

Falkirk Council

2008/09 Audit

Governance and Internal Control

October 2009



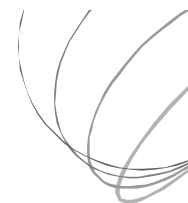
 **AUDIT SCOTLAND**



Falkirk Council

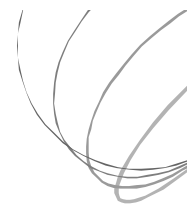
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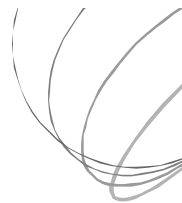
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Summary

1. Audit Scotland's Code of Audit Practice (the code) sets out the basic principles that govern all audit work and compliance with the code ensures that audits are conducted in accordance with legislative requirements and International Standards on Auditing.
2. Understanding the client's governance and accountability environment is crucial to the audit. As part of our work in this area, we carry out an annual review of the corporate governance arrangements in place in the authority. Our 2007/08 report on governance arrangements contained an action plan which identified some areas for improvements in the arrangements. Our 2008/09 review followed up progress in implementing the agreed actions contained in the action plan.
3. The Code of Audit Practice also requires the auditor to review and report on the main financial systems to contribute to an assessment of corporate governance arrangements. Our overall assessment of the main financial systems also forms part of the process of arriving at an appropriate audit opinion on the financial statements.
4. Our review revealed that Falkirk Council has generally sound corporate governance arrangements in place, however, we did identify some areas where further improvements could be made, including:
 - improvements to the council's scrutiny arrangements.
 - the inclusion of an opinion on the governance arrangements of other group entities in the Annual Governance Statement contained within the council's financial statements
 - embedding risk management arrangements within the council.
 - fully updating the council's Standing Orders, Scheme of Delegation and Financial Regulations
 - improvements to the systems of controls.
5. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.
6. Appendix A of this report contains an action plan, which sets out the agreed action to be taken in response to the audit findings. The action plan should be read in conjunction with the relevant references to the main report. The factual accuracy of the report and action plan has been agreed with the relevant officers. Implementation of the action plan is the responsibility of the council, and progress will be reviewed as part of the 2009/10 audit.



7. Although we have identified a number of areas for improvements to the governance arrangements, including the systems of internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
8. Communication of issues and weaknesses arising from this audit does not absolve management from its responsibility for addressing the issues raised and for maintenance of an adequate system of internal control.
9. The co-operation and assistance afforded to audit staff during the course of the audit is gratefully acknowledged.

Findings

Introduction

10. Our review of the governance arrangements focussed on the following areas:

- Scrutiny arrangements
- Annual Governance Statement
- Standing Orders, Scheme of Delegation and Financial Regulations
- Register of Interests
- Systems of Internal Control
- Internal Audit
- Risk Management
- Fraud & corruption arrangements
- Codes of Conduct

Scrutiny Arrangements

11. The council undertook a review of its scrutiny arrangements and introduced a revised structure in March/April 2009. The council should keep the effectiveness of scrutiny under the revised structure under review as it continues to bed in.

12. As part of the review, the Council has established an Audit Committee, based on the CIPFA publication on “Audit Committee Principles in Local Authorities in Scotland”. This committee is still bedding in and we have noted some instances where there is scope for improvement in the Audit Committee arrangements:

- the Audit Committee is chaired by the Leader of the Administration. CIPFA recommends that the committee chair should, expressly, not be a member of the executive. A non-executive and independent chair is essential in order to promote the objectivity of the audit committee, its authority and to enhance its standing in the eyes of the public
- the Audit Committee remit does not include a review of the financial statements and the associated audit process
- the CIPFA guidance recommends that regular and specific audit committee training should be provided in financial reporting, governance, understanding the financial statements, the regulatory framework, the role of the internal and external auditor and the importance of risk management. From our review of members training we would suggest there is scope to deliver specific training in these areas

- members of the audit committee do not meet privately and separately with the external auditor and Head of Internal Audit.

