

Falkirk Council

External Audit Progress Update Report



Prepared for Falkirk Council Audit Committee
March 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Annual Audit Plan 2013/14

1. Our Annual Audit Plan (AAP) for the 2013/14 is attached as a separate agenda item and details what we perceive to be the key financial statements and wider dimension risks facing Falkirk Council in 2013/14.
2. The Annual Audit Plan also outlines our audit responsibilities, audit approach and planned outputs. It also includes details of our proposed audit fees which, in the current year, have been held at last year's levels. In addition, Appendix 1, accompanying this update, provides a summary of progress against the Annual Audit Plan.

Governance work

3. **Review of internal audit.** We have completed our review of the internal audit service in terms of International Standards on Auditing 610 (Considering the Work of Internal Audit) and reported our findings to the Chief Finance Officer. Our review identified that we plan to place formal reliance on the work of internal audit in relation to general services capital programme and debtors for the purposes of our financial statements responsibilities. We also outlined areas where we plan to consider the work of internal audit in terms of our wider dimension audit responsibilities including welfare reform and strategic projects (specifically Tax Increment Financing). In addition, we have agreed to meet the Internal Audit Manager on a regular basis throughout the year to discuss audit issues and share information.
4. **Internal Controls.** Currently we are updating our knowledge of the organisation in relation to governance and accountability to ensure that our systems notes and control evaluations are up to date. This allows us to target our resources at areas of higher risk. In addition, we have adapted our audit approach to place reliance on prior year's audit work where no significant weaknesses have been identified. This also means that we will not be covering all financial systems every year but will adopt a more cyclical approach for those systems considered to be less of a risk. Our work is progressing well and we are committed to reporting our findings by the end of June 2014 at the latest or earlier where possible.
5. **National Fraud Initiative (NFI).** NFI is the biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies on their financial systems to identify potential fraud, error or anomalies. It is part of the statutory audit.
6. As part of our work on NFI we monitor the council's arrangements throughout the year for prioritising and investigating data matches. Audit Scotland have asked auditors to review progress made by councils in matching blue badges against deceased holders as this has been identified as an area of risk. In Falkirk's case, work in this area has been low profile although we understand that resources are now being deployed to investigate data matches.

Performance

National Performance Studies

7. Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. A number of reports have been published in 2013/14 as summarised below.
8. **Charging for services: are you getting it right? (October 2013):** This report is part of the *How councils work* series which aim to stimulate change and help local authorities continue to improve their performance. The report contains a number of key messages including:
 - Councils should have clear policies in place for charges and concessions. They should regularly review charges to ensure that they are appropriate and meet their intended objectives.
 - Councillors should take a lead role in determining charging policies. They should be involved and consulted over the design of charges and concessions.
 - Charges can be used to influence behaviour to help meet councils' objectives. They should not be seen solely as a means to generate income.
 - Councils should improve their use of cost information, including unit costs. This is essential for councils to design charges and understand the extent to which they will recover costs.
 - Charges for services vary markedly between councils, reflecting local circumstances and policy priorities. Councils should be transparent in how they set charges and be able to explain their charging decisions to the public.
9. The report recommends that councils should follow the good practice set out in this report. This includes identifying charging options, assessing their impact on services and the people that use them, and making comparisons with other providers. The report also contains a checklist for councillors and officers to use when considering charges.
10. **Housing in Scotland (July 2013):** The audit looked at how Scotland's housing sector works, how much public money is spent and what that money delivers. We assessed how well the Scottish Government and councils plan to meet Scotland's housing needs and the main challenges in the future. A number of key messages were highlighted in the report:
 - Housing in Scotland is facing significant challenges. The recession has affected the availability of housing and the sector is now working with constraints on lending, competing and increasing demands on capital resources, and reduced government subsidies. Population changes and welfare reform will add to these pressures.
 - The supply of housing is not meeting current levels of need. The number of new private homes built in Scotland has more than halved in recent years while the population is

increasing. It could be more than 20 years before there are enough new homes to meet the projected increase in households in any one year.

- Between 2008/09 and 2011/12, Scottish Government revenue budgets for housing fell by 24 per cent in real terms (£199 million to £152 million) and capital budgets by 29 per cent (£534 million to £378 million). Revenue and capital funding for new homes has been particularly affected and there are significant and competing demands on capital budgets.
- National and local government recognise that good housing can make a positive contribution to many government priorities, including economic growth, community empowerment and improved health. Planning at a local level is challenging; councils have an important role but have few direct powers, and influencing change can be difficult. Effective leadership is required at a national and local level to ensure housing is well planned and linked to other policy areas.

11. The report contains a number of recommendations for both the Scottish Government and councils. Recommendations specific to councils include the need to ensure that housing strategies (and associated plans) and investment decisions are clearly based on evidence of local housing needs and are developed in conjunction with all relevant partners e.g. Registered Social Landlords and tenants.
12. The report is accompanied by a checklist which officers may want to use to identify any improvement actions that need to be taken forward locally.
13. **Managing early departures from the Scottish public sector (May 2013):** This report looks at the Scottish public sector's use of early retirement and voluntary redundancy, which are collectively known as early departure schemes or early release schemes. The report also provides a guide and reminder of good practice in managing and reporting on schemes.
14. The report says that early departure schemes can provide significant savings, and public bodies generally follow good practice. But there are striking differences between the schemes and a marked inconsistency in how public bodies report the costs and expected savings. The report, for the Accounts Commission and the Auditor General, gives pointers on good practice, including:
 - demonstrating that schemes are value for money
 - making sure schemes are clear, well-designed and meet business needs
 - reporting openly on the costs and savings
 - and ensuring good scrutiny over schemes and particularly of exit packages for senior executives.
15. Almost 14,000 employees took such packages between 2010 and 2012 (around one in 40 of all public sector staff). While the cost of these amounts to more than £550 million, organisations generally expect to make savings from their action over a number of years.
16. Auditor General for Scotland, Caroline Gardner, said:

“Scotland’s public bodies are generally following good practice, and there is evidence that they are making savings as a result of voluntary releases. But they need to be more consistent in how they manage schemes, and tell the public more about the costs and the expected savings.”

