

Falkirk Council

External Audit Progress Report



Prepared for Falkirk Council Audit Committee

April 2015

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 2014/15

1. Our Annual Audit Plan (AAP) 2014/15 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.** As part of our planning process we carry out an annual review of internal audit in terms of *International Standard on Auditing 610 (Using the work of internal auditors)*. We concluded that internal audit operates in compliance with the Public Sector Internal Audit Standards and has appropriate documentation standards and reporting procedures in place. Therefore, we plan to place formal reliance on aspects of internal audit's work (e.g. Non-domestic rates) to meet our financial statements responsibilities
3. Relying on internal audit *work* avoids duplication of effort and allows us to focus on other areas of risk. We also met with the Internal Audit Manager on a regular basis throughout the year to discuss audit issues and share information and intelligence.
4. **Internal controls and governance work:** We are currently updating our system notes and the testing the key controls within the main financial systems. We plan to complete this work in the next few weeks and any issues arising will be reported shortly thereafter.
5. **ICT audit.** We have carried out a high level review of the ICT function as part our planning work which included the council's compliance with security measures set out in the Public Services Network (PSN) Code of Connection. There are no issues arising at this point that we require to draw members' attention.
6. **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 or error. The latest NFI exercise was launched in autumn 2014. Over the next few months will be reviewing the council's approach to investigating and reporting fraud. Our findings will be summarised in our 2014/15 Annual Audit Report due to be issued in September 2015.

Performance

National Performance Studies

7. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. Several reports have been published since the last progress report to the Audit Committee in December 2014.
8. **Preparedness for the implementation of Scotland Act 2012 (December 2014).** This report assesses the Scottish Government's progress in preparing for the financial measures in the Scotland Act 2012; in particular, preparations for administering and collecting the devolved taxes and introducing the Scottish rate of income tax.

Key messages

9. The Scottish Government established clear structures for managing the set-up of Revenue Scotland and there are well-developed project plans for implementing the devolved taxes. The staff required to manage the overall programme were not in place early enough. There were also delays in procuring the IT system to collect and administer the taxes. Subsequent to the report assurances were received from the SG that plans were on track to implement the new tax arrangements.
10. The Scottish Government is working closely with HMRC to prepare for the implementation of the Scottish rate of income tax in April 2016. It has clear oversight of progress and contributes to decisions. The latest estimated set-up costs are between £35 million and £40 million, revised downwards from initial estimates of £40 million to £45 million.
11. The Scottish Government has established the Fiscal Capability 2015 programme to manage preparations for its new financial powers. It is working to incorporate the financial aspects of the new powers within its financial management arrangements.
12. **Superfast broadband for Scotland: a progress report (Feb 2015).** This report assesses the plans and arrangements in place to build a superfast broadband network in Scotland.

Key messages

13. The Scottish Government's ambition is to develop a superfast broadband infrastructure network with the capacity to deliver speeds of 40–80 Mb/s to 85–90 per cent of premises in Scotland by March 2016, and to extend this to over 95 per cent by the end of 2017. British

Telecommunications plc (BT) is responsible for installing the infrastructure through two contracts. Because detailed roll-out plans are reliant on the completion of survey work, the SG and Highlands and Islands Enterprise cannot yet state with certainty what broadband speeds they expect their contracts with BT to ultimately deliver.

14. The combined cost of building and maintaining the network as set out in the contracts with BT is £412 million, with the Scottish public sector contributing £165 million of this. BT was the only final bidder for each contract. It is difficult to conclude whether the Scottish contracts represent value for money because BT is also the sole contractor for all other UK broadband projects.
15. Based on progress to December 2014 Audit Scotland calculates that the Scottish Government will achieve its interim target to provide access to 85 per cent of premises across Scotland by March 2016. So far, BT has exceeded its contractual targets to provide access to the broadband network by 57,000 premises, although it is about 14,000 premises short of where it expected to be against its original implementation plans.
16. Arrangements for scrutinising BT's progress against the contracts are good although the Scottish Government and HIE have still to fully develop plans to measure the wider benefits of their broadband investment.
17. The report also made a number of recommendations for the Scottish Government and HIE to address and these are detailed in the report which can be accessed through Audit Scotland's website (www.audit-scotland.gov.uk).

An overview of Local Government in Scotland 2015 (March 2015)

18. This report draws on the findings from local government audit work in 2014 and provides a high-level, independent view on how councils are managed and perform. A key message in the report is that councils have managed financial pressures well but face increasingly difficult challenges and tough decisions to balance their budgets.
19. The Accounts Commission says many councils are now reporting funding gaps. Until now, they have dealt with reducing budgets largely by cutting staff numbers but this alone is not sustainable in the longer term.
20. The report says councils need to have effective long-term financial plans to give them a good understanding of their finances and the future pressures - and provide options for addressing them.

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21. In the context of overall reductions in public sector budgets, council funding has decreased. In 2013/14, the Scottish Government allocated £10.3 billion to councils - 8.5 per cent lower in real terms (allowing for inflation) than in 2010/11. At the same time, demand for council services is rising, mainly because we are all living longer.
 22. The report also says councils need to ensure that governance and scrutiny arrangements keep pace with changes in their structures and the way they deliver services, including the integration of health and social care services.
 23. Douglas Sinclair, chair of the Accounts Commission, said: "Councils have coped well so far but they will face pressures beyond next year of a scale not previously experienced, as budgets become even tighter and demands on services continue to increase. The challenge for councillors is to make best use of the money that is available and to take difficult decisions now to avoid storing up problems for the future. Regular reviews of governance are essential due to continuing changes in council staff, management and political structures and delivery models, such as the use of arm's-length external organisations and the new health and social care partnerships".

