased costs to the Council. The rate of interest payable by the Council had increased to 7.83%.

26. Updated forecasts from the Council's current treasury advisor, in 2019, indicated that market expectations were for interest rates to remain low for a number of years, extending into the longer term. And their advice was that Council should consider redeeming the loan early.

27. Using delegated powers officers, in line with advice from the treasury advisor, the council decided to redeem the loan early at the end of June 2019. A PWLB loan at 2.2% was taken out to repay the original £20m loan and a mixture of short term borrowing, and available resources was used to pay the £18.5m premium.

28. Our calculations (based on interests payable at the time of redemption and a discount rate of 3.5%) show that as long as market interest rates do not increase by more than 2.5% in the short to medium term (thus reducing the rate payable under the Inverse Floater LOBO) or 3% over the medium to long term, then the early redemption will have saved the Council money.

Correspondence

The decision that the Burntisland Common Good fund would meet the cost of new cabling for the Burntisland Links should be reviewed –.

29. In August 2019 we received correspondence about the Burntisland Common Good Fund. In April 2019 the Kirkcaldy Area Committee authorised a contribution of £100,000 to be used to renew the electric cabling for the Burntisland Links. The primary purpose was to enable the continuing use of the ground for the annual Burntisland fairground.

30. The Links ground is common good property and the ground is notionally leased to the Council for a nominal rent on a full repairs and insurance (FRI) basis. The Council's view was that the replacement of the cabling was not simply a 'repair' and so some of the cost should be funded from the Common Good Fund. The only restrictions on using Common Good funds are that they must be used for the benefit of the community in question.

31. Our review of the paper produced for area committee authorisation found that it included an inaccurate policy reference, did not properly reference the 2014 common good policy, did not mention the FRI basis of the notional lease and did not include the Council's judgement (that this cost did not constitute a repair under this arrangement). As a result, the area committee was not fully informed at the time of reaching its decision to authorise the £100,000 contribution.

32. The Kirkcaldy Area Committee should request a revised paper and re-consider its decision based on complete and accurate information.

33. It is our understanding that the 2014 Common Good policy is due to be reviewed in 2020, and in line with the Community Empowerment Act 2015 this should also be done in consultation with local stakeholders including the Area Committee.

Exhibit 3

Key findings and action plan 2019/20

Audit Findings	Recommendation	Management response
<p>1 Reconciliation Controls</p> <p>Reconciliations between accounts payable and the general ledger and the housing rents system and the general ledger are not subject to a review by second officer.</p> <p>Updated audit approach:</p> <p>We will perform a detailed review of the year end reconciliations between the accounts payable and the general ledger and the housing rents system and the general ledger and follow up any unreconciled differences.</p>	<p>Reviews of reconciliation reduce the risk that they have been completed incorrectly and are not effective in detecting fraud or error within financial systems.</p>	<p>Reconciliation procedures include the requirement for approval.</p>
<p>2. Access to the banking system is only granted following approval from management. Our testing of new users in 2019/20 identified two examples out of six sampled where access was given without any approval.</p> <p>Updated audit approach:</p> <p>We will perform data analytical procedures to assess whether unauthorised users have made any unauthorised changes to the banking system and review transactions for unusual entries</p>	<p>User access controls ensure only appropriate employees have access to key financial systems, reducing the risk of fraud or error.</p>	<p>The Lead Officer has the authority to request a new user be set up on bankline. Procedures are in place for approvals to be sought but in this case this was missed. The team have been reminded to follow up approval.</p>
<p>Audit dimensions – issues and risks</p>		
<p>Treasury Management</p>		
<p>3. Treasury management and investment strategy approval</p> <p>The treasury management and investment strategy and reports are currently approved by the Policy and Co-ordination committee. Statutory guidance that supports relevant regulations requires approval by full Council.</p>	<p>This decision should be ratified by the Council as soon as practically possible to ensure compliance with statutory regulations</p>	<p>Arrangements will be made to have this ratified by full Council when committee process resumes.</p>

