

Falkirk Council

External Audit Progress Update Report



Prepared for Falkirk Council Audit Committee
June 2014

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Contents

Annual Audit Plan 2013/14	4
Governance work.....	4
Performance.....	5
National Performance Studies	5
Local Performance Audit Work	9
Assurance and Improvement Plan.....	10
Financial statements	11
Appendix 1	12
Progress against Annual Audit Plan 2013/14.....	12

Annual Audit Plan 2013/14

1. Our Annual Audit Plan (AAP) 2013/14 provides a summary of planned outputs for the year and the timescales for delivery. Appendix 1, accompanying this update, provides a summary of progress against the Annual Audit Plan. To date we are on schedule to deliver all outputs by the planned dates.

Governance work

2. **Review of internal audit.** We plan to place formal reliance on internal audit work on general services capital programme and debtors for the purposes of our financial statements responsibilities. This allows us to avoid duplication of effort and focus on other areas of risk. We have also agreed to meet with the Internal Audit Manager on a regular basis throughout the year to discuss audit issues and share information and intelligence.
3. **Internal Controls.** We have completed and reported on our work on the systems of internal control. Our work involved detailed testing of a number of systems:
 - Payroll
 - Trade payables
 - Council tax billing and collection
 - Non-domestic rates billing and collection
 - Housing rents
4. We also carried out some focused testing on a number of other systems including general ledger and trade receivables. There were no high risk issues that we require to draw to members' attention although we did identify a number of areas where controls could be improved. We have agreed an action plan of improvements with management. We will monitor this later in the year to confirm implementation. This is a requirement of Audit Scotland's Code of Practice.
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. We will be reporting our findings through the medium of the 2013-14 Annual Audit Report.

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 since the last meeting of the Audit Committee in March which will be of interest to members and are summarised below:
8. **AN OVERVIEW OF LOCAL GOVERNMENT IN SCOTLAND 2014 (March 2014):** The report is based on the local government audit work in 2013. This work was used to provide a high-level, independent view on the progress councils are making in managing their finances and in achieving Best Value, and to help councillors identify priorities in 2014.
9. The report is primarily for councillors, as a source of information to support them in their role. However, councillors will need to work closely with officers to identify the position in their councils and to address the priorities we identify. We also expect councils to discuss the report with their community planning partners.

Key messages

10. Councillors need to maintain a good understanding of the rapidly changing economic, social and political context. Demands on services and resources continue to increase and need to be managed alongside public service reforms, including changes in the welfare system and in health and social care.
11. Achieving Best Value requires good information about the cost and performance of current services and robust analysis of the options and the related risks associated with alternative ways of delivering services.
12. Governance is more important than ever. Councillors need to scrutinise reports from officers on the financial position and service performance: get the right information; ask the right questions; and ensure issues are resolved. They also need to scrutinise reports from auditors and get assurances from officers that weaknesses in financial systems are addressed. Councillors should assure themselves that the officer responsible for the council's finances retains appropriate access and influence within management structures.
13. The total level of reserves has increased but the level of 'free' reserves has fallen, with councils predicting future funding gaps. More work is needed to develop longer-term resource plans that show connections between savings, staff changes and how assets, such as land and buildings, are used to best effect in providing services.
14. Councils are working with their partners to meet the challenges of significant service reforms. Achieving more from Community Planning Partnership (CPP) working requires strong shared leadership, more effective governance and making the most of the combined public sector resources in the area.

15. There is increased evidence of political tensions and instability which is leading to strained working relationships. This comes at a time when decisions on services are becoming increasingly difficult and require strong political and managerial leadership. There will be additional demands on councillors in the run-up to the independence referendum. This will require a balance between their council responsibilities and their wider political activities.

Key recommendations

16. Councils continue to face significant challenges. They need to review how services are currently delivered and consider options as to how services might be delivered in future. They also need to increase the focus on partnership working and longer-term resource planning. Councils that place Best Value at the heart of all they do are best placed to deal with the challenges in 2014 and beyond.
17. The report also outlines the key priorities for councillors in 2014, as follows:
- ***Understanding the changing context and the crucial role of councillors***
 - Maintaining a clear understanding of the financial position.
 - Understanding the public reform agenda, including the impact of welfare reform.
 - Preparing for changes in health and social care.
 - Keeping up to date through training and development.
 - ***Meeting user demands and the financial challenges***
 - Appraising the options for delivering services and charging for services.
 - Requiring good-quality cost and performance information for decisions and scrutiny.
 - Making better use of benchmarking to support service improvement & public reporting.
 - ***Providing strong leadership and governance to support change***
 - Maintaining good professional working relationships and providing strong political leadership.
 - Getting assurance that governance is sound, including where arm's-length external organisations (ALEOs) are in place.
 - Providing stronger leadership of CPPs and working with partners to make the best use of the overall public resources available in the area.
18. **PROCUREMENT IN COUNCILS (April 2014):** The aim of the audit was to assess whether councils are efficiently and effectively managing how they procure goods and services.

