

Falkirk Council

Annual report on the 2010/11 audit



Prepared for Members of Falkirk Council and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

We have given an unqualified opinion on the financial statements of Falkirk Council and its group for 2010/11.

The general fund recorded a net deficit for 2010/11 of £1.234 million, therefore decreasing the balance to £36.716 million as at 31 March 2011. This balance includes earmarked commitments of £25.386 million and an unallocated general fund balance of £11.330 million which is above the council's target balance of between £6.8 million and £9.5 million.

The first of two £12.0 million legally committed payments to the Non-Profit Distributing Organisation was made in 2010/11. This amount was funded from the general fund balance of £20.726 million earmarked for this purpose, leaving a balance of £8.726 million. The council also allocated £1.624 million from capital receipts to this earmarked balance to give a balance of £10.350 million to be carried forward into 2011/12. A further £12 million is due to be paid in 2011/12 to reduce the New Schools Project liability.

Revenue savings of £11.876 million were achieved in 2010/11 and were appropriated to the total general fund balance (including £3.813 million to the devolved schools management fund and £1.624 million to the new schools project).

General Services capital expenditure for 2010/11 was £21.526 million which was broadly in line with the budget of £21.674 million. The Housing capital outturn was £16.816 million against a budget of £21.250 million. This underspend relates to slippage in the implementation of revised procurement procedures to meet EU Procurement requirements delaying the award of a number of contracts and slippage in external work as a result of the prolonged severe winter weather.

The 2010/11 financial statements have been prepared on the basis of International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). The achievement of full transition to IFRS-based financial statements required a significant input of resources by the council and council officers have responded well to this challenge.

The Council has continued to make progress in developing its approach to asset management. An updated Corporate Asset Management Strategy 2011/14, *"Better Assets, Better Services"* was approved by the Policy and Resources Committee in September 2011 and the Forth Valley wide asset management plan, *"Making the most of Property and Assets"*, was also formally launched by the council and its Forth Valley partners in September 2011.

Although the council is now assessed as "conformance level " in the annual procurement capability, this rate of improvement is still lower than the local government sector average, with a score of 30% against a national average of 32%. The council is aiming to achieve an

improved performance score of 50% by late 2012 and there is still much to do to achieve this aspiration.

Progress continues to be made in relation to workforce management and the council's Workforce Strategy has now been reviewed and is currently with Services and Trade Unions for final consultation before being presented to Members. The council has also put in place an Achievement and Personal Development Scheme which includes personal development plans for employees setting out their business objectives, personal development objectives and training needs.

Overall the council's governance arrangements in 2010/11 were soundly based and operated effectively. No material weaknesses in the accounting and internal control systems were identified during the audit, which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

With effect from March 2011 the council appointed a lay member (an experienced public sector auditor) as chairperson of the Audit Committee.

Following on from the self-evaluation process which commenced in the Autumn of 2009, a four year self-evaluation programme has been agreed with the first year well underway. Improvement plans have been prepared following each assessment and these are scrutinised by the Corporate Management Team with progress being reviewed six monthly.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils to consider given the financial constraints being faced.

The council has shown an understanding of the financial challenges it faces and has made early progress in addressing these. It has established a clear strategy for managing its overall spending based around four themes: income generation, efficiency, prioritisation and costs of employment.

The Scottish Government published the 2011 Spending Review on 21 September 2011. The Review sets out spending plans for the three years from 2012/13 to 2014/15. This outlines the Government's spending proposals at a high level and detailed figures at the individual council level will not be available until December.

Preliminary work on setting the council's draft revenue budget indicates that the costs of delivering the existing level of service will rise, as a result of inflation and other cost pressures,

by approximately £10 million. There is also an expectation that the council's Supporting People funding stream will reduce following a review of funding between councils.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Falkirk Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of Falkirk Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.
4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Audit Committee as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all the weaknesses that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Falkirk Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Chief Finance Officer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Annual Governance Statement

12. We are satisfied with the disclosures made in the Annual Governance Statement, which is included in the financial statements in line with good practice, as identified in the CIPFA publication *Delivering Good Governance in Local Government*. We are also generally satisfied with the adequacy of the process put in place by the council to obtain the necessary assurances for the Statement.
13. We note that the declarations to support the Annual Governance Statement were not all signed by Chief Officers. This was also the case for 2009/10. We would encourage future declarations to be completed and signed by all Chief Officers as ownership of their assessment of the governance arrangements in place in their services.

Refer Action Plan No. 1

14. Progress is being made in assessing the wider governance arrangements of group entities, which require to be brought within the scope of the Statement. An Annual Governance Statement was also prepared in the 2010/11 financial statements for Central Scotland Fire & Rescue Joint Board, which assisted in the assessment of the wider group governance arrangements. In other group entities, reporting continues to be restricted to the effectiveness of the systems of internal controls. The council should consider wider governance arrangements for all group entities.

Remuneration report

15. The Local Authority Accounts (Scotland) Act 1985 and Scottish Governance Finance Circular 8/2011 introduced the requirement for a remuneration report to be included in the financial statements from 2010/11. This was a significant change to the level of disclosure required. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

Accounting issues

16. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code). Overall we are satisfied that the council prepared the 2010/11 financial statements in accordance with the 2010/11 Code.

Accounts submission

17. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited financial statements

18. A number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. These adjustments have not had any impact on the general fund balance of the council. A number of presentational amendments have also been processed to improve the disclosures within the financial statements. As is normal practice, immaterial unadjusted errors have been reported to the Chief Finance Officer.
19. The council has included 'other unrealised gains' of £2.148 million (2009/10 £2.907 million) in its Comprehensive Income and Expenditure Statement. These mainly relate to capital receipt transactions which are not 'other unrealised gains'. These transactions have also been incorrectly presented in the Movement in Reserves Statement, therefore there is no impact on

the General Fund balance. The approach to accounting for such transactions should be reviewed and revised appropriately.

