Falkirk Council

Annual Audit Plan 2010/11

April 2011

AUDIT SCOTLAND

Contents

Summary plan 1

Summary of planned audit activity 1

Introduction 1

Our responsibilities 2

Our approach to the audit of the accounts 3

Responsibility for the preparation of accounts 4

Format of the accounts 4

Audit issues and risks 4

Summary assurance plan 8

Materiality 8

Reporting arrangements 9

Quality control 10

Fees and resources 10

Independence and objectivity 11

Appendix A - Summary assurance plan 12

Appendix B - Financial statements audit timetable 17

Appendix C - Audit team 18

Appendix D - Reliance on internal audit 20

Appendix E - Independence and Objectivity 21

Summary plan

Summary of planned audit activity

Based on our analysis of the risks facing Falkirk Council, our planned work in 2010/11 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the financial position of Falkirk Council as at 31 March 2011 and its income and expenditure for the year then ended
  - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2010 Code, including for the first time in 2010/11, the full application of International Financial Reporting Standards (IFRS)
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2011/12 to 2013/14 for Falkirk Council
- provide the annual report on the audit addressed to Falkirk Council and the Controller of Audit
- a review and assessment of Falkirk Council's governance and performance arrangements in a number of key areas including the review of key internal controls, the adequacy of internal audit, performance indicators, the Annual Governance Statement and NFI
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements throughout 2010/11.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Falkirk Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in Falkirk Council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of Falkirk Council, and sets out the audit work that we propose to undertake in 2010/11 to address these. Our annual audit plan reflects:

   - the risks and priorities facing Falkirk Council
   - current national risks relevant to local circumstances
   - the impact of changing international auditing and accounting standards

- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission
- issues brought forward from previous audit reports.

2. In addition to this annual audit plan, which focuses on those risks which may impact on the financial statements, we will issue an Assurance and Improvement Plan Update on behalf of the Falkirk Local Area Network (LAN) which will update the LAN's joint assessment of the strategic and performance risks facing Falkirk Council and set out the planned scrutiny activity in the council for the period April 2011 to March 2014.

Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.

5. In carrying out our audit, we seek to gain assurance that Falkirk Council:

- has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
- has systems of recording and processing transactions which provides a sound basis for the preparation of financial statements and the effective management of its assets and interests
- prepares financial statements which give a true and fair view of the financial position at 31 March 2011 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2010 'Code of practice on local authority accounting in the United Kingdom (the Code)
- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulations
- proactively manages and reviews its performance in line with its strategic and operational objectives
- has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.

Our approach to the audit of the accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of Falkirk Council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:

   - understanding the business of Falkirk Council and the risk exposure which could impact on the financial statements
   - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
   - identifying major transaction streams, balances and areas of estimation, understanding how Falkirk Council will include these in the financial statements and developing procedures to audit these
   - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
   - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.

7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2010/11 includes:

   - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
   - clear responsibilities for provision of accounts and working papers being agreed
   - delivery of unaudited accounts to agreed timescales
   - a comprehensive working papers package and supporting records to demonstrate full compliance with the requirements of IFRS
   - completion of the internal audit programme for 2010/11.

8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the Internal Audit Section within Falkirk Council. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.

9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.

10. At the completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

11. It is the responsibility of Falkirk Council and the Chief Finance Officer as Proper Officer to prepare the financial statements in accordance with the Code. This means:

    - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
    - maintaining proper accounting records
    - preparing financial statements timeously which give a true and fair view of the financial position of Falkirk Council as at 31 March 2011 and its expenditure and income for the year then ended
    - preparing an explanatory foreword
    - reviewing the main components of the system of internal control, including the arrangements for internal audit and group entities. This should include consideration of issues identified as part of the audit process.

Format of the accounts

12. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government and is required to prepare its accounts using common accounting principles and standard formats for summarisation.

Audit issues and risks

13. This annual audit plan focuses on governance and other risks specific to the financial statements of Falkirk Council. The Assurance and Improvement Plan Update will provide a broader analysis of wider risks and issues your council faces, setting out the planned work in relation to performance and other governance issues in more detail.

14. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.

