

The background of the page features a large, light grey watermark of the University of Victoria crest. The crest is a shield with a crown on top. The shield is divided into four quadrants: top-left shows a ship, top-right shows a stag's head, bottom-left shows a ship, and bottom-right shows an eagle. A banner at the bottom contains the motto 'ANE FOR A'.

**AGENDA ITEM**

**9**

**EXTERNAL AUDIT PROGRESS  
UPDATE REPORT**

# Falkirk Council

## External Audit Progress

### Update Report



Prepared for Falkirk Council Audit Committee

June 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 our controls work which included a high level review of controls in a number of systems (trade payables, trade receivables, banking, housing rents, council tax and non-domestic rates, payroll and general ledger) combined with detailed substantive testing of payroll and general ledger transactions. Our testing did not identify any significant weaknesses although we did note that some areas have scope for improvement. Our findings are included as a separate report on the Audit Committee agenda.
3. **Reliance on internal audit.** We communicate with internal audit on a regular basis to discuss emerging issues / risks, share intelligence and technical guidance. Also, 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 have considered internal audit reports in a number of areas including corporate risk management and adult health & social care integration. We note that good progress has been made on risk management arrangements.
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. As at 6 June 2016 , NFI identified a total of 6,314 matches of which 1,272 were highly recommended for investigation. Staff have followed-up 351 of the highly recommended matches and generated £6,033 of potential savings.
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

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Corporate and Housing Services before submitting to Audit Scotland for final review and publication. The local scrutiny plan has been published on Audit Scotland's website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

6. A best value follow up audit is a key area of scrutiny in 2015/16. The best value team have completed their initial fieldwork and interviews with officers and members. Currently, the team are evaluating they have gathered to highlight emerging issues for further discussion. They are also looking to identify areas where further evidence is required before concluding their findings. The emerging findings will be discussed with the corporate management team before they are formally reported.

# 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. Since our last progress report to Audit Committee in December 2015 several national reports have been published.
8. **An overview of local government in Scotland 2016 (March 2016).** The overview report provides a high-level, independent view of councils' management and performance. It draws on the findings from local government audit work in 2015, including audits of 2014/15 financial statements, Best Value, Community Planning and Performance. The report is primarily for councillors and senior council officers as a source of information and to support them in their complex and demanding roles.
9. Throughout the report Audit Scotland identifies questions that councillors could ask to help them understand their council's financial position, scrutinise performance and make good decisions. Councillors should satisfy themselves that they understand, and are comfortable with, the answers to the questions most relevant to them in their role within the council. These questions are also in a separate self-assessment tool on Audit Scotland's website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)). The website also provides selected financial facts about each council to help comparisons and benchmarking.
10. The key messages in the report are summarised overleaf:
  - Councils' revenue funding from the Scottish Government will reduce by five per cent in 2016/17, bringing the real terms reduction in revenue funding since 2010/11 to 11 per

cent. At the same time, they face additional financial pressures and greater demands on services. Councils have been effective in balancing their annual budgets until now but councillors face increasingly difficult decisions about how best to spend their reducing budgets. This requires clear priorities and better long-term planning.

- Councils' responses to budget reductions have mainly focused on incremental savings to existing services. In the face of further funding reductions, councils should be evaluating options for more significant changes to delivering key services beyond health and social care integration.
- Despite reducing their spending, performance measures show that councils improved in areas such as educational attainment, the quality of council housing and waste recycling in 2014/15. However, customer satisfaction with some services declined and there are more significant funding reductions to come in 2016/17 and beyond.
- Most councils have reduced their workforces to save money and many are planning further staff reductions. In doing so, they need to ensure they have people with the knowledge, skills and time to design, develop and deliver effective services in the future.
- Councils and their partners also need to respond to the Community Empowerment (Scotland) Act 2015 by involving local people more in making decisions about services, and empowering local communities to deliver services that are sustainable and meet local needs.
- Councillors need to keep updating their skills and knowledge to fulfil their complex and demanding role. In particular, it is increasingly important that they are able to challenge and scrutinise decisions and performance and fully assess options for new and different ways of delivering services within their reducing budgets.