Refer Action Plan No. 2

Prior year adjustments

20. The 2010/11 financial statements have been prepared in accordance with the 2010/11 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave and the classification of leases. These changes resulted in the net asset position of the council as at 31 March 2010 changing from £136.845 million to £138.074 million, however the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.
21. The achievement of full transition to IFRS-based financial statements required a significant input of resources by the council and council officers have responded well to this challenge.

Post balance sheet events

22. The 2010/11 financial statements contain the necessary post balance sheet event disclosures for the establishment of Falkirk Community Trust Limited with effect from 1 July 2011, to deliver leisure, arts, libraries and heritage services on behalf of the Council. This will also require to be considered for group accounting in 2011/12.

Pension costs

23. Falkirk Council is a member of Falkirk Council Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £289.3 million last year to £171.9 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).
24. This change in assumption is a consequence of the UK Government's announcement that CPI is to be used for the indexation of public sector pensions from April 2011, which is expected to lead to a reduction in pension costs over time. This is reflected as non-recurring income of £60.783 million in the Comprehensive Income and Expenditure Statement. Local government accounting rules mean that this is reversed in the Movement in Reserves Statement but the council will experience the financial benefits of the change as future contribution rates are set.

Pension fund accounts presentation and disclosure

25. From 2010/11 there is a requirement for a separate annual report and financial statements to be produced for pension funds. A separate annual audit report is therefore being produced for 2010/11 which covers the specific issues and risks relating to the Falkirk Council Pension Fund. This report will be completed by the required deadline of 30 November 2011.

Whole of government accounts

26. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to support its 2010/11 WGA return to the Scottish Government prior to the deadline of 29 July. This has now been audited and the audited return submitted.

Group financial statements

27. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council and its group. To enable the preparation of group financial statements, councils are required to consider their interests in all entities, including subsidiary companies, joint ventures and statutory bodies such as police, fire & rescue and valuation boards. Falkirk Council consolidates the results of a subsidiary company (Falkirk Community Stadium Limited), three associates (Central Scotland Joint Police, Fire & Rescue and Valuation Boards) and the Common Good Fund into the group financial statements.
28. The overall effect of inclusion of all of the council's subsidiaries, associates and common good fund on the group balance sheet is to reduce net assets by £260.362 million, mainly because of pension liabilities. The 2010/11 group balance sheet shows a net liability of £54.953 million. However, all group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
29. The group financial statements have reported a net liability for a number of years due to the impact of accounting for Central Scotland Police and Fire pensions. The council has identified that it has considered this and that it is appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding position of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, the funding policy seeks to ensure that these are met over the long term by increases in annual pension contributions.

Trust funds

30. Falkirk Council has one charitable trust which requires to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional

working papers. The council will be reviewing arrangements to enable full compliance by 2013/14.

Common good fund

31. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. The council complies with this guidance as it prepares a separate disclosure in the council's financial statements. However the common good assets are not separately identified in the council's asset register due to the insignificant amounts involved (£0.235 million).

Outlook

Carbon Management

32. In April 2010 a complex system of charging for carbon emissions was introduced by the EU. The council is now required to purchase and account for carbon credits to cover all of its non-transport related energy usage. Incentives and penalties are built into the system to encourage a reduction in carbon emissions. It is estimated that the council will have to purchase around £0.400 million worth of carbon allowances in 2012 and it will need to ensure that this expenditure is properly accounted for.
33. A consultant was commissioned by the Carbon Trust in Scotland to carry out a Carbon Management Review Programme for the council in 2010. The review concluded that carbon management is not fully embedded in the council, and made recommendations for improvement including:
- A revised and updated list of carbon reduction projects
 - Staff and capital resources to carry through the agreed projects.
34. The council already has a Carbon Management Plan. This has been reviewed during 2011 and a revised Plan approved by Members in September 2011. The Council is now developing a Sustainable Development and Climate Change Strategy 2011-2016 and the Carbon Management Plan will form part of this strategy.

Audit appointment for 2011/12

35. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for Falkirk Council but a different audit team will be in place, led by Fiona Mitchell-Knight. We look forward to continuing the good working relationships that exist.

Financial position

36. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
37. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
38. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

39. In 2010/11, Falkirk Council spent £550.236 million on the provision of public services, with £511.895 million on revenue services and £38.341 million on capital. The revenue budget for 2010/11 was based on Band D council tax of £1,070 and assumed the use of £1.110 million from the earmarked HRA portion of the general fund balance to finance HRA expenditure.

Budgetary control

40. The net service expenditure across the council was £333.932 million, an overspend of £0.124 million against the budget. The outturn position masks some significant variances from budget which are detailed below.
41. Service cost savings of some £8.6 million were realised in 2010/11. Education Services reported a net underspend of £4.8 million, primarily due to savings in property costs, lower than anticipated staffing costs, reduced residential schools expenditure and underspent Early Years expenditure. Significant savings in employee costs, support services and capital charges contributed to an HRA underspend of £1.567 million. Within Social Work Services, ongoing pressures in children's residential care and adult community care were offset by savings in staff cost and additional income from residential homes and NHS Forth Valley, resulting in an underspend of £0.994 million.
42. The council was also able to make savings of £1.080 million on a prudent budget for interest and loans cost and £1.521 million savings in loan principal not charged to services but financed through a Capital Fund.
43. As a result, savings of £11.876 million was appropriated to the total general fund balance (including £3.813 million to the devolved schools management reserve and £1.624 million to the new schools project).

44. These savings were offset by the payment of £12.000 million to the council's new schools project operator as a capital injection, which is not included within the council's budget setting, but is part of a sum earmarked within the general fund balance. Further details on this sum are included in paragraph 48 below.