Financial Pressures and Budget Savings

15. Local government faces substantial real-term reductions in financing over the next three years and beyond. At the same time pressures are building on demand-led services such as social work, costs are increasing and income from sources such as asset sales and fees and charges are reducing. As a result, strong financial management and governance, including effective budgetary control systems and internal audit functions, are increasingly important.

16. The council has identified a funding gap of £8.5 million for 2011/12 alone. Savings requirements have been identified through the budget process to meet this gap. The main components of these savings are £5 million service-specific savings to be identified by Service Directors and £2.1 million of reduced employee costs including revised terms and conditions and managed vacancy arrangements.

17. To enable reductions in employee costs the council plans to use voluntary severance and re-deployment opportunities. Decisions on these matters need to demonstrate value for money. As well as the risks associated with the impact of such staff reductions on the continuation and quality of services, it is essential that the costs are properly accounted for and fully disclosed in the financial statements.

18. The need to address the challenging funding gaps for 2011/12 and beyond will place considerable pressures on councils' available reserve balances and may lead to the depletion of reserves to levels below that deemed necessary to fund future unforeseen costs.

19. Falkirk Council has an established policy of retaining an uncommitted general fund balance in a range equivalent to 2% of budgeted gross and net revenue expenditure. This equates to a range of between £6.8 million and £9.5 million. As at 31 March 2010 the council retained a balance of £6.7 million. The latest reported financial position for 2010/11 project net expenditure to be £2.6 million below budget, resulting in a healthy projected uncommitted balance of £9.3 million.

20. Going forward there will be continuing financial pressures and the council will need to remain vigilant in managing the levels of its uncommitted reserves. We plan to monitor the level of reserves and the impact of budget pressures to ensure reserves continue to be maintained at a prudent level.

Procurement

21. Improved procurement practices are an important source of savings. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, a national annual procurement capability assessment by Scotland Excel identified scope for action to address areas where the council was assessed as non-conformant. A follow up assessment in November 2010 concluded that compliance has now been achieved, however there is scope for further improvements. In 2011, the council will be included in a national follow up review of Audit

Scotland's 2009 report on *Improving public sector purchasing.* We will monitor developments in this area and produce a local report for Falkirk Council.

Fixed Assets

22. The council re-valued its council dwellings during 2010/11. The valuation continued to adopt the Existing Use (Social Housing) basis, which results in a lower valuation in comparison to other recognised valuation methods. This approach also results in a residual value for council houses close to the carrying value of the asset. The council does not charge depreciation on its council houses on the grounds that any depreciation, which is based on the gap between carrying value and residual value, would be immaterial. As in previous years we will seek assurances over the materiality of depreciation of council houses in our review of the treatment of depreciation in the council's financial statements.

Equal Pay Provision

23. In June 2010, the Directors of Finance and Corporate & Neighbourhood Services reported to the Council on the progress in negotiations for settlement of outstanding equal pay compensation claims. The report highlighted potential settlement of claims at a cost of £8.4 million. The council had also applied for and received borrowing consent in relation to equal pay costs under the terms of Finance Circular No. 11/2009. A sum of £5.0 million was subsequently provided for in the council's financial statements as at 31 March 2010.

24. Having considered the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* and *FRS 12 (Provisions and Contingencies)*, reviewed the details reported by the Directors of Finance and Corporate & Neighbourhood Services to the council in June 2010 and considered the terms of related borrowing consent, our view was that the council should have provided for an additional £3.4 million of expenditure in 2009/10 in relation to equal pay costs. The Director of Finance disagreed with this judgement, taking the view that recognising the expenditure without matching it to the corresponding funding through application of borrowing under consent would understate the general fund. Although the sum was not considered material to our opinion on the audit, we reported the matter in our 2009/10 Annual Report on the Audit.

25. Ongoing negotiations are being held with employee representatives and an update on developments was reported to Council in March 2011. We expect that the council will continue to provide for settlement of outstanding claims in its financial statements. We plan to review the progress in settling claims and any estimated provision made as part of our audit of the financial statements in 2010/11.

