

# Falkirk Council

## External Audit Progress

### Update Report



Prepared for Falkirk Council Audit Committee

April 2016

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 2015/16

1. We are making good progress against our 2015/16 Annual Audit Plan as summarised in appendix 1 accompanying this report. All outputs to date have been delivered in line with agreed reporting dates and we are on target to deliver the remaining outputs.

## Governance work

2. **Internal Controls.** We have completed most of our controls work and will be reporting our findings in early course. We carried out a high level review and testing of key controls in a number of financial systems including trade payables (focusing on social work payments), trade receivables, banking, housing rents, council tax and non-domestic rates, payroll and general ledger. We have also carried out detailed substantive testing of payroll and general ledger transactions. This work will help us to reduce the level of testing required during the financial statements audit and allow us to focus on other areas.
3. **Reliance on internal audit.** We communicate with internal audit on a regular basis to discuss emerging issues / risks, share intelligence and technical guidance. We are placing formal reliance on aspects of internal audit's work in relation to investments (non-pension) and plan to rely on internal audit work on the integra finance system (supplier management and payments). This will allow us to focus on other areas considered to be of higher risk. In addition as part of our wider responsibilities we will consider internal audit reports in a number of areas including corporate risk management and adult health & social care integration.
4. **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. As part of 2015/16 Annual Audit Report to members we will be reporting on the council's progress in following up and investigating data matches. Also, as appropriate, we will report on any areas where we believe progress has been less than expected.
5. **Shared Risk Assessment.** As part of our annual planning process we met with other inspectorates as part of a Local Area Network (LAN) to discuss scrutiny risks and to develop a local scrutiny plan. This was then discussed with the Chief Executive and the Director of Corporate and Housing Services before submitting to Audit Scotland for final review and

publication. A best value follow-up audit will be carried out as part of this year's scrutiny activity to gauge progress in implementing the council's best value action plan. We will include key findings in our 2015/16 Annual Audit Report.

6. **Housing benefit performance audit - outcome of risk assessment.** Our specialist benefits staff carried out their review of housing benefit performance and issued a report in January 2016. The report noted that despite considerable changes in personnel within the revenues and benefits section, the council has made a very positive contribution to the delivery of the benefit service.
7. In particular the service has significantly improved the time taken to process new claims and change events from 42 days and 22 days in 2013/14 to 20 days and nine days in 2015/16 (as at 31 October 2015). At the same time the service has maintained a high level of financial accuracy and delivered an excellent performance in the recovery of HB overpayments. This is commendable and it is important that this is sustained. A fully copy of the housing benefit report accompanies this progress update.

# Performance

## National Performance Studies

8. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. Since our last progress report to Audit Committee in December 2015 several national reports have been published.
9. **Health and social care integration (December 2015).** The report highlights that while all 30 Integrated Authorities (IAs) are expected to be operational by the 1 April 2016 there are still significant risks to be addressed if integration is to fundamentally change the delivery of health and social care services. There is evidence to suggest that IAs will not be in a position to make a major impact during 2016/17. Difficulties in agreeing budgets and uncertainty about longer-term funding mean that they have not yet set out comprehensive strategic plans.
10. There is broad agreement on the principles of integration. But many IAs have still to set out clear targets and timescales showing how they will make a difference to people who use health and social care services. These issues need to be addressed if IAs are to take a lead in improving local services.

11. Douglas Sinclair, the current chair of the Accounts Commission, said that: "*Integration has the potential to be a powerful instrument for change and the Scottish Government, NHS boards and councils have done well to get management arrangements in place. However, there is a real and pressing need for integration authorities to take the lead now and begin strategically shifting resources towards a different, more community-based approach to healthcare*".
12. The report also states that if the reforms are to be successful in improving outcomes for people, there are other important issues that need to be addressed including:
  - Partners need to set out clearly how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability and potential conflicts of interests for board members and staff. There is a risk that this could hamper the ability of an IA to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care. In addition, Integration Joint Board (IJB) members need training and development to help them fulfil their role.
  - IAs must have strategic plans that do more than set out the local context for the reforms. To deliver care in different ways, that better meets people's needs and improves outcomes, IAs need to set out clearly:
    - the resources, such as funding and skills, that they need
    - what success will look like
    - how they will monitor and publicly report on the impact of their plans.
  - NHS boards and councils must work with IAs to agree budgets for the new IAs. This should cover both their first year and the next few years to give them the continuity and certainty they need to develop and implement strategic plans. IAs should be clear about how they will use resources to integrate services and improve outcomes.
13. **Major capital investment in councils: follow-up (February 2016).** The headline message from this report is that councils need to improve further the way they manage major projects like schools, roads, housing and flood prevention, says the Accounts Commission.
14. The report highlights some progress has been made in addressing the recommendations made by the Commission in a 2013 report. Councils have taken a range of actions and display aspects of good practice. But, overall, they need to increase the pace of improvement to comply fully with good practice.