Action Plan nos. 1 - 4

13. We also note that the revised Best Value Forum continues as a forum for scrutinising Best Value in the Council, including service performance. The forum does not have formal committee status and continues to conduct its business in private. There remains, therefore, an important element of council scrutiny which is not carried out in an open and transparent manner.

Action Plan no. 5

14. Under the Local authority Accounts (Scotland) Regulations 1985 the council's proper officer is required to prepare an abstract of the accounts of the authority as soon as practicable after the end of each financial year. The Regulations also require sufficient copies of an abstract of the accounts "to be submitted to the authority and to the Controller of Audit not later than 30 June in the next financial year, or such later date as the Scottish Ministers may in any particular case approve."
15. We note that the unaudited accounts were submitted to the Controller of Audit on 26 June 2009. We also note a report was submitted to the Policy & Resources Committee on 24 June informing that the unaudited accounts would be submitted to the Controller of Audit by the due date (and advising of the draft accounts as a background paper). In our view improvements could be made to the process of submitting the unaudited accounts to Members.

Action Plan no. 6

Internal Audit

16. Internal audit supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses in internal control to management for action.

17. Our ongoing review has identified that the council's internal audit service continues to operate in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government*. The 2008/09 internal audit plan is complete and our review has found that internal audit work is of a good quality.
18. The 2008/09 internal control assurance statement prepared by the Head of Internal Audit reflects substantial assurance in respect of Falkirk Council's overall framework of controls. The statement did identify individual areas of review where limited or no assurance could be provided i.e. Recycling Centre (Kinneil Kerse) Security Arrangements, Education Service Overtime Arrangements, Supply Teacher Provision and Social Work Information Systems, Building Security (Municipal Buildings) and Fleet Management Arrangements. In each case action is being taken by the council to strengthen controls.

Annual Governance Statement

19. In 2007, CIPFA/SOLACE published a revised governance framework entitled "*Delivering Good Governance in Local Government*". This guidance recommends that local authorities in England, Wales and Northern Ireland, which have a statutory requirement to conduct an annual review of and report on the effectiveness of the system of internal control, report their findings in an Annual Governance Statement.
20. CIPFA/SOLACE also publishes an annual Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice (the 'SORP'). The 2008 'SORP' states that "*Scottish local authorities, which are not required by legislation to conduct a review at least once in a year of the effectiveness of its system of internal control, should consider doing so voluntarily and preparing an Annual Governance Statement. Authorities that do not voluntarily choose to do this should (continue to) include a statement on the system of internal financial control within their Statement of Accounts*". The 'SORP' also recommends that "*where an authority is in a group relationship with other entities and undertakes significant activities through the group, the review of the effectiveness of the system of internal control should include its group activities*".
21. We note that the authority has decided to include an Annual Governance Statement in its 2008/09 financial statements. While we commend this decision we note from an initial review of the process that the draft statement includes a review of the governance arrangements of Falkirk Council alone and excludes the arrangements for other group entities. We note that the authority intends to address this in next year's financial statements.

Action Plan no. 7

Risk Management

22. In our previous years' audits, we reported that the council needed to improve its risk management framework and to embed risk management within the council's strategic and operational planning processes and that little progress had been made in this area.
23. We note that the council has reviewed its process for developing its corporate risk register and has prepared a revised risk register. We also note that the consideration of the council's risk management arrangements is included within the remit of the newly established Audit Committee. While recognising these improvements, there is still some way to go before risk management arrangements can be considered to be fully embedded within the council.

Action Plan no. 8

Standing Orders, Scheme of Delegation and Financial Regulations

24. In our 2007/08 report we noted that a full review of the council's standing orders and scheme of delegation was overdue. We also noted that the council's financial regulations had not been updated since 2004. The council's response was that the standing orders and scheme of delegation would be reviewed by December 2008 and the financial regulations would be updated on an annual basis. This work was to be completed after the council's review of its political and management structures.
25. Although some progress has been made in this area, the review of these documents has not yet been completed. We note that the political structure review was completed in January 2009 and that the management structure review is ongoing.