Key messages

19. Councils spent over £5.4 billion on goods and services in 2012/13; over half of the total public sector procurement spends in Scotland. This spending is extremely diverse, although more than half is on social care and construction. Since 2006, initiatives by the Scottish Government and Scotland Excel have led to significant changes in councils' procurement practices.

Procurement now has a higher profile and councils are buying more goods and services collaboratively. New legislation and EU directives will bring about further change.

20. Councils can use procurement to improve service quality and achieve benefits for the community. Councils are systematically using procurement spending to support local economic development. Councils have recently begun to make community benefits such as apprenticeships and environmental improvements an integral part of contracts.
21. Councils' spending through collaborative contracts set up by the Scottish Government and Scotland Excel has increased by over 80 per cent over the past three years to £503 million, but accounts for only 9.3 per cent of their total procurement spend. This percentage is likely to increase further as Scotland Excel and the Scottish Government introduce more collaborative contracts. The Scottish Government, Scotland Excel and councils reported total procurement savings of £71 million in 2012/13, 1.3 per cent of procurement spend; with £43 million (61 per cent) of these savings arising from Scotland Excel or Scottish Government collaborative contracts. Councils are relying on procurement to generate savings to meet budget pressures, but some of their savings calculations may not be reliable or may be incomplete. Further savings are possible if councils make greater use of collaborative contracts and replace paper-based systems with 'purchase to pay' compliant ICT systems.
22. Councils and Scotland Excel have used the Procurement Capability Assessment process to improve procurement practice. All councils have improved their procurement capability since 2009; however, the average assessment score has only reached 56 per cent. The rate of improvement varies among councils and some need to improve more quickly. Councils that invest in qualified improvement staff and improved systems can both improve service quality and achieve financial savings.

Key recommendations

23. Scotland Excel should:

- set realistic timescales and savings targets for contracts, particularly in new areas of contracting.

24. Council staff involved in procurement should:

- submit accurate and complete information to the procurement Hub on a regular and timely basis (ideally quarterly, and as a minimum within three months of the end of the financial year)
- engage earlier with suppliers and the people who use public services to help develop contract specifications that more accurately reflect service user requirements and allow for greater innovation within contracts
- make full use of national collaborative contracts and provide a clear explanation for non-participation in these contracts to the relevant council committee
- calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement.

- make better use of market research, cost avoidance and improved contract management to identify savings and potential service improvements
- examine the benefits of joint working or joint procurement teams as a way of securing economies of scale and creating collaborative contracts.
- aim to achieve the superior performance level in the PCA, particularly in relation to:
 - spend covered by an agreed commodity strategy
 - participation in Scotland Excel contracts
 - automation of procurement and payment processes
 - spend captured in the council's contract register.

25. Councils' corporate management teams should:

- benchmark their procurement staffing against similar-sized councils with higher PCA scores and, where appropriate, produce a business case for employing additional qualified procurement staff where they have lower staffing levels.

26. Councils should:

- encourage elected members sitting on the main committee(s) dealing with procurement to complete specific training to help them undertake their governance role more effectively.

27. FALKIRK COMMUNITY PLANNING PARTNERSHIP (May 2014): In 2012, the Scottish Government asked the Accounts Commission to lead audits of individual Community Planning Partnerships (CPPs) to assess their performance. During 2012-13 Audit Scotland reviewed three CPPs. The audit of Falkirk Council is one of five CPP audits being carried out in 2014/15. The key findings from the report are summarised below:

- The Commission recognises a strong record of collaborative working in Falkirk which has been of benefit to the area. We believe, however, that Falkirk Community Planning Partnership needs to demonstrate a shift from facilitating to leading partnership working, driving the pace of change and delivering better outcomes for the people of Falkirk.
- While it is encouraging that the partnership has a well established vision for the area, it now needs to determine its most important priorities and set clear targets and milestones. It is, for example unclear how inequalities in the Falkirk area are being prioritised and tackled.
- The Commission believes that the partnership has a good understanding of how it can work better and where it needs to improve. But its Leadership Board needs to show stronger leadership in the following areas:
 - setting a clear and strategic improvement agenda
 - holding partners to account for their contribution
 - helping partners overcome barriers to information sharing