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15. Accounts Commission chair Douglas Sinclair said: "*Councils spend a great deal of money on capital projects such as schools and roads which are vital for local services. Our 2013 report recommended actions to help councils improve performance. They have made some progress since then but they need to do further work to fully comply with good practice. In particular, they should provide councillors with better information through clear, good quality reports to enable them to effectively challenge and scrutinise capital investment decisions, plans and progress*".
  16. The report found weaknesses in capital investment planning. Councils need to do more to develop their long-term capital investment strategies and plans. In particular, they need to make it clearer how capital investment contributes to their strategic objectives, why and how projects are prioritised, and clearly set out the benefits these projects are expected to deliver.
  17. Councils have improved their structures and processes to help them manage capital investment activity more effectively. But they need to do more work to comply fully with good practice. They should review business cases as projects progress and evaluate them after completion so that good practice and lessons learned can be shared within councils and with others.
  18. Councils also need to provide better information to councillors to allow them to scrutinise capital investment effectively.
  19. **Procurement in councils - impact report (February 2016)**. Audit Scotland has taken stock of changes in councils' procurement performance. Between 2009 and 2014, councils' procurement performance was assessed annually by Scotland Excel using the Procurement Capability Assessment (PCA) tool.
  20. A total of 25 councils chose to participate in the 2014 PCA. Among the 25 councils that participated in the 2014 PCAs:
    - Twenty-three councils improved their overall PCA score.
    - Four councils were in the 'superior performance' category (Renfrewshire, 83 per cent; City of Edinburgh; 76 per cent; Glasgow City, 76 per cent; South Lanarkshire, 75 per cent).
    - Nineteen councils were in the 'improved performance' category (50-74 per cent).
    - Two councils were in the 'compliance' category (Shetland Islands, 40 per cent; Clackmannanshire, 45 per cent)

21. Some councils improved significantly from 2013 to 2014 (e.g. East Dunbartonshire, City of Edinburgh, Falkirk, North Ayrshire, South Lanarkshire). On average councils' overall PCA scores improved from 56 per cent to 62 per cent on average between 2009 and 2013
22. The report also recognises that councils continue to face staffing challenges and that 'councils and Scotland Excel believe shortages of skilled purchasing staff remain, and that there is a limited pool of experienced purchasing staff in the public sector from which to draw. As the economy improves, there is a risk that councils will lose qualified staff to other public sector organisations and the private sector, where salaries are higher.' Scotland Excel reiterated to Audit Scotland in October 2015 that these challenges remain and that some councils risk having an insufficient number of suitably qualified staff to properly plan and manage procurement.
23. **Community planning (March 2016).** The key message in this report is that community planning has yet to plug the gap between expectations and delivery. Progress on community planning has not yet achieved the major change needed to fulfil its potential to reduce inequalities and put communities at the heart of delivering public services.
24. In its third update on community planning for the Auditor General and the Accounts Commission, Audit Scotland states that local and national progress has been made since its last report in 2014. It recognises that CPPs have improved leadership and scrutiny, and the way they use data to set clearer priorities. However, more effort is needed to shift resources on a larger scale towards long-term goals and to involve communities fully in making decisions that affect their lives, so CPPs can improve outcomes and address inequalities, particularly in more disadvantaged areas.
25. The Community Empowerment (Scotland) Act 2015 sets out new statutory duties for CPPs, and reforms such as health and social care integration aim to promote prevention and outcomes. But stronger national leadership and support from the Scottish Government and the Convention of Scottish Local Authorities (COSLA) is needed for community planning to meet its full potential.
26. The Scottish Government is improving its understanding of individual CPPs, but should be clear on what role it expects CPPs and partners to play in reforming public services. The report also states that some short-term performance targets make it difficult to advance reform and shift the focus of public bodies to long-term outcomes for services and the people who use them.