<p>4. Loans fund repayment policy</p> <p>The original treasury management and investment strategy for 2019-20 included a commitment to a continuation of the exiting loans fund repayment policy. However, officers have subsequently reviewed the policy with the intention that the Council approves a revised approach for 2019-20 and subsequent years.</p>	<p>The Council should consider the change to the loans fund repayment policy at the earliest opportunity.</p>	<p>The change to the repayment policy was documented in Treasury strategy and approved under delegated powers.</p> <p>This decision will be ratified at Council when committee process resumes.</p>
<p>5. Content</p> <p>Statutory guidance on loans fund repayment policy requires annual strategy and reports to include specified loans fund account information, including prior year comparators. Existing reports are not fully compliant with statutory guidance.</p>	<p>The Council should ensure that treasury management and investment strategy reports comply with statutory guidance.</p>	<p>Complete</p> <p>The 2020/21 treasury strategy is compliant with the disclosures requirements in the capital accounting statutory guidance.</p>
<p>6. Prudential indicators</p> <p>Prudential indicators go to full Council along with the budget and General fund capital investment plan. However, the indicator for Debt to Capital Financing Requirement needs to be updated, in line with the latest Prudential Code, to refer to gross debt.</p>	<p>The Council should update the prudential indicator for Debt to Capital Financing Requirement to refer to gross debt.</p>	<p>Complete</p> <p>The prudential indicator for Debt: CFR is now based on gross debt in line with the revised requirements.</p>

Correspondence

<p>7. Burntisland Common Good Fund</p> <p>The Kirkcaldy Area Committee authorised a contribution of £100,000 to fund new cabling for the Burntisland Links.</p> <p>Our review of the paper produced for area committee authorisation found that it included an inaccurate policy reference, did not properly reference the 2014 common good policy, did not mention the FRI basis of the notional lease and did not include the Council's judgement (that this cost did not constitute a repair under this arrangement). As a result, the area committee was not fully informed at the time of reaching its decision to authorise the £100,000 contribution.</p>	<p>The Kirkcaldy Area Committee should re-consider its decision based on complete and accurate information.</p>	<p>Discussion will take place with the convener of the Area Committee to determine what action, if any, will be taken on this matter.</p>
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National Fraud Initiative

34. 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.

35. Internal Audit takes an active role in the exercise and continue to regularly report the outcomes of the NFI exercise to the Standards and Audit Committee (SAC).

36. A report in December 2019 provided members with an update on the 2018/19 NFI exercise. A conclusion on the 2018/19 exercise will be presented to the SAC on 8 October 2020 along with a plan for the forthcoming 2020/21 exercise. With only 2 matches remaining under investigation the exercise has identified twenty-four errors with a total value of £48,258, none of which were frauds. Fourteen of these errors have been recovered totalling £30,391.

37. Fife Council continue to engage well with the NFI process and have made good progress in completing their planned work on investigating matches.

Best Value Follow Up

38. Best value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each Council will be considered by the Accounts Commission at least once in this five-year period.

39. The Fife Council [Best Value Assurance Report](#) was published in May 2018. It contained a list of 8 recommendations agreed with the Council. In response to this the Council produced an implementation plan setting out the proposed actions to address the recommendations. This was considered by the Standards and Audit Committee (SAC) in September 2018. A subsequent follow up report detailing progress was reviewed by the SAC in December 2019. At the meeting it was agreed that this would be the final report and that any longer-term performance related recommendations would be subject to review by the relevant Strategic or Scrutiny committee.

40. As part of our best value work this year, we have reviewed the evidence to support the Council's progress in implementing best value recommendations. [Exhibit 4](#) provides a summary of our findings for each of the recommendations included in the BVAR and our overall assessment of progress made by the Council since 2018.

Exhibit 4

Progress in implementing best value recommendations



The Council should identify the neighbourhood plans for priority areas that it intends to complete and a timetable for this work.

Immediately after our BVAR was published, eleven priority neighbourhood plans had been identified, some of these with associated timescales. An update from February 2020 identified twenty live community action or neighbourhood plans with a further eight in development. Of the original eleven, five (including the pilot project) of these now have live action plans.

Progress with both developing the neighbourhood plans and ongoing actions identified are reported on six monthly bases to the relevant area committee, and there is also evidence of regular community meetings.

Green/resolved



The framework for managing performance against the Plan for Fife should be finalised as early as possible

The framework for managing performance was finalised and approved in May 2018.