- putting in place an effective system of performance management and scrutiny to measure and monitor progress against priorities
- ensuring its improvement group fulfils its crucial role in implementing the operational improvements the partnership knows it needs to make.
- The Commission notes individual partners' engagement with communities in Falkirk. We underline the potential to the partnership of evaluating this activity when developing its approach to involving local people in community planning.
- As with other Community Planning Partnerships that have been subject to this audit, the partnership needs to do more to align partners' resources to agreed local priorities and how it identifies, allocates and redirects resources to these priorities. We also stress the importance, especially for Falkirk Council and NHS Forth Valley, of clarity of relationship and effective joint working between the Community Planning Partnership and the proposed health and social care partnership.

28. 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

29. In the current year the main focus of our local performance work will be on a targeted follow-up of two national reports:
- Major capital investment in councils (March 2013)
 - Arms Length external Organisations: are you getting it right? (June 2011).
30. **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.
31. 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?
32. We have completed our fieldwork and are due to issue a draft report in early course. There are no significant emerging issues that we would require to draw to members' attention at this point. The full report will be available at the next meeting of the Audit Committee.
33. **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.

34. We have completed our fieldwork and reported our findings to management. The key point that we would wish to highlight is that in the interests of scrutiny we would encourage all opposition members previously offered places on the Board of Falkirk Community Trust to take up their positions as vacancies arise

Assurance and Improvement Plan

35. 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.
36. The AIP noted a number of areas of improvement particularly risk management and new developments in relation to performance management. The LAN agreed that there were two key areas where targeted Best Value work should be undertaken:
- **Governance and accountability** - Audit Scotland's annual audit report 2012/13 noted that new decision making structures were approved by the council in 2012/13 with the first meetings taking place in May 2013. These new arrangements have only recently been implemented and not all members are participating in every aspect of the new decision making structures. This could undermine local governance and scrutiny arrangements. The targeted best value audit work will aim to establish the effectiveness of the new arrangements and will consider any post-implementation review carried out by the council.
 - **Performance management** - Audit Scotland has noted a number of developments in the area of performance management, including the introduction of a peer scrutiny review process and the establishment of a performance panel to promote challenge and improvement across the council. The Council's Public Sector Improvement Framework programme now covers all services over the period 2013 -2015. However, these developments are still in their very early stages and the LAN has concluded that targeted best Value work should be carried out to ensure that all aspects of performance management and scrutiny are well progressed and working effectively.
37. The targeted Best Value work is scheduled for this autumn and the plan is to try and complete this work in sufficient time to report through the medium of our 2013-14 Annual Audit Report which has a reporting deadline of 31 October 2014.
38. The AIP was discussed and agreed with management prior to publishing on Audit Scotland's website (www.audit-scotland.gov.uk).

Financial statements

- 39. **Financial statements audit 2013/14.** We have met with senior finance officers to discuss the timing of the financial statements audit planning. We have also issued finance staff with a detailed list of working papers that we require to carry out the audit efficiently. We expect to receive a draft set of accounts with comprehensive supporting working by 23 June 2013. We have planned and resourced the audit on that basis and we aim to have the bulk of our audit work completed by the end of August.
- 40. We have carried out some early substantive work on pay expenditure and capital. This should 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.
- 41. We also meet regularly with senior finance staff to discuss potential accounting issues that could impact on the financial statements. In addition, we share technical advice provided by our Technical Services Unit to ensure that emerging issues are resolved quickly. 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	11 April 2014
Internal controls management letter	30 June 2014	27 May 2014
Computer services review follow-up	31 July 2014	On target
Performance		
Targeted follow-up of performance audit: ALEOs	31 May 2014	30 May 2014
Targeted follow-up of performance audit: Major capital investment in councils	30 June 2014	On target
Financial statements		
Report to Audit Committee in terms of ISA 260 (communication of audit matters to those charged with governance)	30 September 2014	On target
Independent auditor's report on the financial statements	30 September 2014	On target
Audit opinion on Whole of Government Accounts	3 October 2014	On target
Annual report to Members and the Controller of Audit	31 October 2014	On target