Financial position

45. Exhibit 1 shows the balance in the council's funds at 31 March 2011 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, repairing and replacing fixed assets. At 31 March 2011, the council had total funds of £52.713 million, an increase of £0.613 million on the previous year.

Exhibit 1: Reserves

Description	31 March 2010	31 March 2011
	£ million	£ million
General Fund	37,950	36,716
Repair and Renewal Fund	1,290	1,905
Capital Fund (Capital Receipts Reserve)	4,899	5,342
Capital Grants Unapplied	4,943	5,067
Insurance Fund	3,018	3,683
Total	52,100	52,713

Source: Falkirk Council 2010/11 financial statements

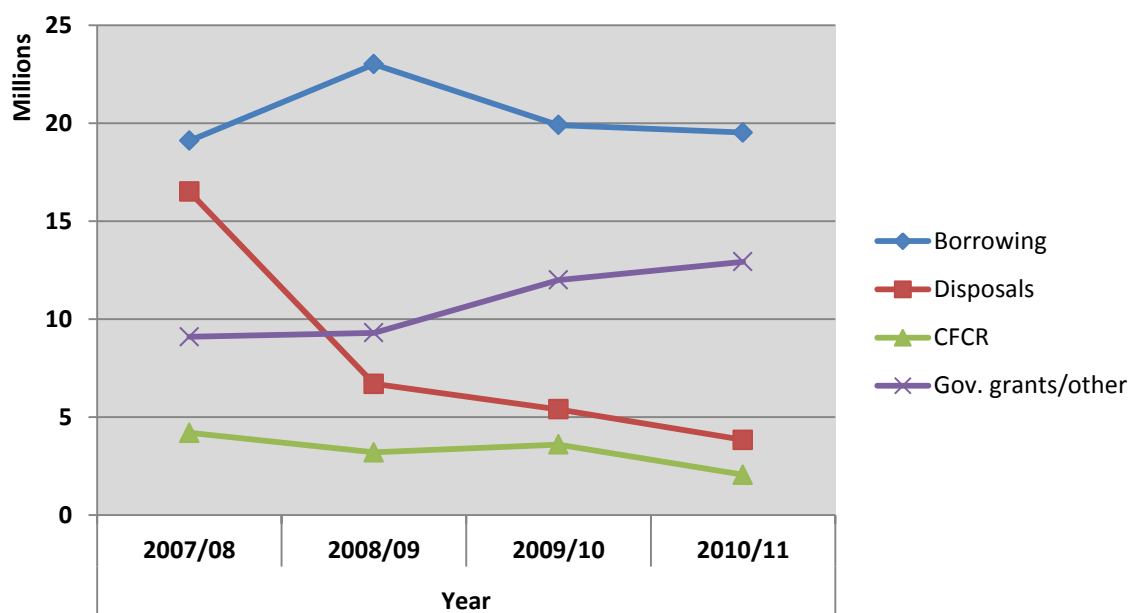
46. The general fund balance has decreased to £36.716 million as at 31 March 2011. This balance is made up of earmarked commitments of £25.386 million leaving an unallocated general fund balance of £11.330 million. This is above the target range of between £6.8 million and £9.5 million set out in the council's reserve strategy to meet unforeseen circumstances or risks.
47. The earmarked commitments of £25.386 million includes: housing funds to limit the impact of future rent increases (£6.4 million), devolved schools management balances held by individual schools (£7.4 million), economic development balances for the development of strategic business parks (£0.9 million), central energy efficiency funds to improve energy efficiency in council buildings (£0.3 million) and amounts set aside to fund a 'payment' which the council is contracted to pay in 2011/12 (£10.4 million).
48. The council continues to fund part of the repayment of loans fund principal from the council's Usable Capital Receipts Reserve (effectively a capital fund) rather than from service expenditure. The practical effect of this is to release revenue funding to support other items of

expenditure. This approach is being taken in order to build up the earmarked fund for financing the council's New Schools project. The council decided to allocate £1.624 million of capital receipts to this purpose in 2010/11. The first of two £12.0 million legally committed payments made to the Non-Profit Distributing Organisation was made in 2010/11 and was funded from the earmarked balance, resulting in a decrease to £10.350 million in the balance which is earmarked for the project. The second £12.0 million legally committed payment was made in April of 2011/12.

49. A suite of financial indicators has been developed in consultation with the CIPFA Directors of Finance working group. The indicators will assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. The financial indicators are detailed in Appendix C.
50. For 2010/11 Audit Scotland is compiling the financial indicators, and they may be published in the Local Government Overview report for 2010/11. However they are not yet available to include with this report, as they are based on the audited financial statements for all councils.

Capital investment and performance

51. The 2010/11 financial statements include capital expenditure of £38.342 million, split between the housing programme and the general services programme. The housing programme includes areas such as new house building, fabric improvements, energy efficiency works and high rise flat refurbishment. The general services programme includes investments on a new primary school in Falkirk, major improvement and structural work to roads, the Helix ecopark and vehicle replacement.
52. General Services Capital expenditure was £21.526 million and was broadly in line with the budget of £21.674 million. The housing capital outturn for 2010/11 was £16.816 million against a budget of £21.250 million, an underspend of £4.434 million. This relates to slippage in the implementation of revised procurement procedures to meet EU Procurement requirements delaying the award of a number of contracts and slippage in external work as a result of the prolonged severe winter weather. The slippage is incorporated into the 2011/12 housing capital programme.
53. Exhibit 2 shows the sources of finance for capital expenditure in 2010/11. The graphical presentation shows that the government grants funding has been increasing whereas the other sources of finance, i.e. borrowing, disposals and capital financed from current revenue (CFCR), have been reducing over the 4 year period from 2007/08. Government finance has remained stable over the last few years but the availability of future finance from this source is uncertain in light of cuts to the Scottish Government's budget.