Action Plan no. 9

Systems of internal control

26. As part of the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to review of systems for internal controls. Review of the key systems of internal control also allows us to satisfy the requirements of the auditing standards which require that external auditors obtain an understanding of the accounting and internal control systems that exist within the council to allow us to plan the audit and develop an effective financial statements audit approach. Appendix B

identifies the key council systems which support the preparation of the Council's financial statements.

27. Our audit consisted of high level reviews of the systems with our work focused on identification and testing of key 'high level' controls within selected systems. Overall we found that high level controls were generally operating satisfactorily, although we did identify identified some areas where there is scope for improvement to the systems of control. The areas we identified where further improvement could be achieved are included in the action plan included within this report.

Action Plan nos. 10 - 16

Appendix A: Action Plan

No.	Issue and Risk identified	Management Action	Responsible Officer	Action Date
Scrutiny Arrangements				
1.	<p>The Audit Committee is chaired by the Leader of the Administration. CIPFA recommends that the committee chair should, expressly, not be a member of the executive.</p> <p><i>Risk: The Audit Committee may not be seen to be fully independent and objective if chaired by a member of the Executive.</i></p>	Members have considered this issue and made their decision	N/A	N/A
2	<p>The Audit Committee remit does not include a review of the financial statements and the associated audit process.</p> <p><i>Risk: The Committee may not fully carry out the core functions of an audit committee.</i></p>	The Audit Committee's remit is based on CIPFA's "Audit Committee Principles in Local Authorities in Scotland" guidance. It is broadly expressed and implicitly includes power to review financial statements. The Committee will consider further the manner in which this part of its remit can be meaningfully discharged.	Acting Director of Law & Administration/ Director of Finance	Ongoing
3	<p>CIPFA guidance recommends that regular and specific audit committee training should be provided in financial reporting, governance, understanding the financial statements, the regulatory framework, the role of the internal and external auditor and the importance of risk management. Training has not yet been provided to audit committee members.</p> <p><i>Risk: Without relevant training audit committee members may have insufficient skills to enable them to effectively fulfil their responsibilities of giving independent assurance to members and the public, scrutinising financial management and reporting and providing challenge across the council.</i></p>	First meeting of Audit Committee in March 2009 included Training for Members. Subsequent training sessions covering topics such as External Audit, Risk Management, Financial Statements, Governance and Internal Audit will be arranged	Acting Director of Law & Administration/ Director of Finance	Ongoing

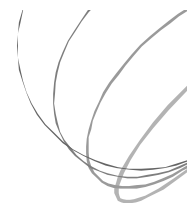
No.	Issue and Risk identified	Management Action	Responsible Officer	Action Date
Scrutiny Arrangements				
4	<p>Audit Committee members have not yet met privately and separately with the external auditor and Head of Internal Audit.</p> <p><i>Risk: any concerns about the management of the council may not be fully explored in the presence of senior management.</i></p>	This will be raised at the next audit committee meeting.	Acting Director of Law and Administration	November 2009
5	<p>The revised Best Value Forum continues as a forum for scrutinising Best Value in the Council, including service performance. This forum continues to conduct its business in private.</p> <p><i>Risk: There is a risk that an important element of council scrutiny is not carried out in an open and transparent manner.</i></p>	Members have considered and decided upon as part of structures review.	N/A	N/A
6	<p>In our view, improvements could be made to the way in which Members are provided with copies of the submitted un-audited accounts by 30 June.</p> <p><i>Risk: There is a risk that the council is not meeting best practice in regard to the submission of the unaudited accounts to the Authority.</i></p>	Accounts are available as Background Paper and in our opinion, legislative requirements are met. No change is anticipated.	N/A	N/A
Annual Governance Statement				
7	<p>The Annual Governance Statement does not cover the governance arrangements of the other group entities. CIPFA/SOLACE recommends group disclosure.</p> <p><i>Risk: The adequacy of the governance arrangements within the whole group cannot be ascertained.</i></p>	<p>Current arrangements meet the requirements of the Code of Practice on Local Authority Accounting.</p> <p>For 2009/10, an Annual Governance Statement will be prepared for Central Scotland Joint Fire and Rescue Board and this will feed into the Council's Statement.</p> <p>Other group entities' Annual Governance Statements or SSIFCs will be considered as appropriate/available.</p>	Audit Manager	June 2010