Corporate Governance

26. Since 2008/09 the Council has produced an Annual Governance Statement (AGS) within its financial statements. This statement is recognised as good practice in CIPFA/SOLACE's '*Delivering Good*

Governance in Local Government and provides for a review of the governance arrangements of the council and its group. The statement has to date focussed on the governance arrangements within the council alone, with reference to group entities' arrangements being restricted to the arrangements for internal control. We have been advised that other group entities have been encouraged to provide information on their governance arrangements for incorporation in the AGS.

27. We have previously reported on the council's arrangements for scrutiny through its Audit Committee, highlighting the appointment of a non-executive and independent chair as essential to promoting the objectivity of the audit committee, its authority and to enhance its public standing in the eyes of the public. In response, in 2010 the council approved the appointment of a lay member to join the Audit Committee and to act as chair. The appointment process has recently been completed and we plan to monitor the impact of the developments in this area.

Information management

28. The increasing financial pressures have influenced the council in introducing a number of measures aimed at achieving best value for the council from its ICT investment. These measures include memory upgrades instead of replacing existing base units. This exposes the council to a greater risk of ICT malfunction/obsolescence. We shall continue to monitor developments in this area.

Accounts presentation and disclosure

29. 2011 is the first year that the local authority accounting code is based on international financial reporting standards (IFRS). The move to an IFRS based Code from a UK GAAP based SORP has resulted in a number of significant changes in accounting practice. The key changes include:

    - a greater emphasis on depreciation of asset components, and a new classification of assets held for sale
    - changes in the classification of leases, and a new requirement to account for arrangements containing a lease
    - a change in accounting treatment for grants and contributions used to fund capital expenditure
    - a requirement to recognise a liability for untaken annual leave
    - new disclosure requirements for accounting standards not yet adopted, key assumptions and judgements, changes in respect of prior period adjustments, and operating segments.

30. It is essential that the council ensures that their financial statements work programme and templates have been updated to reflect all the relevant changes in presentation and disclosure in the 2010/11 financial statements, in particular those related to the application of IFRS.

Pension Fund Accounts presentation and disclosure

31. From 2010/11, there is a requirement for a separate annual report and separate financial statements to be produced for pension funds. We plan to produce a separate Annual Audit Plan for 2010/11 which will cover the specific risks relating to the Falkirk Council Pension Fund.

National performance audit studies – impact and follow up

32. Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits, we will follow up a number of studies at a local level. In 2010/11 this will involve the completion of templates about the consideration of relevant national performance reports by Falkirk Council as well as a more targeted review of *Improving public sector purchasing* (http://www.audit-scotland.gov.uk/docs/central/2009/nr_090723_improving_purchasing.rtf.

Summary assurance plan

33. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Materiality

34. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

35. International Standard on Auditing 320 states that*, "Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered."*

36. When considering, in the context of a possible qualification to the audit opinion, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary

value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.

37. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting arrangements

38. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned audit committee dates and audit resources.

39. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officer to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.

40. A copy of all final agreed reports will be sent to the Chief Executive, Director of Corporate & Neighbourhood Services, Chief Finance Officer, relevant senior managers, Internal Audit and Audit Scotland's Best Value and Scrutiny Improvement Group.

41. We will provide an independent auditor's report to Falkirk Council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the controller of audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about Falkirk Council's management of key risks.

42. All annual reports produced by Audit Scotland are published on our website, (www.audit-scotland.gov.uk).

43. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
Governance	
Assurance and Improvement Plan (AIP) Update (jointly prepared with other local government scrutiny bodies)	31 March 2011
Internal controls management letter	31 July 2011
Fraud returns	As required
Performance	
Improving public sector purchasing	31 July 2011
Financial statements	
Report in terms of ISA 260 (Communication of audit matters to those charged with governance)	28 September 2011
Independent auditor's report on the financial statements	30 September 2011
Audit opinion on Whole of Government Accounts	30 September 2011
Annual report to the Members and the Controller of Audit	31 October 2011
Grants	
Audit opinions on Education Maintenance Allowance, Criminal Justice Social Work Services, Non-Domestic Rates and Housing & Council Tax Benefit Subsidy	As required

Quality control

44. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Falkirk Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client. In your case this is Mark Taylor who is responsible for ensuring that our work is carried out on time and to a high quality standard.

45. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

Fees and resources

46. Our agreed fee for the 2010/11 audit of Falkirk Council is £384,000 comprising a local audit fee of £261,000 and a fixed charge of £123,000. This fee includes the charge for a separate audit of an annual report and account for Falkirk Council's Pension Fund. Our fee covers:

- all of the work and outputs described in this plan
- a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission

- attendance at the Audit Committee
- access to advice and information on relevant audit issues
- access to workshops/seminars on topical issues
- travel and subsistence costs.

47. In determining the agreed fee we have taken account of the risk exposure of Falkirk Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2011.

48. We reserve the right to charge an additional fee for further audit work in such instances where as late receipt of the draft financial statements, the lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. In addition, an addition fee may be required where our audit cannot proceed as planned due to the council's inadequate processes and working papers relating to the application of IFRS.

49. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.

50. Fiona Kordiak, Director, Audit Services is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For Falkirk Council, the Assistant Director is Mark Taylor.

51. The local audit team will be led by Bruce Crosbie who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

Independence and objectivity

52. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.

53. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

AUDIT SCOTLAND

April 2011

Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of Falkirk Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Falkirk Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
Financial Pressures and Budget Savings		
The council has anticipated a funding gap of £8.5 million for 2011/12 and has identified savings requirements to meet this gap. The council is also working on five year financial projections to identify the funding gap for the period to 2015/16. The council recognises the increasing pressures that will be brought to bear on the council's finances during that period. Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. Effectively managing performance will remain a key challenge as financial pressures increase. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions. *Risk: if planned savings are not realised, this may threaten current spending plans. Available funding may not be effectively directed to priorities.*	▪ Development of a Financial Planning & Management Framework that seeks to address the considerable financial challenges facing the council ▪ Savings specifically identified in the revenue budget are monitored. ▪ Performance Monitoring and Management Framework is in place.	▪ Ongoing monitoring.

Risk	Source of assurance	Planned audit action
Financial Pressures and Budget Savings		
In times of economic challenge, the risk of error or manipulation of the financial position is increased. A robust system of internal financial controls is essential to reduce the risk of material error in the financial statements. *Risk: the council's financial position may be increasingly exposed to error or manipulation in the current challenging economic climate.*	▪ Budget monitoring and reporting ▪ Internal controls put in place to mitigate risks ▪ Internal audit coverage of internal controls ▪ Annual Governance Statement assurances from service Directors.	▪ Testing of key internal financial controls ▪ Targeted testing of risk areas e.g. cut-off testing, provisions
As part of its budget considerations, the Council agreed to take steps to reduce its employee related expenditure, including implementing voluntary severances. Decisions on individual voluntary severances need to demonstrate value for money. A number of senior officers have subsequently left the council through voluntary severance and early retirement. As well as the risks associated with the impact of staff reductions on the continuation and quality of services, it is essential that the costs are properly accounted for and appropriately disclosed in the financial statements *Risk: Capacity to deliver services may be adversely affected and incorrect accounting treatment may prevent the financial statements giving a true and fair view.*	▪ Management restructure process reported to the Council ▪ Business cases presented for individual voluntary severances ▪ Ongoing review of management structure below Chief Officer level ▪ Arrangements put in place to implement changes to management structure are reported to the Council.	▪ Ongoing monitoring ▪ Review of severance scheme and individual severance packages for senior officers
Procurement		
In November 2010 Scotland Excel's assessment of the council's procurement capabilities had improved from 'non-conforming (in 2009) to 'conforming. There is, however, scope for further improvement. *Risk: Procurement approaches may not deliver best value for money.*	▪ Participation in Scotland Excel from March 2010 ▪ Improved Procurement Capability assessment ▪ Procurement Improvement Plan ▪ 2011-14 Procurement Strategy to be reported to Members in May 2011.	▪ National follow-up of *Improving public sector purchasing* ▪ Ongoing monitoring