It includes a 'State of Fife' report setting out Fife's progress against nine high level outcome indicators. The content of this report is still being finalised, taking into account the impact of Covid -19, but a draft version was first considered by the Partnership Board in August 2020. The report acts as an updated Strategic Assessment of the Fife area and includes an overview of performance measures for each plan ambition

In addition to developing the 'State of Fife' report, thematic performance reporting has been carried out on an annual basis providing the Partnership Board with an update on progress with the ambitions and areas of focus in line with framework. Amber/in progress



The Council should develop a range of delivery plans to support the identified actions and wider ambitions outlined in the Plan for Fife. These actions should be measurable with clear deadlines

The annual thematic reports provide the Partnership Board with updates on progress with the actions and ambitions included in the Plan for Fife.

The Council has strategic plans in place to support delivery of the ambitions in the Plan for Fife but operational plans for the delivery of specific actions vary in their level of detail. Many of them lack clear deadlines.

Amber/in progress



The Council's new programme board should ensure alignment between the aims of the Plan for Fife and service change plans. It should develop a focus on outcomes rather than being led by budget-changes

Following the recommendation, the guidance and template for developing service change plans was updated.

The version used for the 2020-21 exercise encourages services to consider the impact of the overall savings proposals on reducing socio-economic disadvantage and inequalities of outcomes, one of the central tenets of the Plan for Fife.

Conclusion: The Council is in the early stages of progressing this recommendation.

Amber/in progress



The Council should work with Fife Health and Social Care Partnership and NHS Fife to accelerate the redesign of adult health and social care services and mitigate medium-term financial pressures

The Council has worked in partnership to deliver a new Health and Social Care Strategic Plan covering the 2019/2022 period and a new medium-term financial strategy (MTFS) for 2020/23. Around 75% of the recurrent savings achieved by year 3 of the strategy are expected to come from service redesign and transformation.

A new Integrated Transformation Board has been established in 2019/20 with a membership that includes the chief officers of the Council, NHS Board and IJB. However, it is too early to assess whether the partnership will have the capacity to deliver the redesign and transformation identified in the MTFS.

Amber/in progress



As a partner in the Fife Health and Social Care Partnership, the Council should seek early agreement over roles and responsibilities, so that the management and governance arrangements of the FHSCP support the significant service redesign challenges it faces

The Council, together with NHS Fife and the IJB are in the process of reviewing the Integration Scheme.

Amber/in progress



The Council should extend its improvement methodology on raising educational attainment in deciles 1-3 to a broader range of young people

The Council had made progress in raising educational attainment amongst pupils from the most deprived backgrounds. Success was attributed to their Raising Attainment Strategy, Literacy Strategy and the development of their self-evaluation strategy.

A key priority for the Council, as set out in the 2019/20 education and children's services plan, is extending the Council's current successes in closing the attainment gap to include all learners and all stages of their learner journey. The key tools for delivering this priority include a Parental Engagement Strategy, the work of the

Directorate Self-Evaluation strategy group and use of insight and BSE benchmarking toolkits.

Amber/in progress



The Council should continue its new approach to managing sickness absence rates

A three-year Corporate Absence Project was established in April 2018 to identify and roll out new approaches to attendance management. Officers regularly report sickness absence rates, updates on the project, and progress against other related initiatives to the relevant Scrutiny committee.

Progress has been made across a number of initiatives including:

- Skills Development – Training for line managers on “Having Difficult Conversations” has been rolled out.
- A pilot projects, whereby a nurse contacts employee at the start of an absence has been completed across a number of services. Preliminary results suggest some reduction in absence length.
- Mental Health – A Supporting Mental Health Policy at work is being developed and training for line managers is being delivered.

There was a slight fall in the overall absence rate in 2018/19 from 11.82 to 11.58 average working days lost per full time employee. However, both teacher and non-teacher rates remain above the Scottish average. A Health, Safety and Wellbeing Strategy covering absence management is being developed to provide direction for the organisation going forward.

Amber/in progress

41. In general, our view is that the Council has been slow to fully implement the recommendations set out in our 2018 Best Value Assurance Report. However, we are pleased to note that one action is now complete and all other recommendations are progressing. Going forward, the Council needs to ensure it has sufficient management resources to deliver planned changes and support improvement in outcomes.

Fife Council

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