Exhibit 2: Sources of finance for capital expenditure 2007/08 - 2010/11

Source: Falkirk Council 2010/11 financial statements

Treasury management

54. The current economic climate means that interest rates on investments continue to be low and the council received £0.5 million in investment income this year (2009/10 £0.5 million). Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates. As at 31 March 2011, the council held cash and cash equivalents (including short term investments) totalling £21.541 million, an increase of £14.167 million on the 2009/10 balance of £7.374 million. This was a short term increase to reflect the cash flow requirements as at 31 March 2011, part of which was the requirement to hold £12.0 million to fund the payment in respect of the NPDO project.

Financial planning to support priority setting and cost reductions

55. The council has shown a good understanding of the financial challenges it faces and has made progress in addressing these. In setting its 2011/12 budget the council agreed to freeze its council tax, identifying in-year savings of around £8.50 million to meet known spending pressures and planned growth.
56. The most recently reported financial position for 2011/12 anticipates an overspend of £0.227 million for the year and the council is making continuing effort to manage its spending and ensure planned saving levels are delivered.
57. The council introduced "Our Challenges, Our Choices" which included a consultation process during 2010/11 to seek the views of stakeholders on the future revenue budget options. The information has been used in identifying and prioritising revenue budget decisions. It has established a clear strategy for managing its overall spending based around four themes: income generation, efficiency, prioritisation and costs of employment.

58. In recognition of the considerable financial challenges which lie ahead and to assist in meeting those challenges, the Council has developed a five year budget model which aims to quantify the increase in demand for services along with the forecast reduction in resources. Proposals for further cost reductions are to be presented to Members.

Use of resources

Asset management

59. The council has in place a strategic approach to capital planning, which is integrated with asset management planning. An updated Corporate Asset Management Strategy 2011/14, '*Better Assets, Better Services*', was formally approved by Policy and Resources Committee, together with a new Property Asset Management Plan on 6 September 2011.
60. Specific asset management strategies and plans are in place for different asset classes e.g. Roads Infrastructure, Housing, Open Spaces, Vehicles and ICT and ongoing development work is taking place in this area. Whilst the council's approach to corporate asset management is based around these individual asset class plans being developed in line with the over-arching Corporate Asset Management Strategy, the need for Services to embed and co-ordinate asset management within their individual Service Plans, consistent with the overall strategy and asset class plans is being taken forward. The Asset Management Unit is engaging with Service Management Teams on this issue.
61. Further work has been undertaken to improve collection and analysis of asset management performance data. A database of property asset information has been compiled and consideration of the scope and development of an integrated property asset management data management system is underway.
62. A Forth Valley wide strategic asset management plan, '*Making the most of Property and Assets*', was formally launched by Falkirk Council and its Forth Valley partners on 30 September 2011.

Procurement

63. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far two rounds of PCA assessment have been completed. In 2010, the council scored 30% (classed as 'conformance') and demonstrates improvement on the 2009 score of 24% (non-conformance).
64. The council has demonstrated a strong commitment to taking forward the principles of McClelland within the Central Procurement Team, the Corporate Management Team and at Member level. This is reflected in the improving PCA score between 2009 and 2010, the main areas of improvement being in contract and supplier management and key purchasing processes and systems. However the council recognises that although there is improvement, the rate of improvement is lower than the local government sector average, with the council's

score of 30% comparing to a national average of 32%. An internal audit review of procurement was also reported in 2011 which identified scope for improvement.

- 65. Feedback from the 2010 PCA identifies two key specific areas for improvement. These were the resourcing of the Central Procurement Team and the need to enhance the reach and influence of the Central Procurement Team across all Council Services. The assessment scores also highlight performance measurement and contract/supplier management as the areas which require the greatest improvement.
- 66. The council is aiming to achieve an improved performance level of 50% by late 2012, however there is still much to do to achieve this aspiration. The council has developed a new draft Procurement Strategy for 2011-14, supported by a detailed Procurement Improvement Plan for 2011-12. The Improvement Plan is monitored by a Procurement Board, which will also agree future annual Improvement Plans.

Refer Action Plan No. 3

Workforce management

- 67. The significant reduction in funding in the years ahead will clearly have implications for the council's workforce. The Council's Workforce Strategy has now been reviewed and is currently with Services and Trade Unions for final consultation before being presented to Members.
- 68. The revised draft workforce strategy takes account of this challenging economic environment and workforce activity designed to react to this challenge. There has also been a shift in emphasis of the workforce strategy, shifting its focus from actions which concentrate on specific human resources activity to a wider, corporate approach to workforce management. In doing so the council aims to strengthen the links to the corporate plan.
- 69. The council continues to recognise the importance of staff development to the achievement of the council's objectives and has put in place an Achievement and Personal Development Scheme (APDS) which includes personal development plans for employees setting out their business objectives, personal development objectives and training needs. The APDS is not mandatory and the council has recently completed a survey of the take up of APDS and identified that Services are making progress in the implementation of the scheme.
- 70. The Council's self-evaluation process has highlighted areas where further training on specific aspects of APDS would be beneficial and training and guidance on the APDS is being provided to Services as required. An e-learning support tool is also being developed to assist managers.

Outlook

2011/12 budget

- 71. The council, like all public sector organisations, faces a very challenging financial climate and there will be a continuing requirement to make significant savings to meet increasing costs

and reductions in funding. This requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.

72. When setting the 2011/12 budget the council identified a potential funding gap of £8.5 million. Savings to be made to bridge this gap included £5.0 million of service specific savings and £2.1 million from a reduction in employee costs.