Recommendations

24. The report makes a number of recommendations intended to help councillors. With the support of council officers, councillors should assess the position in their council and, where they decide action is required; ensure the recommendations are implemented successfully.

Councillors should:

- assess whether they have appropriate knowledge and expertise to carry out their role effectively. They should review their training needs and request the training and support they require to help them consider options, make decisions and scrutinise performance
- ensure that council officers provide high-quality financial and performance information to support effective scrutiny and decision-making. This includes having relevant and up-to-date performance data and making good use of benchmarking.
- ensure that councils, when developing their priorities, use local socio-economic data and work with service users and local communities to understand their needs and explore ways of meeting them. Council budgets should then be targeted towards agreed priorities, including those designed to prevent or reduce service demand in future

- ensure that they consider all practical options for delivering services to meet the needs of service users and local communities, within the resources available. They should consider carefully the benefits and risks related to each option and make sure they receive information about the impact of the option they choose, including monitoring the risks associated with change
 - ensure that their council has financial plans covering the short (1-2 years), medium (3-5 years) and longer term (5-10 years). These plans should set out the council's financial commitments, identify any challenges with the affordability of services and set out clearly how the council ensures its financial position is sustainable over an extended period
 - review their council's governance arrangements following significant changes in staff, management and political structures. This includes ensuring their current management teams have the skills and capacity to provide effective leadership and management of finances, services and improvement programmes, and having succession plans for when senior managers retire or leave the council.
 - ensure their council has a comprehensive workforce strategy to help manage the impact of staff reductions. The strategy should ensure that the council retains the ability to make changes and improvements, and is equipped to meet increased demand for services in the context of financial constraints.
25. The report is accompanied by a self-assessment tool for use by councillors in reviewing progress in implementing recommendations set out in the report.
26. **Borrowing and treasury management in councils (March 2015).** This audit assessed how councils show best value in borrowing and treasury management decisions. The report contained a number of key messages including:
- Borrowing is a key source of finance for councils to invest in vital public services. Overall borrowing has remained at around £12 billion for the last three years, with total assets of £39 billion. Councils have developed borrowing strategies to suit their own local priorities and needs. 17 councils have increased their borrowing levels over the last 10 years.
 - Councils are following the general principles of the relevant codes of practice in demonstrating short-term affordability, but they are not always highlighting the strategic importance of borrowing and treasury management or clearly analysing and reporting the long-term affordability and sustainability of their borrowing. they represent best value for the council.

- Treasury management is a professionally run function in councils with appropriately qualified officers. Succession planning, ongoing training and the availability of appropriate professional qualifications are important. Councils have started to integrate their treasury management and capital investment functions which is a positive step.
- Councils need to improve scrutiny of borrowing and treasury management. This is a complex and technical subject and officers need to provide wider training and support to councillors, and also provide clearer, more accessible reports. The current governance structures in some councils could be improved to support more effective scrutiny.

Recommendations

27. Council officers should:

- use the treasury management strategy to present a wider strategic view of borrowing and treasury management. It should use clear and accessible language and be prepared for councillors as the key audience. It should include how the borrowing strategy is informed by corporate priorities and capital investment needs.
- create more detailed and longer-term borrowing and treasury management analysis as informed by the council's financial strategy. It should include an analysis of capital financing options to compare affordability and sustainability both in the short and long term.
- carry out joint planning with other councils to identify future qualification and training needs and enhance their capacity, in order to negotiate with training providers
- review the content of year-end reports to ensure they provide an assessment of the effectiveness of the year's borrowing and treasury management activities and the performance of the treasury management function. This should include appropriate indicators, comparative figures, and appropriate explanations.

28. Council officers and councillors involved in treasury management should:

- review governance arrangements, and update as necessary, to ensure they provide councillors with access to all reports relating to borrowing and treasury management activity including risk registers
- ensure scrutiny arrangements are robust by considering whether training for councillors provides a balance of scrutiny skills and knowledge of treasury management.

Financial statements

- 29. **Financial statements audit 2014/15.** The financial statements audit will commence on 22 June 2015 and we have ensured that sufficient resources will be available at that time in our resource planner.
- 30. In the current year we are committed to reporting a month earlier than normal. This means that the Annual Audit Report will be available for review at the September 21 meeting of the Audit Committee. Additionally, we will be combining our Annual Audit Report and ISA 260 (report to those charged with governance) into one document. This will provide members the opportunity to consider the audit report while the financial statement's audit is still current.
- 31. The timeframe for completing and reporting the financial statement audit is tight. We will liaise closely with finance staff to ensure the audit runs smoothly. Also, as in previous years, we will be relying on the Director of Finance and his team to provide a comprehensive working papers package in support of the financial statements.

Appendix 1

Progress against Annual Audit Plan 2014/15

Planned outputs	Target delivery date	Actual delivery date
Review of adequacy of internal audit	31 December 2014	16 December 2014
Draft Local Scrutiny Plan	13 February 2015	13 February 2015
Annual Audit Plan	31 March 2015	3 February 2015
Internal controls management letter	30 June 2015	
Combined ISA 260 and Annual Audit Report	By 30 September 2015	
Audit opinion on the financial statements	By 30 September 2015	

Note: We will perform the audit of Falkirk Temperance Trust in parallel with the audit of the council's financial statements and issue a separate audit opinion by 30 September 2015.