

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest is a shield divided into four quadrants. The top-left quadrant shows a sailing ship on wavy lines representing water. The top-right quadrant depicts a stag's head with large antlers. The bottom-left quadrant contains a beaver. The bottom-right quadrant shows a grizzly bear standing on its hind legs. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield contains the motto "A NE FOR A".

Agenda Item 3

Minute

FALKIRK COUNCIL

Minute of the meeting of the Audit Committee held in the Municipal Buildings, Falkirk on Thursday 27 September 2018 at 2.30 p.m.

Members:

Councillor Niall Coleman
Councillor Joan Coombes
Councillor Nigel Harris
Councillor Cecil Meiklejohn
Councillor Pat Reid

Officers:

Danny Cairney, Senior Service Manager Corporate Finance
Rhona Geisler, Director of Development Services
Kenneth Lawrie, Chief Executive
Kenny McNeill, Children's Services Resources Manager
Gordon O'Connor, Audit Manager
Brian Pirie, Democratic Services Manager
Stuart Ritchie, Director of Corporate & Housing Services
Bryan Smail, Chief Finance Officer

Also Attending:

Steven Reid, Ernst & Young

A16. Apologies

No apologies were intimated. In the absence of a Convener, Councillor Coombes took the chair.

A17. Order of Business

The chair varied the order of business from that shown on the agenda. The following items are recorded in the order in which they were taken at the meeting.

A18. Declarations of Interest

No declarations were made.

A19. Minute

Decision

The minute of the meeting of the Audit Committee held on 18 June 2018 was approved.

A20. 2017/18 Annual Audit Report to Members and the Controller of Audit

The Committee considered a report by the Director of Corporate and Housing Services presenting the 2017/18 Annual Audit Report by the Council's External Auditors, Ernst & Young LLP, together with proposed Audit opinion and letter of representation by Ernst & Young LLP.

The Chief Finance Officer provided background to the Auditor's Report highlighting the key messages. Steven Reid, then gave a detailed summary of the Report. He confirmed that he intended to issue an unqualified audit opinion in regard to the Council's accounts.

Both the Chief Finance Officer and Mr Reid set out the key messages contained in the Auditor's Report. These focussed on:-

- financial management
- financial sustainability
- governance and transparency
- value for money

The Audit Report set out the Auditor's assessment of the Council's arrangements identifying the degree of risk potentially facing the Council in regard to each (described by red, amber or green colour coding). An action plan, showing the potential risk together with management response was set out in an appendix to the Audit Report.

The Committee sought more detail on those areas considered high risk – financial sustainability and value for money, - in particular in regard to the projected £60m budget gap over the next 5 years and Council's response to closing the gap.

The Director of Corporate & Housing Services concurred that the financial situation warranted the Auditors' high risk rating. There was an intrinsic link between the Council of the Future transformational project and financial sustainability. He acknowledged the need to increase the pace of implementing the various strands of the project and driving transformation and that the size of the challenge facing the Council was understood by the Corporate Management Team.

In response to a question, the Director confirmed that other local authorities faced significant challenges. In the case of Falkirk Council, however the Auditors had identified the pace of implementing and achieving savings as an issue. Previously Council had been able to identify 'easy to access' savings to balance its budget. These were less easily identified now and consequently there was a need to transform services in order to achieve the savings required to close the budget gap.

The Chief Finance Officer stated that the Executive had approved the Medium Term Financial Plan on 25 September 2018. Financial sustainability was an inherent risk for all Councils but the Plan would reduce the risk.

Members responded that as long as the Scottish Government set a one year budget, it was difficult to effectively plan for the medium term. There was a risk in cutting too deep, too quick and in doing so, there could be consequential impacts – for example by reducing capital spend there would be an increased cost in building repairs and maintenance in future years.

In response to comments on the use of reserves to plug budget gaps, the Chief Finance Officer repeated that this was inadvisable, and there was a need to tackle the underlying debts. Reserves could be used to buy time so that sustainable options could be implemented (with reserves topped up in time), however simply plugging gaps with reserves was unsustainable.

The Chief Executive stated that there was a fundamental difference between ‘cutting’ and ‘transforming’. He cited an example where financial intervention had led to service improvement and which had also taken costs out the system. The Council needed to be entrepreneurial, to work with communities and invest in digitisation – the aim was to take costs out without damaging services.

