

## **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.**