No.	Issue and Risk identified	Management Action	Responsible Officer	Action Date
Risk Management				
8	<p>Although the council has made some progress in risk management, there is still some way to go before risk management is embedded within the organisation.</p> <p><i>Risk: In the absence of fully embedded risk management processes, risks to the achievement of the Council's key objectives may not be identified and managed.</i></p>	<p>A comprehensive review of the corporate risk register has resulted in a new approach being taken to the register. The new draft register has been approved by CMT and will be presented to the Audit Committee for member scrutiny at its next meeting in November. It aims to provide a practical, comprehensive framework to allow Services and the council as a whole to ensure the generic constituent parts of any risk can be identified and appropriate measures put in place to ensure their fitness for purpose. This register can then be used by CMT to identify and manage the main corporate risks faced by the entire authority and by Services to develop their respective approaches to manage their Service specific issues. This work will be undertaken following the Audit Committee meeting and outcomes reported back to CRMG and, thereafter to CMT</p> <p>The filling of the post of Risk Manager is currently on hold pending the outcome of the council's review of Service structures which will be concluded shortly in the context of budgetary considerations for future financial years.</p>	Director of Development Services	Ongoing
Standing Orders/Scheme of Delegation/ Financial Regulations				
9	<p>Following our Governance report in 2007/08, we were advised that the Standing Orders, Scheme of Delegation and Financial Regulations would be reviewed and updated. We understand that the review of these documents has not yet been completed.</p> <p><i>Risk : standing orders, scheme of delegation and financial regulations may not adequately reflect the council's corporate governance and financial arrangements.</i></p>	<p>The review of the Standing Orders and Scheme of Delegation is ongoing but has been delayed while awaiting completion of the management structure review.</p> <p>The review of the Financial Regulations has now been completed and the updated version will be presented to the Audit Committee in November.</p>	<p>Acting Director of Law and Administration</p> <p>Audit Manager</p>	<p>Ongoing</p> <p>November 2009</p>

No.	Issue and Risk identified	Management Action	Responsible Officer	Action Date
Systems of Internal Control				
Budgetary Control				
10	<p>The council's Financial Regulations require virements in excess of £50,000 "to a different budget heading through the council's financial ledger" to be approved by the Policy & Resources Committee. Although there have been no reported virements in excess of £50,000 in recent years there have been several transfer of over £50,000 between budget headings within services (the council only treat transfers between services as virements). It is unclear whether this is in line with Financial Regulations.</p> <p><i>Risk: significant budget transfers may not be authorised by committee in line with the requirements of the Financial Regulations.</i></p>	<p>The majority of the transfers are considered to be budget realignments than conventional virements. For example it is often necessary to make provision within a single posting account for a particular initiative e.g. Fairer Scotland Fund, which will subsequently be transferred to a range of other posting accounts.</p> <p>The revised draft Financial Regulations propose revising the threshold to £350,000 and defines virement as the transfer between Divisions or Services.</p>	N/A	N/A
Accounts Payable				
11	<p>A monthly exception report highlighting potential duplicate payments is checked by officers within the creditors section. The report is not signed/initialled to identify who undertook this test.</p> <p><i>Risk: there is an absence of documented responsibility for checking exception reports.</i></p>	<p>This information is held in an "Access" database with no paper report produced. An amendment will be made to incorporate a "checked by" field for each record.</p>	Head of Accountancy	Already actioned