Decision

The Committee noted the:-

- (1) Annual Audit Report for 2017/18, and**
- (2) action plan appended to the Annual Audit Report.**

A21. Annual Accounts 2017/18

The Committee considered a report by the Director of Corporate and Housing Services presenting the audited accounts for 2017/18.

The draft accounts had been submitted to the Controller of Audit by 30 June and had been considered by the Committee on 13 August 2017 (ref AC8).

The accounts had now been audited by Ernst and Young and were presented for approval. The audit certificate was free from qualification.

Following a question in regard to Falkirk Community Stadium Ltd (FCSL), the Chief Finance Officer confirmed that a report on FCSL would be submitted to the Executive in due course.

Decision

The Committee approved the audited annual accounts for 2017/18.

A22. Temperance Trust Annual Accounts 2017/18

The Committee considered a report by the Director of Corporate and Housing Services presenting Falkirk Temperance Trust's audited annual Trust's accounts 2017/18 for consideration ahead of their submission to the Trustees.

Following a question on the various Trusts which had been established in the area over the years, the Chief Finance Officer explained that the Temperance Trust was unique given the status of its Trustees.

Decision

The Committee agreed to recommend approval of the audited annual accounts of the Temperance Trust to its Trustees.

A23. Internal Audit Progress Report

The Committee considered a report by the Internal Audit Risk and Corporate Fraud Manager setting out progress in completing the 2018/19 Internal Audit Plan.

The Plan had originally set out 23 assignments. An additional assignment had since been included, and completed. This was in regard to Revenues and Benefits Data Handling and Bulk Mailing. A review of the Council of the Future Board's scrutiny of programme and project would also be undertaken towards the end of 2018/19. To date 6 assignments had been completed with a further 8 in progress.

At the meeting in June 2018 (ref AC13), the Internal Audit Manager had undertaken to review the set of key performance indicators by which Internal Audit performance was measured. They were:-

- Complete 85% of agreed audits.
- Have 90% of recommendations accepted.
- Spend 75% of time on direct audit work.
- Issue 75% of draft reports within 3 weeks of completion of fieldwork.
- Complete (to issue of final report) 75% of main audits within budget.

Following review a revised set were now proposed:-

- Complete 85% of agreed assignments;
- Issue 85% of draft reports within 3 weeks of completion of fieldwork;
- Have 95% of recommendations accepted by management; and
- Demonstrate via annual self assessment that the section operates in compliance with PSIAS.

In response to a question in regard to the audit of building security and the limited assurance awarded, the Internal Audit Manager confirmed that the Corporate Risk Management Group would oversee improvement actions to address the findings. In addition revised guidelines would be prepared and issued.

At the meeting in June 2018 (ref AC12) the External Auditor had confirmed that he considered the grading of Audit recommendations to be good practice and that this had been commended to the Council's Internal Audit function.

Following a question from the Committee, the Internal Audit Manager confirmed that he had agreed with the Auditors' recommendation and having taken the opportunity to review and benchmark, would provide an update on recommendations for grading audit findings in the next Internal Audit progress report.

Decision

The Committee:-

- (1) noted progress being made with completing the 2018/19 Internal Audit Plan, and**
- (2) agreed the revised set of Key Performance Indicators set out in the report.**

Councillor Reid left the meeting during consideration of the previous item of business.

A24. Corporate Risk Management Update

The Committee considered a report by the Director of Corporate and Housing Services on progress made in embedding Corporate Risk Management (CRM) arrangements.

The Executive had approved a revised Corporate Risk Management Policy and Framework on 15 May 2018 (EX13). The report set out progress in embedding CRM arrangements.

Following questions in regard to risks relating to Criminal and Community Justice arrangements, the Children's Services Resources Manager, explained that a key vacant post had been filled in June and consequently he expected that progress in addressing issues in these areas would pick up.

Members asked whether there was a risk in the post of Audit Committee Convener not being filled. The Democratic Services Manager explained that the recruitment process was ongoing and that it was intended that the position be filled at the earliest opportunity.

Decision

The Committee noted:-

- (1) the Corporate Risk Management Update;**
- (2) the updated Corporate Risk Register (CRR), and**
- (3) that a Members' Risk Workshop/Training will be arranged.**