11. Councillors are now leading complex organisations in increasingly challenging circumstances. There are a range of sources to help them understand and manage their council's financial and service performance, for example the Improvement Service. The report recommends that Councillors should:

- Satisfy themselves that their council has a longer-term financial strategy (five or more years) supported by an effective medium-term financial plan (three to five years). These should show how the council will prioritise spending to achieve its objectives, make any necessary savings and remain financially sustainable.

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- Appraise all practical options for how to deliver the services their communities need within the resources available. This includes examining opportunities to work with and empower communities to deliver services in different ways and learning lessons from others and from wider public service reform. They should ensure they get all necessary information and support from officers to help them fully assess the benefits and risks of each option.
  - Ensure their council continues to develop workforce strategies and plans that clarify the numbers and skills of staff needed in future. In assessing their council's workforce, councillors should consider whether they have people with the knowledge, skills and time to support them effectively in making the difficult decisions that lie ahead and to design and implement new ways of delivering services.
  - Make sure that decision-making processes and scrutiny arrangements remain appropriate for different ways of delivering services. This includes:
    - having clearly written and manageable information to help them to make decisions and scrutinise performance
    - carrying out business openly and improving public reporting
    - Regularly review their personal training and development needs. They should work with council staff and others to create opportunities to update their knowledge and skills in increasingly important areas, such as financial planning and management, options appraisal, commissioning services, partnership working and scrutiny. These opportunities should also be available to any new members after the local elections in 2017
    - Use the questions in this report and the separate self-assessment tool to help them assess their council's position.
- 12.** It is challenging for councillors and officers to fundamentally change the way a council has provided a service over a lengthy period of time. Also, as the the landscape of service delivery becomes ever more complex, councils will need to ensure they have people with the necessary knowledge and skills to manage that complexity. This is important for councillors and council officers, as both must have, for example, skills in options appraisal, programme management, commissioning, finance and scrutiny. Furthermore, in a climate of reducing resources the importance of scrutiny has never been greater.

13. **National Scrutiny Plan for local government (March 2016).** The National Scrutiny Plan for local government has been jointly prepared by members of the Strategic Scrutiny Group (SSG). This group comprises Scotland's main public sector scrutiny bodies.
14. This year's NSP has been prepared at a time of significant change in the public sector delivery landscape as a consequence of, among other things, the establishment of new statutory Integration Joint Boards (IJBs) to implement health and social care integration. Also the passing of the Community Empowerment (Scotland) Act, which places new statutory duties on public bodies to work together to improve outcomes and address inequalities through community planning.
15. The significant pieces of national scrutiny activity that are planned during 2016/17 include:
  - Audit Scotland's programme of national performance audits that it undertakes on behalf of the Accounts Commission and the Auditor General for Scotland. Audit Scotland has several performance audits covering local government planned during 2016/17. It will be carrying out audits covering social work, early learning and childcare, and equal pay, as well as follow-up audits on self-directed support and maintaining Scotland's roads. The performance audit programme for 2016/17 is available online. Audit Scotland will also continue to carry out a national programme of housing benefit risk assessments across councils.
  - The Care Inspectorate will undertake Validated Self-Evaluation (VSE) activity with Alcohol and Drug Partnerships (ADPs). The purpose of this activity is to support the validation of ADPs and services' self-assessment of local implementation and service compliance with the Quality Principles: Standard Expectations of Care and Support in Drug & Alcohol Services. The findings from this validation work will be reviewed by the Scottish Government to consider and inform the future programme of national support that will further encourage and support delivery of continued improvements at ADP and service level. It is anticipated that all 30 ADPs will participate. The Care Inspectorate will provide brief, customised feedback to each ADP in order to help build their capacity for self-evaluation. A national overview report will also be completed by the end of 2016.
  - Education Scotland will continue to work in partnership with councils to carry out a VSE of educational psychology services across all councils over a two-year period during 2016/17. It will also review the quality of Careers Information Advice and Guidance services delivered by Skills Development Scotland across all council areas. This will be

the second of a three-year programme that began in 2015/16. In addition, Education Scotland will continue to engage with councils for the purpose of VSE.