Risk	Source of assurance	Planned audit action
Fixed Assets		
The council has revalued its council dwellings as at 1 April 2010 and continues to value these properties on the basis of Existing Use - Social Housing. As a result the council does not intend to include depreciation for these dwellings in its financial statements, on the grounds that any depreciation is considered to be immaterial. *Risk: circumstances may change which results in depreciation being material in 2010/11.*	▪ Valuer agrees with Falkirk Council's valuation basis. ▪ Valuer provides assurance on materiality of depreciation.	▪ Review 2010/11 calculation of level of depreciation to determine whether it satisfies treatment as immaterial. ▪ Obtain representations from management on treatment of depreciation.
Equal Pay		
The council included a provision of £5M in its financial statements for 2009/10. In our view the provision was understated by some £3.4 million, however the Director of Finance disagreed with our view and no change was made to the financial statements. In our view this sum was not material to our audit opinion. Work is currently ongoing to conclude on these outstanding claims however it is anticipated that the council will continue to include a provision for settlement in its 2010/11 financial statements. *Risk: the council's 2010/11 provision may be inadequate.*	▪ Negotiations for settlement are at an advanced stage ▪ The provision will be reassessed for the 2010/11 financial statements ▪ Consent given to borrow for settlement of outstanding equal pay claims.	▪ Monitor the council's progress in settling claims. ▪ Review the provision for 2010/11. ▪ Review of borrowing to ensure that any borrowing to meet equal pay liabilities meets the requirements of the consent.

Risk	Source of assurance	Planned audit action
Corporate Governance		
In 2009/10 the council's financial statements included an Annual Governance Statement (AGS) which reported on the governance arrangements of the council, but only reported the internal financial control arrangements of other entities within the group. We have been advised that group entities' governance arrangements will be incorporated in the Falkirk Council AGS as processes for developing and preparing the groups' own AGS's mature. *Risk: other group entities may not provide adequate information or evidence to support statements on their governance arrangements.*	▪ Other group entities have been requested to prepare Annual Governance Statements and this will be progressed in conjunction with their internal audit service.	▪ Review AGS as part of financial statements audit.
The council introduced an audit committee in April 2009. The committee was originally chaired by the council leader which is contrary to good practice. The council subsequently agreed the appointment of a lay member who would act as the chair of the committee. An appointment has recently been made. *Risk: the Audit Committee may not be fully effective.*	▪ Lay member of the Audit Committee appointed who will act as chair of the Audit Committee.	▪ Ongoing monitoring of impact.
Information Systems		
The increasing financial pressures have influenced the council in introducing a number of measures aimed at achieving best value for the council from its ICT investment. These measures include memory upgrades instead of replacing existing base units. *Risk: there is a risk of increased maintenance costs in the future or continuing use of obsolete equipment.*	▪ Increasing the useful lives of PC's is considered to be a manageable risk and is subject to ongoing monitoring in terms of the direction of both hardware and software technology and the cost of replacement.	▪ Ongoing monitoring.

Risk	Source of assurance	Planned audit action
National Fraud Initiative (NFI)		
NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies. A national exercise is continuing in 2010/11 to help identify and prevent a wide range of frauds against the public sector. *Risk: fraud may remain undetected.*	▪ Ongoing participation in the NFI process.	▪ Review NFI investigation and monitoring processed. ▪ Reporting any detected fraud.
Accounts presentation and disclosure		
2011 is the first year that the local authority accounting code is based on international financial reporting standards (IFRS). The move to an IFRS based Code from a UK GAAP based SORP has resulted in a number of significant changes in accounting practice. It is essential that the council ensures that their financial statements work programme and templates have been updated to reflect all the relevant changes in presentation and disclosure in the 2010/11 financial statements, in particular those related to the application of IFRS. *Risk: the council's progress in adopting IFRS in its financial statements may not be adequate.*	▪ Action plans have been prepared to ensure that the relevant responsible people are aware of tasks to be completed to ensure production of the 2010/11 Accounts by the due date.	▪ Ongoing monitoring. ▪ Financial statements audit.

Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January – June 2011
Provision of closedown procedures to audit	31 March 2011
Meetings with officers to clarify expectations of detailed working papers and financial system reports	13 May 2011
Latest submission of unaudited financial statements with working papers package	30 June 2011
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with Chief Finance Officer	16 September 2011
Agreement of unsigned financial statements and issue of report to the Chief Finance Officer on the audit of financial statements (ISA 260)	28 September 2011
Audit committee date	TBC
Independent Auditors Report signed	30 September 2011
Latest date for submission of unaudited whole of government accounts return to external audit	31 August 2011
Latest date for signing of WGA return	30 September 2011
Annual report and certified accounts presented to Council	TBC

Appendix C - Audit team

A summarised curriculum vitae for each core team member is set out below:

Mark Taylor BCOM(Hons) CPFA
Assistant Director
Mark took up his current post as Assistant Director in early 2005, having previously undertaken a number of audit roles with Audit Scotland and before that the Accounts Commission, transferring from the Scottish Office Audit Unit in 1995. During this time he has gained extensive experience in public audit, led the introduction of our modernised audit approach in local government and was part of the team that developed the revised approach to the audit of Best Value (BV2) for the Accounts Commission. He currently has a portfolio of audits in both the central and local government sectors.

Bruce Crosbie FCCA
Senior Audit Manager
Bruce joined the Accounts Commission as a trainee auditor in December 1978, where he remained until 1986 when he took up the position of Chief Internal Auditor at Glenrothes Development Corporation. Bruce subsequently returned to the Accounts Commission as a Senior Auditor, later progressing to Senior Audit Manager. In his time with the Accounts Commission and subsequently, Audit Scotland, Bruce has been involved in the audit of many clients in the local government, central government, health and further education sectors.

Alan Pow CPFA
Senior Auditor
Alan took up post as Senior Auditor in December 2004, Alan originally trained as an accountant with Lanark County Council, qualifying in 1974. After local government reorganisation in 1975 he worked as both a Senior Accountant and Assistant Chief Accountant with Strathclyde Regional Council until the 1996 local government re-organisation when he joined South Lanarkshire Council as Accounting Manager. Alan worked for Audit Scotland as a self employed contractor from April 2002 until his appointment as Senior Auditor in December 2004. As Senior Auditor, he has been involved in the audit of a number of Scottish Councils.

Gillian McCreadie CPFA
Senior Auditor
Gillian has 16 years public sector audit experience with Audit Scotland. Gillian has worked on a range of local government, central government and NHS audits.

Jim Dyer ACMA
Auditor
Jim joined the National Audit Office in 1998 having previously worked as an accountant in the construction industry. Jim transferred to Audit Scotland in 2000 and since then has been involved in a number of audits in the local government, central government and further educations sectors.

Gerry Collins
Auditor
Gerry has 17 years experience working as an auditor/accountant. He has spent the last 8 years working in external and internal audit within the public sector, in both health and local government.

Neil Robb
ICT Senior Auditor
Neil has 18 years experience of public sector audit with Audit Scotland, covering local government, health and the central government sectors. Prior to this, Neil spent 19 years in various IT management, security and operational roles in financial services.

Appendix D - Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit service concluded that the Internal Audit Section in Falkirk Council operates in accordance with the CIPFA code of practice for internal audit in local government.

For our financial statements audit work we plan to place formal reliance on the work of internal audit in the following areas::

- International Financial Reporting Standards (IFRS) Implementation and Application
- Senior Officer Financial Controls
- Cash and Income Collection Across Community Services
- Travel and Subsistence Expenses and Allowances
- Social Work Services Budgetary and Financial Control
- Cash Spot Checks.

For our wider governance and performance audit work, under our Code of Audit Practice, we plan to place reliance on the work of internal audit in the following areas:

- Statutory Performance Indicators
- Corporate and Service Planning and Performance Management
- External Funding Unit including Following the Public Pound
- Procurement.

The reliance on internal audit work in the above areas will allow us to direct our resources to the financial systems, performance and governance areas we have assessed as being of higher audit risk.

Appendix E - Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication with those charged with governance) requires that the appointed auditor communicates:

- A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the APB's Ethical Standards for auditors;
- All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
- The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines 'those charged with governance" as "the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process." In your case, the addressee of communications from the auditor to those charged with governance is through the Chief Finance Officer. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice requires appointed auditors to carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland

- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.