17. **Maintaining Scotland's Roads (May 2013):** This is a follow-up report to one reported in 2011. Major changes called for in 2011 to improve the management of roads maintenance have yet to result in significant improvements in road condition.
18. The report, based on reports from local auditors, says that the percentage of local roads in acceptable condition has marginally increased over the last two years, despite a 21 per cent reduction in spending between 2009/10 and 2010/11. However, the proportion of roads in acceptable condition is still lower than it was in 2005.
19. All councils now have a roads asset management plan in place and there is some evidence of them taking action to improve value for money by, for example, joint tendering with other councils, reorganising roads departments, and changing shift patterns. But more work is needed to improve the quality and monitoring of roads asset management plans and the consistency of costs data used for benchmarking.
20. The report notes that public concern about the condition of Scotland’s roads remains high, and recommends further effort by councils, the Convention of Scottish Local Authorities, and the Society of Chief Officers of Transport in Scotland.
21. Audit Scotland expects that councils have a formal process in place for national performance reports to be reviewed and scrutinised by an Audit Committee or equivalent. This is to ensure that action is being taken locally to make improvements. Full copies of all our national reports are available for download from the Audit Scotland website (www.audit-scotland.gov.uk).

Local Performance Audit Work

22. In the current year the main focus of our local performance work will be on a targeted follow-up of two national reports:
 - Arms Length external Organisations: are you getting it right? (June 2011)
 - Major capital investment in councils (March 2013).
23. **Major capital investment in councils:** The follow-up audit is being carried out at all 32 councils in Scotland with more detailed work (Stage 2) being carried out at nine selected councils. Falkirk is not one of the councils selected for Stage 2 review.
24. At a local level, the overall aim of this follow-up work is to answer specific audit questions:
 - Have the recommendations from the report *Major capital investment in councils* been considered and effectively implemented?
 - Do councils have sustainable capital investment plans which reflect strategic priorities?
 - Are elected members provided with sufficient information to support effective scrutiny and decision-making?

25. The local audit work will also consider the extent to which the council is using the good practice guide and checklist that accompany the national report to help improve the management and delivery of its major capital projects / programmes and to support effective scrutiny of plans.
26. **Arms Length External Organisations (ALEOs): are you getting it right?** The original report was part of the 'How councils work' series. It was aimed at all councils that were considering setting up ALEOs to deliver services, as well as those with existing ALEOs. The report was designed to promote and encourage good practice in the way ALEOs are set up and operated. The report included a toolkit for improving the governance of ALEOs and this will be used in the current year to assess the governance arrangements of Falkirk's ALEOs. We have commenced our fieldwork and will keep members apprised of progress.

Assurance and Improvement Plan

27. The Assurance and Improvement Plan (AIP) sets out the planned scrutiny activity in Falkirk Council between April 2014 and March 2017. The AIP is based on a shared risk assessment undertaken by a local area network (LAN). There is a LAN for each council, comprising representatives of all the scrutiny bodies who engage with the council. The aim of the shared risk assessment process is to focus scrutiny activity where it is most needed and to determine the most proportionate scrutiny response over a three year period.
28. The draft AIP has been discussed with management and submitted to Audit Scotland for detailed review and quality assessment. We will update members once the AIP is finalised.

Financial statements

29. **Financial statements audit 2013/14.** We are planning to carry out some early substantive testing of financial transactions as part of our financial statements audit. This will help ensure a more focused and streamlined approach to our work. In this way we hope to have most of the financial statements audit work completed by the end of August 2014. This would allow us to issue a proposed audit opinion by 15 September 2014 although the prescribed deadline for issuing our audit opinion is not until 30 September 2014.
30. We have regular meetings with senior finance staff to discuss potential accounting issues that could impact on the financial statements. This ensures that we are sighted on the key areas of risk.

Appendix 1

Progress against Annual Audit Plan 2013/14

Planned outputs	Target delivery date	Actual delivery date
Governance		
Review of adequacy of internal audit	31 January 2014	7 January 2014
Annual Audit Plan	31 March 2014	14 February 2014
Assurance and improvement plan update	19 May 2014	
Internal controls management letter	30 June 2014	
Computer services review follow-up	31 July 2014	
Performance		
Targeted follow-up of performance audit: ALEOs	31 May 2014	
Targeted follow-up of performance audit: Major capital investment in councils	30 June 2014	
Financial statements		
Report to Audit Committee in terms of ISA 260 (communication of audit matters to those charged with governance)	30 September 2014	
Independent auditor's report on the financial statements	30 September 2014	
Audit opinion on Whole of Government Accounts	3 October 2014	
Annual report to Members and the Controller of Audit	31 October 2014	