2011/12 budget reporting

73. The latest estimate of the 2011/12 financial position (as at August 2011) predicts an overspend of £0.227million for the year. The overspend includes compensatory lump sum payments (£1.02 million) and the delivery of refuse collection and street cleaning services (£0.526 million), mainly due to increased vehicle running costs and loss of income from trade waste. These overspends are offset by an underspend in Education Services (£0.867 million) and the final element of a one off repayment for overpaid VAT (£0.302 million).

Financial forecasts beyond 2011/12

74. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council.

Refer Action Plan No. 4

Governance and accountability

75. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
76. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
77. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
78. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

79. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The corporate governance framework within Falkirk Council is centred on a Full Council which is supported by a number of scrutiny committees that are accountable to it.
80. The council has an Audit Committee in place with a remit which includes risk management, consideration of the adequacy of the council's control environment, approval of Internal Audit strategy, ensuring that there are effective relationships between internal and external audit and reviewing the council's assurance statements to ensure that they properly reflect the risk environment.
81. We had previously noted that contrary to good practice, the Audit Committee was chaired by the Leader of the Administration. With effect from March 2011 the council appointed a lay member (an experienced public sector Internal Auditor) who assumed the role of chairperson of the committee. We are encouraged to note the improvements in the Audit Committee arrangements in 2010/11.
82. Overall, the council's governance arrangements in 2010/11 were soundly based and operated effectively

Internal control

- 83. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
- 84. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
- 85. As part of our work, we took assurance from key controls within the council's financial systems. The results of our review of key controls were reported to management in August 2011. The identified weaknesses were taken into account in our approach to the audit of the financial statements. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in due course.
- 86. In his annual assurance report the Internal Audit Manager reported that "substantial assurance can be placed on the adequacy and effectiveness of the council's internal financial control systems for the year to 31 March 2011". As noted in our annual audit plan we carried out an assessment of the internal audit function provided in Falkirk Council. Our review revealed that Internal Audit met the requirements of the CIPFA Code of Practice for Internal Audit in Local Government and that we were able to place reliance on them to support our audit work.

ICT

- 87. The council makes effective use of information communications technology to support and deliver services, recognising the need for continuing capital investment in its ICT infrastructure to ensure its continued effective operation. It is maintaining good progress in establishing a robust information management environment through the implementation of policies, guidance, standards and training needed to improve information governance.
- 88. The ICT service is involved in all levels of business continuity planning and has continued to develop and refine a database of the plans for all services. The council recognises that business continuity planning is an important operational process especially with the regular changes to technology and service priorities.

Data handling and security

- 89. Data handling and security continues to receive public and media attention as a result of a number of national incidents relating to lost data. The council has an approved Information Security Policy (ISP) that is being used along with other policies to make up the council's information management/security regime in the provision of robust reliable data security within the council.

90. In response to the need to improve data security for mobile devices the council initiated the project to install encryption software on laptops used by corporate staff and the Becrypt encryption software has now been installed on laptops.

Prevention and detection of fraud and irregularities

91. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
92. The council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include a confidential reporting ('whistleblowing') policy and an anti-fraud & corruption strategy which includes a fraud response policy. The council also has a code of conduct for elected Members (the nationally prescribed code of conduct for members) and for employees.

National Fraud Initiative (NFI) in Scotland.

93. As part of our local audit work we monitor the council's approach to the NFI, a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
94. The council is proactive in preventing and detecting fraud including participation in the NFI. The council has good systems in place to review NFI data matches for further investigation with progress and outcomes reported bi-annually to members.
95. The council involvement in the 2010/11 NFI includes the review and potential investigation of 67 reports with 8,971 data matches of which 1,160 are considered high quality. As at September good progress had been made in the investigation of data matches. Investigated outcomes have uncovered 2 cases of fraud and 37 errors totalling £171,350 with £59,841 currently under recovery. These cases relate almost in their entirety to housing benefit payments.
96. The Audit Scotland report *The National Fraud Initiative in Scotland; making an impact (May 2010)* highlighted that much of the information used in the last NFI round was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.

Housing benefit

97. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team assessed the council in 2009 and a detailed report was issued. The council developed an action plan in response to the risks identified and progress against this plan has been reviewed as part of Audit Scotland's 2010/11 programme of benefits performance audit work.
98. The council's updated action plan has identified that of the 19 risks highlighted:

- 11 actions had been fully completed
 - 5 actions had been partially completed
 - 2 actions are outstanding, and
 - 1 risk was not accepted
99. The Risk Assessment Report published by Audit Scotland in March 2011, recognises that, despite a significant increase in benefits caseload as a result of the economic downturn, the council has continued to deliver a good level of service to its benefits customers, while improving its new claims processing performance considerably during 2010/11.
100. The council continues to demonstrate an awareness of what constitutes an effective, efficient and secure benefits service. However, in order to continue to deliver continuous improvement across all aspects of the service it needs to focus on completing the outstanding actions from the previous risk assessment, and address the new risks identified by:
- routinely consulting with landlords to determine the level and type of services they require
 - setting, monitoring and reporting performance of the benefits service against the customer service standards
 - linking the value of overpayments to the type of interventions activity carried out
 - setting a target to reduce the volume of non-financial errors identified from management checks
 - publicising the outcomes of successful prosecutions on the council website and in the local press and media.

Refer Action Plan No. 5

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

101. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Falkirk Council are satisfactory and we are not aware of any specific issues that we need to report.

Roles and relationships

102. During 2010/11 the council reviewed its management structure and reduced the number of Services from six to four. This restructuring included the transfer of leisure and other services to a community trust from 1 July 2011 and the moving of Finance Services as a separate Service to be included under the direction of the Chief Executive's Office. As part of this restructuring the Director of Finance retired as at 31 March 2011. The council adopted a structured and planned approach to ensure that these changes were well managed and to minimise any impact on service delivery.

