

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest includes a crown at the top with four maple leaves, a shield divided into four quadrants (top-left: a saltire, top-right: a stag's head, bottom-left: a sailing ship, bottom-right: an eagle), and a banner at the bottom with the motto 'CITY OF VANCOUVER' in French. The text 'Agenda Item 6' is centered over the shield.

Agenda Item 6

2016/17 Annual Audit Report to Members and the Controller of Audit

Falkirk Council

Title: 2016/17 Annual Audit Report to Members and the Controller of Audit

Meeting: Audit Committee

Date: 28 September 2017

Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 The purpose of this report is to present the key messages coming out of Ernst & Young's 2016/17 Annual Audit Report to Members and the Controller of Audit.

2. Recommendations

2.1 The Committee is asked to:-

- (1) Note the contents of this report.**
(2) Note the status of the audit and action plan in appendix 1.

3. Background

- 3.1 The Council's appointed auditors, Ernst & Young, are required to produce a number of reports as part of their annual audit. The International Standard on Auditing 260 (ISA 260) "Communication of audit matters to those charged with governance", requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body, in sufficient time to enable action. In addition, an annual report on matters of significance that have arisen out of the audit process is required. The Ernst & Young report attached as Appendix 1 covers both these requirements.
- 3.2 Ernst & Young have prepared an action plan which requires management responses. This is also included at Appendix 1.

4. Considerations

4.1 Audit of Financial Statements

- 4.1.1 The unaudited accounts were considered by the Audit Committee on the 21st August 2017. The report noted that the audit process formally commenced at the beginning of July.
- 4.1.2 Ernst & Young have now substantially completed their audit of the financial statements and expect to issue an Auditor's Certificate which is free from qualification.

- 4.1.3 Following approval by the Audit Committee, the audited accounts will be signed by the Leader of the Council and the Chief Executive. This process is in line with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.
- 4.1.4 Once signed, the accounts will be sent to interested parties, posted to the Council's website and their availability advertised in the local press.
- 4.1.5 The following points were noted in respect of the annual accounts

Employee Related Liabilities

An adjustment was made to the cost of employee related liabilities of £1.8m which relate to voluntary severance and equal pay. The Auditor's report acknowledges that the Council has identified resources to pay for these liabilities and the change to the accounts does not affect the overall balance on the General Fund.

Valuation of Assets

The Council's arrangement for valuing assets incorporates an annual rolling valuation exercise and arrangements for reviewing any significant capital additions or impairments during the course of the year. However, the audit report recommended that consideration was given to ensuring that asset valuations, outwith the rolling valuation exercise, have not materially changed as a result of movement in market prices.

Impairment of Council Dwellings

An adjustment was also made to the financial accounts to reflect an impairment adjustment to council dwellings which had been incorrectly charged to the revaluation reserve in both 2015/16 and 2016/17. Again there was no impact on the overall balance on the General Fund.

Falkirk Community Stadium Ltd

As part of the restructuring of the Falkirk Community Stadium Limited (FCSL) in 2009, loans advanced by the Council of c£6.1m ceased to exist, with the Council receiving alternative assets in lieu of the sums outstanding. The cancellation of the loans has not been reflected within FCSL's accounts and the auditors are recommending that the loan arrangements are appropriately adjusted in their accounts.

4.2 Wider scope – Approach to Best Vale

- 4.2.1 The annual report notes that the Code of Audit Practice details four dimensions within the wider scope audit for the public sector in Scotland, which are financial management, financial sustainability governance and transparency and value for money. The report notes that the Council has:
- maintained good financial management over income and expenditure and the Council's financial position at 31st March 2017 is satisfactory
 - established a comprehensive framework of governance arrangements which provides a clear commitment to the core principles of independent scrutiny
 - performed reasonably well in terms of performance in comparison with other Councils

- 4.2.2 There are, however, areas noted in the report for consideration, along with a number of associated recommendations which are incorporated into the Action Plan. The most important areas are noted in the following paragraphs.
- 4.2.3 Members have regularly been given cautionary and prudent advice with respect to the deployment of reserves to help achieve a balanced budget, most recently in the budget report that went to Council in June. This audit report again notes that using reserves to support services is not sustainable unless they are used to transform service delivery and generate savings
- 4.2.4 The report notes the work of the cross party Member Budget Working Group and its ongoing work with regard to consideration of officers savings proposals to meet the anticipated budget gaps. The report recommends that budget proposals are aligned with the Council's new Corporate Plan and resulting priorities.
- 4.2.5 The Council of the Future is noted in the report as the key framework for delivering transformational change over a period of challenging financial constraints. The report notes that strong project management is required, with clear milestones for delivery of each stage of the multi-year projects
- 4.2.6 The priorities for the Council of the Future are linked to the revised Strategic Outcomes and Delivery Plan (SOLD) and in turn the Corporate Plan which was considered by the Council in September. The report recommends that targets are set over the full period of the plans to help drive continuous and ambitious transformation.
- 4.2.7 Councils have a responsibility to comply with the Guidance on Following the Public Pound. The report concluded that the Council has appropriate arrangements in place for ensuring compliance with the Code, but it considered that there was scope to review its overall governance relationship with FCSL, where Council officers are Directors.

5. Consultation

- 5.1 No consultation is required on this report.

6. Implications

Financial

- 6.1 There are no financial implications as a result of the recommendations in this report.

Resources

- 6.2 There are no resource implications as a result of the recommendations in this report.

Legal

- 6.3 There are no legal implications as a result of the recommendations in this report.

Risk

- 6.4 There are no risks as a result of the recommendations in this report.

Equalities

- 6.5 There are no equality implications as a result of the recommendations in this report.

Sustainability/Environmental Impact

- 6.6 There are no sustainability/environmental implications as a result of the recommendations in this report.

7. Conclusions

- 7.1 The audit of the Council's annual accounts for 2016/17 will be formally concluded following the approval of the accounts. The action plan arising from the audit process has been agreed and will be monitored to ensure completion.

Director of Corporate & Housing Services

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Date: 15 September 2017

Appendices

- Appendix 1 Ernst & Young's report – 2016/17 Annual audit report to Members and the Controller of Audit.
Appendix 2 Proposed Audit opinion and letter of representation by Ernst & Young.

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None