- HMICS will continue to inspect local policing divisions across Scotland. Divisional inspections will cover partnership working and in particular, local scrutiny and engagement between Police Scotland and councils and the local Community Planning Partnership and Community Safety Partnership. Local police inspections also include a 'plus' element, which aims to investigate national issues through a local lens. These elements are subject to separate reports published on its website [www.hmics.org.uk](http://www.hmics.org.uk).
- HMFSI will continue to inspect local fire and rescue services across Scotland over the next five years. These inspections will examine, among other things, local scrutiny and engagement between the Scottish Fire and Rescue Service and councils. As part of its programme, HMFSI will inspect four local fire and rescue services during 2016/17. HMFSI may also carry out ad hoc inspections in response to specific events.
- The Scottish Housing Regulator (SHR) will publish the findings of its thematic inquiry work completed during 2015/16. It will carry out further thematic inquiries during 2016/17. The SHR will also review the Scottish Social Housing Charter data submitted by landlords and carry out data accuracy visits during the second quarter of 2016/17. Where councils are to be involved in a thematic inquiry or a data accuracy visit, the SHR will confirm this directly with the council and the LAN lead.

**16. Re-shaping care for older people – impact report (May 2016).** The report summarises the impact made by the Audit Scotland performance audit *'Reshaping care for older people'* published on 6 February 2014. It looked at the extent to which care for older people has shifted towards communities and away from hospitals and care homes. The authors of the report also reviewed whether the Change Fund was helping to improve care for older people in ways that can be sustained. In addition, the report also examined the challenges facing organisations that deliver services for older people and how well they are meeting them.

**17.** The key messages from the report can be summarised as follows:

- Reshaping care for older people (RCOP) is a complex programme of major transformational change. Strong national and local leadership is needed to take this significant agenda forward.
- There is little evidence of progress in moving money to community-based services and NHS boards and councils need clear plans setting out how this will happen in practice.

- The Change Fund represents 1.5% of all spending on older people in 2011/12 and this has led to the development of a number of small-scale initiatives. Initiatives are not always evidenced-based or monitored on an on-going basis and it is not clear how successful projects will be sustained and expanded. The Change Fund has been successful in bringing together NHS boards, councils and the third and private sectors to develop and agree joint plans to improve care for older people in their local area.
  - For several years, there has been a greater focus on improving quality of care for older people in Scotland and providing services in a joined-up way, but progress has been slow. National performance measures have not kept pace with policy changes and a greater focus on outcomes is needed. There is no clear national monitoring to show whether the policy is being implemented successfully and what impact this is having on older people.
18. The report made a number of key recommendations:
- There should be clear measures of success when a policy is introduced.
  - Existing information is better used to understand variations in activity and spend on older people's health and social care services across Scotland.
  - Improvements to information on the cost, activity, outcomes and quality of health and care services for older people.
  - Evaluation of new initiatives aimed at improving health and social care for older people, to assist in spreading successful initiatives.
19. Soon after our original report was published in 2014, the legislation requiring NHS boards and councils to integrate adult health and social care services received royal assent. Many of the recommendations in the Audit Scotland report are being taken forward as part of the integration agenda.

## Financial statements

20. **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 meeting of the Audit Committee on 26 September 2016. We are on track to deliver our Annual Audit Report by this date.

21. We are currently carrying out substantive testing in a number of key areas such as payroll, cash & bank, non-domestic rates and council tax. This is to ensure that the final accounts process runs smoothly. It will also help us focus our testing in other areas requiring more attention such as the revaluation of council houses.

## New Code of Practice

22. The Code of audit practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and the Accounts Commission and it is a condition of their appointment that they follow it.
23. The Code also describes the scope of public audit in Scotland where audit work is undertaken by appointed auditors, performance audit and Best Value audit staff from Audit Scotland or jointly depending on the nature and timing of the work.
24. The Code applies to external audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011.
25. The Code provides a framework for auditors to make a difference and support improvement in public services. This framework defines the scope of public audit and explains how audit work and audit outputs are to be delivered and help stakeholders understand the value of audit.

# 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	1 June 2016
<b>Performance</b>		
Scotland's Public Sector Workforce f/up questionnaire	30 June 2016	3 June 2016 (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. Management have been provided with a copy of the completed questionnaire.
2. The table above excludes audited grant claims e.g. housing benefit, non-domestic rates return.