- 103.** The Scottish Government issued a revised Councillors' Code of Conduct in December 2010. The main changes included clarification of the rules on registering and declaring interests, and the new decision-making procedures for planning applications. A copy of the revised guidance was sent to all members on 31 December 2011.
- 104.** During the year, two Members were referred to the Standards Commission. In both cases the Commissioner found that the Member had not contravened the Code of Conduct and no further action was taken.

Best Value, performance and improvement

- 105.** Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
- 106.** The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
- 107.** As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
- 108.** Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
- 109.** During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
- 110.** This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

Management arrangements

Best Value

- 111.** The first Best Value report in 2008 highlighted that the council demonstrated a clear commitment to best value and community planning. Since this time the council has implemented its improvement plan which was compiled in response to this report. The timing of Falkirk Council's next Best Value audit (BV2) is determined by a risk assessment performed by the Local Area Network (LAN). A BV2 audit is currently planned for 2012/13, however the LAN has recognised a reduction in the areas of uncertainty and improvements in the arrangements for self evaluation in 2010/11, resulting in a planned narrower scope to the BV2

audit for the council. Further risk assessment by the LAN in 2011/12 will explore the continued need for a BV2 audit.

Self-evaluation arrangements

- 112. The council commenced an extensive self-evaluation process using the Improvement Service's Public Service Improvement Framework (PSIF) in the Autumn of 2009. PSIF is a tool for self-assessment and is to be used in all services to evaluate and challenge performance and improvement through a Review Panel process.
- 113. We noted in our 2009/10 report on the audit that improvement plans had been developed following an over-arching corporate assessment and assessments of six service units. A self-evaluation programme has since been agreed for four years with the first year well underway. The programme will be finalised each year to ensure account is taken of challenges and opportunities facing each unit of service.
- 114. Improvement plans have been prepared following each assessment and these are scrutinised by the Corporate Management Team, with progress being reviewed six monthly. The council aims to ensure that positive improvements are achieved in taking forward the improvement plans.
- 115. The Education Service has also developed a self-evaluation mechanism outwith the PSIF. At the council's request, Her Majesty's Inspectorate of Education has jointly worked with the Education Services to develop validated self-evaluation in the education service and the Director of Education and her management team have instilled a positive self-evaluation culture within the service.

Community/user engagement

- 116. The council has recognised the need to implement a community engagement strategy to provide a more consistent approach to community engagement. As a result, the council has developed a community engagement strategy which has been subject to consultation with the community and Members of the Council. The strategy, branded as '*Have Your Say – a plan for local involvement*' was approved by Members in April 2011 and comprises the 'Principles for Community Involvement in Falkirk' which set out the standards that the council aims to achieve in involving local communities and an 'Action Plan for Better Community Involvement' which lays out a range of actions to be taken forward in 2011-2014 in order to develop the council's approach to community involvement.
- 117. A Scheme of Decentralisation has also been approved to support the 'Principles for Community Involvement in Falkirk'. This scheme has seen the move away from the Area Forum model to the development of a Citizen's Panel consisting of around 1,100 citizens, using a more accessible consultation method.
- 118. In order to ensure that the Community Participation Strategy is making a difference to the standard of engagement with the public, the council is establishing a monitoring and

evaluation system with community member involvement. The council is currently exploring the best model for this system.

119. A programme of training is also being developed for officers, to enhance consultation and community engagement skills across the Council.

Partnership working

120. The Assurance and Improvement Plan 2011-13 for Falkirk Council noted that there is evidence of effective partnership working in some specific areas including prison social work services and older people's services. The outcomes of planned scrutiny activity will however, provide evidence of the more strategic aspects of partnership working within the council area.
121. The council has undertaken a self-assessment of its Community Planning Partnership (CPP) which has been aimed at helping the Partnership to:
- establish a consistent and structured approach in progressing continuous improvement
 - enhance the understanding and information available to the CPP to aid future decision making
 - inform the development and achievement of future improvement plans
 - secure continuous improvement in performance across the CPP.
122. An improvement plan identified four key areas from this self-assessment exercise and these are being progressed. These areas were:
- assuring partnership effectiveness
 - partnership governance
 - communication and engagement
 - underpinning partner commitment.
123. This self-assessment exercise has also stressed the need to re-examine the remit of strategic partnership groups and that members and officers sitting on and supporting these groups, are clear on their respective roles. It should improve both the effectiveness and efficiency of local partnership working, resulting in the attainment of better outcomes for local people.
124. The next step is to agree on and implement both the improvements highlighted in the improvement plan and the new governance arrangements.
125. Falkirk Council continues to participate in a number of shared services and joint arrangements including provision of social transport and fleet management and the Forth Valley Data Sharing Partnership. Further shared service arrangements are being explored with West Lothian Council and there are existing arrangements with Clackmannanshire and Stirling Councils on a variety of services, examples being CCTV monitoring and the joint loan equipment service.
126. A major challenge facing councils is the need to achieve potential cost savings through opportunities for shared IT developments. In June 2011 John McClelland published a review of ICT in the public sector in Scotland and among the report's recommendations was that the

"standalone self-sufficiency" operating mode is no longer affordable. The report recommends that councils should commit to an era of sharing ICT that will not only offer better value but also still meet the needs of individual organisations and their customers.

- 127. In response to exploring opportunities for economy, efficiency and effectiveness, the council is part of a local tri-Council, Police, Fire, Further Education and NHS group looking at options for sharing ICT infrastructure. With the recent proposal to establish a single police and fire service, it is unclear how this will affect existing and proposed shared service arrangements.
- 128. There is a Framework Agreement covering the period from 1 September 2010 to 31 August 2013 for the purchase of computer hardware. The partners to this agreement are the Falkirk, Clackmannanshire, Stirling and Dumfries and Galloway Councils, Assessor for Central Scotland and Central Scotland Fire and Rescue Service. The Framework has been set up in such a manner that if it is not performing or if there is a credible alternative, it can be terminated at the end of year 2 and is reviewed annually to ensure it continues to meet best value.