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27. Caroline Gardner, Auditor General for Scotland, said: "*Community planning continues to be given a pivotal role in transforming public services in Scotland. The progress we've seen from individual CPPs shows there is enthusiasm for pushing forward with this ambitious reform. But without a stronger focus on prevention, long-term outcomes, and how partnerships perform, it's difficult to see how community planning can make the impact that's needed. If community planning is to thrive, the views and experiences of local people must be at the heart of measuring delivery of public services.*"
28. Douglas Sinclair, chair of the Accounts Commission, added: "*This report makes clear that a gap still exists between national expectations of CPPs, and how partnerships plan and deliver services. Bridging that gap requires firm leadership from the Scottish Government, COSLA, and CPPs, strengthened by empowered communities and a commitment from all partners to share and deliver resources towards joint priorities.*"
29. **Changing models of health and social care (March 2016).** The report looks at the growing need to create new ways of working to cope with the impact of these and other pressures, including an ageing GP workforce and a tough financial climate for public spending. The key messages in the report are summarised below:
- The growing number of people with complex health and social care needs, particularly frail older people, together with continuing tight finances, means that current models of care are unsustainable. New models of care are needed. With the right services many people could avoid unnecessary admissions to hospital, or be discharged more quickly when admission is needed. This would improve the quality of care and make better use of the resources available.
  - The Scottish Government has set out an ambitious vision for health and social care to respond to these challenges. There is widespread support for the 2020 Vision, which aims to enable everyone to live longer, healthier lives at home or in a homely setting. There is evidence that new approaches to health and care are being developed in parts of Scotland.
  - The shift to new models of care is not happening fast enough to meet the growing need, and the new models of care that are in place are generally small-scale and are not widespread. The Scottish Government needs to provide stronger leadership by developing a clear framework to guide local development and consolidating evidence of what works. It needs to set measures of success by which progress can be monitored. It

also needs to model how much investment is needed in new services and new ways of working, and whether this can be achieved within existing and planned resources.

- NHS boards and councils, working with integration authorities, can do more to facilitate change. This includes focusing funding on community-based models and workforce planning to support new models. They also need to have a better understanding of the needs of their local populations, and evaluate new models and share learning.

30. The report recommends that NHS boards and councils should work with integration authorities during their first year of integration to:

- carry out a shared analysis of local needs, and use this as a basis to inform their plans to redesign local services, drawing on learning from established good practice
- ensure new ways of working, based on good practice from elsewhere, are implemented in their own areas to overcome some of the barriers to introducing new care models
- move away from short-term, small-scale approaches towards a longer-term approach to implementing new care models. They should do this by making the necessary changes to funding and the workforce, making best use of local data and intelligence, and ensuring that they properly implement and evaluate the new models
- ensure, when they are implementing new models of care, that they identify appropriate performance measures from the outset and track costs, savings and outcomes
- ensure clear principles are followed for implementing new care

31. The report also references the pivotal role of health and social care integration in transforming how services are delivered, with new integration authorities (IAs) set to go live on 1 April 2016. In their first in a series of reports on the progress of integration, the Auditor General and Accounts Commission recommended in December 2015 that IAs need to be clear about how they will use resources to integrate services and improve outcomes.

32. Full copies of all our national reports are available for download from the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

# Financial statements

- 33. Financial statements audit 2015/16.** We expect to receive the unaudited financial statements and supporting working papers on 20 June 2016. Thereafter we plan to bring our 2015/16 Annual Audit Report (AAR) to the September 2016 meeting of the Audit Committee.
- 34.** We are currently carrying out substantive testing in a number of key areas such as payroll to ensure that the final accounts process runs smoothly. It will also help us focus our testing in other areas requiring more attention such the revaluation of council houses.

# Appendix 1

## Progress against Annual Audit Plan 2015/16

Planned outputs	Target delivery date	Actual delivery date
<b>Governance</b>		
Review of adequacy of internal audit	31 December 2015	18 November 2015
Annual Audit Plan	31 March 2016	1 March 2016
Internal controls management letter	30 June 2016	
<b>Performance</b>		
Scotland's Public Sector Workforce f/up questionnaire	30 June 2016	Note 1
<b>Financial statements</b>		
Annual Audit Report 2015/16	26 September 2016	
Independent auditor's report on the financial statements	26 September 2016	
Audit opinion on Whole of Government Accounts	30 September 2016	

Notes:

1. Any significant findings will be shared with management.
2. The table above excludes audited grant claims e.g. housing benefit, non-domestic rates return.