No.	Issue and Risk identified	Management Action	Responsible Officer	Action Date
Systems of Internal Control				
Accounts Payable				
12	<p>Testing of creditors reconciliations (reconciling the accounts payable system to the financial ledger) revealed numerous instances where the reconciliation was prepared and authorised by the same officer or where the reconciliation was signed as prepared by but not as authorised.</p> <p><i>Risk: there is a risk that the reconciliations are not appropriately authorised.</i></p>	This is carried out on a daily basis with Senior Staff notified only when there is an imbalance. Remedial action to explain/correct the imbalance should be evidenced by another officer. No change proposed.	N/A	N/A
Council Tax				
13	<p>Independent checks are carried out on council tax section employees' council tax accounts. Management checks are also carried out on a sample of council tax transactions to check the accuracy of processing. Both of these checks were only re-introduced in the last two months of the financial year.</p> <p><i>Risk: there is a risk of fraudulent or erroneous council transactions being processed in the absence of appropriate management checks.</i></p>	Monthly sample checking procedures reintroduced and signed off by Revenues Manager. Staff accounts now checked monthly for transaction irregularities.	Colin Campbell (Revenues Manager) / Stephen Sankey (Revenues Project Manager)	Already actioned

No.	Issue and Risk identified	Management Action	Responsible Officer	Action Date
Systems of Internal Control				
Payroll				
14	<p>We have previously reported on the absence of evidencing of checks undertaken by Services on Monthly Payroll Reports (Services receive monthly payroll reports to enable checks to be undertaken to ensure the accuracy of payroll payments). In our current year's review we have noted inconsistencies in the evidencing of checks and the notification to the payroll section that the payroll data is accurate based on the checks carried out.</p> <p><i>Risk: erroneous payments could be made to staff without detection.</i></p>	<p>The procedures were revised following previous comments such that Service Directors are requested to confirm to the Payroll Manager by the end the month following the month to which the reports relate that the reports have been checked. The procedures will be enhanced further by sending a follow up request where confirmation has not been received by two weeks after the requested response date.</p>	Payroll Manager	November 2009
15	<p>A reconciliation is performed at year end between the Integra Nominal Ledger and the Resourcelink Payroll and any discrepancies are followed up. Prior to 2009/10, the year end reconciliation was the only evidenced reconciliation. We understand that with effect from 2009/10, an evidenced monthly reconciliation is being undertaken.</p> <p><i>Risk: Discrepancies between the payroll and the financial ledger may not be identified timeously.</i></p>	<p>Procedures have been introduced so that the Control Accounts are checked more frequently and that this is evidenced. Such reconciliations are now undertaken monthly, where practicable, and certainly no less frequently than quarterly.</p>	Payroll Manager	Already actioned
Housing Rents				
16	<p>A file "<i>Compare.Rent.To.Patch</i>" is available which reconciles the number of properties per the housing rents system to the number per the housing services database. This is only run periodically however and differences are not always fully investigated and resolved.</p> <p><i>Risk: all chargeable properties may not be included within the council's rent system.</i></p>	<p>Full periodic reconciliation of Houses on housing system with rents system to be carried out. Situation will be fully resolved when IHMS with single database is implemented.</p>	Jim Green (Divisional Housing Manager) / Jim Littlejohn (Head of Revenue)	Ongoing



Appendix B: Main Financial Systems

- Financial ledger
- Pension payments
- Payroll
- Accounts receivable
- Non-domestic rates
- Cash income and banking
- Treasury management
- Accounting for fixed assets
- Pension investments
- Accounts payable *
- Housing rents
- Council tax
- Budgetary control
- Housing and council tax benefits

* includes Procon (Housing Repairs) and Saffron (Commercial Services)