Overview of performance in 2010/11

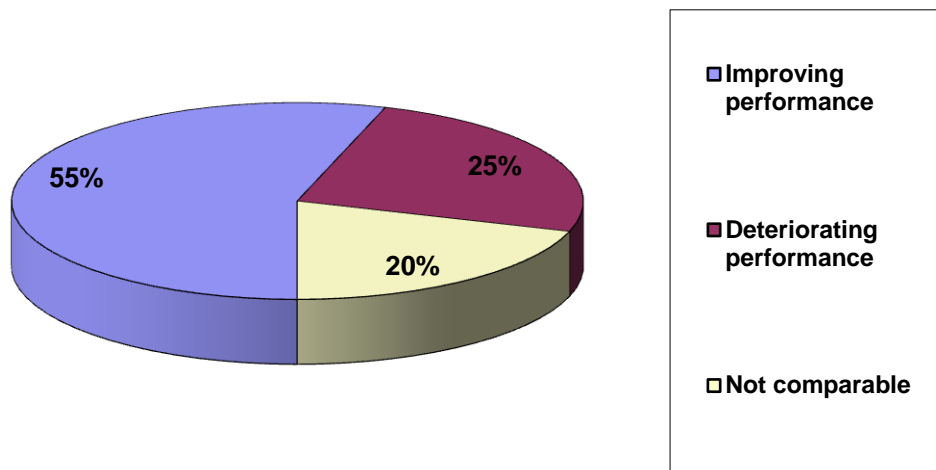
Performance management

- 129. The council has a corporate performance management framework in place which is embedded throughout the council. The framework makes use of a good balance of local and statutory performance information.
- 130. The Single Outcome Agreement (SOA) provides the performance management framework for the Community Planning Partnership. The council is awaiting guidance on the review and development of SOAs from the Scottish Government which it is anticipated will give further obligations on partners to work towards achieving all outcomes.
- 131. The SOA, which was approved by the council and other partners in May 2009 and signed off by the Scottish Government in August 2009, has been amended this year to take account of outcomes contained in the new Strategic Community Plan, approved by members in December 2010. The council has reviewed the outcomes contained within the SOA following approval of the Strategic Community Plan and while a number of subsidiary outcomes have been rationalised, the SOA now aligns more closely with the council's Corporate Plan.
- 132. Service performance reports are submitted quarterly to the Best Value Forum to enable members to scrutinise performance on a quarterly basis. A traffic light system is used to provide members with an "at a glance" view of performance against targets. Previous years' information is also included to provide additional context and a further basis for comparison. Members, therefore, are able to identify where performance is improving, is remaining steady or is significantly below set targets.

Overview of Performance in 2010/11

133. Each year the Community Planning Partnership is required to produce an annual monitoring statement which sets out progress against performance indicators included in the Single Outcome Agreement. In October 2011, a monitoring statement was presented to the Council which identified that performance as summarised in Exhibit 3 below :

Exhibit 3: Progress against Single Outcome Agreement Performance Indicators



Source: Falkirk Council SOA 2010/2011 Monitoring Statement: report to Falkirk Council 5 October 2011

134. The monitoring statement sets out the partnership's achievements in delivering the single outcome agreement and reports good progress. While some of the challenging targets set out in 2008 for some indicators have not been achieved, most indicators show improvement. Examples of such improvements are the cumulative increase in the number of schools achieving "good", "very good" or "excellent" in the last 3 years in HMIE reports (No. 4), the increase in the number of business start ups which received support from the council through the business gateway (No. 3) and percentage of homecare clients aged 65+ receiving personal care (No. 6).
135. Some of the measures of performance not achieved include the percentage of older people aged 65+ with intensive care needs receiving treatment at home (No. 6), the percentage of looked after children who on leaving care achieve both English and Maths at SCQF level 3 or higher (No. 5) and the percentage of gross internal floor area of operational buildings that is in a satisfactory condition (No. 15).

National performance reports

136. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 4.

Exhibit 4: A selection of National performance reports 2010/11

- | | |
|---|--|
| <ul style="list-style-type: none">• The cost of public sector pensions in Scotland• How councils work: an improvement series for councillors and officers - Arms-length external organisations• Scotland's public finances: responding to the challenges• Maintaining Scotland's roads: a follow-up report | <ul style="list-style-type: none">• Physical recreation services in local government• An overview of local government in Scotland 2010• Community Health Partnerships• Improving energy efficiency: a follow-up report• Transport for health and social care |
|---|--|

Source: www.audit-scotland.gov.uk

Scotland's public finances: responding to challenges

137. This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include the following:

- The budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- Public bodies are finding it difficult to plan beyond 2011/12, as they do not have a clear view of their budgets beyond 2011/12. The Scottish Government published spending plans for the years 2012/13 to 2014/15 in September 2011, which should establish a framework that bodies can use to make future spending plans. The most significant issue for councils is the government proposal for a "flat-cash" settlement over the next three years.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.
- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future.
- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

138. Preliminary work on compiling the council's draft revenue budget for the forthcoming year is progressing and the council currently projects to have general fund reserves of around £10.8 million as at March 2012. There are clearly a number of challenges arising from the "flat-cash"

settlement proposed as well as ongoing uncertainty around the final exposure to equal pay claims.

Maintaining Scotland's roads: a follow-up report

- 139.** This report examines the progress on implementing the recommendations contained in the initial report published in November 2004, with particular emphasis on the change in condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:
- Limited progress has been made to improve the road networks based on an assessment against the recommendations from the 2004 report.
 - The condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25 per cent. Only 63 per cent of roads are now in an acceptable condition.
 - The Society of Chief Officers of Transportation in Scotland (SCOTS) considers that the present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.
- 140.** Falkirk Council fully supports the SCOTS road asset management project and had its first road asset management plan approved by Members in January 2011. The council has previously reported to Members on backlog maintenance and is in the process of developing a long-term strategy for road maintenance work that embraces sustainability.
- 141.** The council has also been active in the development of the SCOTS national road asset management performance indicator suite and national benchmarking exercises through the SCOTS Performance Management and Improvement Focus Group and can demonstrate improved performance management and reporting.
- 142.** Further work is ongoing to develop a strategy for asset information management including the compilation of an inventory relating to road assets.
- 143.** All of this work is designed to further improve the area's road network which has already seen an improvement in condition as evidenced in the last Scottish Road Maintenance Condition Survey (SRMCS) which reported an improvement from 63.6% of roads being in an acceptable condition compared to 57.9% at the previous review.

Outlook

- 144.** A best value review of Falkirk Council is currently planned for 2012/13. However as stated in paragraph 111, the scope of the council's BV2 audit is likely to be narrower than previously envisaged as there has been improvement in some of the areas of uncertainty previously identified in Audit Scotland's Assurance and Improvement Plan. The Assurance and Improvement Plan update 2011 - 14 produced by the LAN also includes activity by other scrutiny bodies over the next three years including:
- Scottish Housing Regulator (SHR) - desk top review of the council's self assessment followed by work targeted at risk areas identified from the review. Work will include a

review of the outcomes from the housing allocations system, impact upon the homeless and progress in the investment programme for meeting the Scottish Housing Quality Standard - scheduled for 2011/12

- Social Care and Social Work Improvement Scotland (now the Care Commission) - multi-agency inspection of services to protect children under CP2, including adoption and fostering - scheduled for 2011/12.
- Social Care and Social Work Improvement Scotland (now the Care Commission) - Initial Scrutiny level Assessment for adult and children's services followed by work targeted at risk areas identified from the review - scheduled for 2011/12.

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan – Falkirk Council	27 April 2011	16 May 2011
Review of IFRS shadow financial statements	26 April 2011	16 May 2011
Shared Risk Assessment / Assurance and Improvement Plan	25 May 2011	Note 1
Improving public sector purchasing follow-up	31 August 2011	Note 2
Review of internal controls	31 August 2011	31 October 2011
Report to those charged with governance on the 2010/11 audit	28 September 2011	31 October 2011
Audit opinion on the 2010/11 financial statements	30 September 2011	31 October 2011

Note 1: taken to Best Value Forum on 3 June 2011

Note 2: not yet presented to the Audit Committee

Appendix B: Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	13	<p>Annual Governance Statement</p> <p>The declaration of the effectiveness of Services' governance arrangements was not signed by all Directors (this risk was also identified in last year's report)</p> <p>Risk - Services' governance arrangements may not support good governance within the council.</p>	<p>Education Services, Statement of Assurance (SOA) was considered and approved by the Education Senior Management Team. The Law & Administration SOA was received via email from the then Acting Director, accepted as electronic signature. The then Heads of Accountancy and of Treasury & Investment were fully engaged in the Annual Governance Statement (AGS) preparation and review. A formal return will be sought from the Chief Finance Officer in respect of the 2011/12 AGS.</p>	Internal Audit Manager	June 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	19	<p>Accounting Treatment</p> <p>"Other unrealised gains" of £2.148 million has been included in the Comprehensive Income and Expenditure Statement. These transactions relate mainly to capital receipt transactions which are not "other unrealised gains".</p> <p>Risk - the financial statements may be inaccurate</p>	The transactions relate to capital receipts. A separate analysis of such transactions will be provided for the 2011/12 Accounts.	Capital Manager	March 2012
3	66	<p>Procurement</p> <p>The council is aiming to achieve an improved performance level of 50% by late 2012. There is still much to do to achieve this aspiration.</p> <p>Risk - the council may not achieve the anticipated level of improvement to make it's level comparable with the local government sector average.</p>	The Council has taken steps to substantially increase resources in the procurement team with a view to achieving this objective.	Head of Resources and Procurement	December 2012
4	74	<p>Financial Uncertainty</p> <p>Future finance settlements are predicted to be lower than current levels. Continuing to deliver public services with a reducing budget will be a significant challenge for the council.</p> <p>Risk - the council fails to</p>	The Council has developed a 5 year budget model which quantifies the increase in demand for services and a reduction in resources. Robust proposals for cost reduction will be	Chief Finance Officer	Nov 2011 - Feb 2012 (for 2012/13 budget) March 2012 onwards (for subsequent

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		identify and respond to opportunities for savings or threats from increasing costs.	presented to Members.		years)
5	100	<p>Housing Benefit Audit</p> <p>In order to continue to deliver continuous improvement across all aspects of the housing service the council needs to focus on completing the outstanding actions from the previous risk assessment and address the new risks identified in the current risk assessment report</p> <p>Risk - the council may not be able to deliver continuous improvement across all aspects of the housing benefits service.</p>	The outstanding risks have been prioritised and work is underway to ensure outstanding actions are addressed. Regular reviews are scheduled to take place to assess progress.	Acting Head of Revenues and Benefits.	December 2011 and 6 monthly review thereafter

Appendix C: Financial ratios

Reserves

Uncommitted general fund reserve as a proportion of annual budgeted net expenditure

Movement in the uncommitted general fund balance

Council Tax

In-year collection rate

Ratio of council tax income to overall level of funding

Financial Management

Actual outturn net service expenditure compared to budgeted net service expenditure

Actual contribution to/from unallocated general fund balance compared to budget

Debt/Long Term Borrowing

Capital financing requirement for the current year

External debt level for the current year

Ratio of financing costs to net revenue income

Impact of capital investment on council tax and weekly rents