DRAFT
AGENDA ITEM 3

FALKIRK COUNCIL

MINUTE of the MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on MONDAY 16 DECEMBER 2013 at 9.30 a.m.

COUNCILLORS:	Allyson Black
	Steven Carleschi
	Tom Coleman
	Roseann Davidson (Convener)
	Baillie Joan Paterson
	Depute Provost John Patrick
	Provost Pat Reid

OFFICERS:	John Flannigan, Depute Chief Finance Officer
	Rhona Geisler, Director of Development Services
	Gary Greenhorn, Acting Director of Education
	Margo King, Customer Services Manager
	Philip Morgan-Klein, Social Work Services Manager
	Gordon O'Connor, Audit Manager
	Mary Pitcaithly, Chief Executive
	Brian Pirie, Democratic Services Manager
	Stuart Ritchie, Director of Corporate and Neighbourhood Services
	Antonia Sobieraj, Committee Services Officer

ALSO ATTENDING:	Fiona Mitchell Knight and Jim Rundell, Audit Scotland

AC20. APOLOGIES

No apologies were intimated.

AC21. DECLARATIONS OF INTEREST

No declarations were made.

AC22. MINUTE

Decision

The minute of the meeting of the Audit Committee held on 23 September 2013 was approved.

AC23. ANNUAL REPORT ON 2012/13 AUDIT

The Committee considered a report by the Chief Finance Officer presenting Audit Scotland's Annual Report on the Audit of Falkirk Council Accounts 2012/2013.

Audit Scotland was required to produce an Annual Report on matters of significance that have arisen out of the audit process. The unaudited Accounts had been issued on 28 June 2013 and the audited Accounts had been authorised for issue on 23 September 2013, both dates in compliance with legislative requirements. The Audit Report highlighted a number of issues, and 13 agreed action points, and progress on their implementation would be reported to the Committee in due course.

Members sought clarification of the Auditors' comments on the Council's governance arrangements, and discussed the decision making structure and the role of members in scrutiny. The members of the Committee then sought information on the underspend in the Housing Revenue Account (HRA), the Equal Pay liability arrangements and consultations with Trades Unions, the proposals for the review of Reserves, and the procedures for dealing with Rent and Council Tax arrears.

Decision

The Committee noted the report.

AC24. INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report by the Internal Audit Manager summarising progress made in completing the agreed 2013/2014 Internal Audit Plan.

The report also included updates on performance against Key Performance Indicators (KPI's) and on recommendations outstanding, as well as Appendices summarising the current status of each planned review, the assurance level for each completed review, and key findings arising from final reports,.

Members sought clarification on risk management arrangements and mitigation measures within the Information Technology Strategy.

The Committee raised the importance of sound information management procedures. In response to a request from Members, the Internal Audit Manager would submit a further Progress Report to the meeting in March 2014 incorporating an update on outstanding Internal Audit recommendations, and information relating to ad hoc consultancy work.

Decision

The Committee noted and agreed the report.

FALKIRK COUNCIL

Subject:	**CORPORATE GOVERNANCE ARRANGEMENTS – KEY FINANCIAL SYSTEMS CONTROLS**
Meeting:	**AUDIT COMMITTEE**
Date:	**24 March 2014**
Author:	**CHIEF FINANCE OFFICER**

1.   INTRODUCTION

1.1   Members will recall that at the meeting of the Audit Committee on 24 June 2013, I submitted a report containing an Action Plan prepared by the Council's External Auditors following the review of the Council's systems of Internal Control. The Action Plan is attached for reference.

2.   ACTIONS TAKEN TO DATE

2.1   Although all the planned management actions have been completed some Services are still taking too long to confirm verification of their monthly payroll reports (Action Point 1).

3.   RECOMMENDATION

3.1   Members are invited to note progress to date on the Action Plan.

Chief Finance Officer

Date: 6 February 2014

Contact Officer: John Flannigan

LIST OF BACKGROUND PAPERS
NIL

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506371 and ask for John Flannigan.

Falkirk Council 2012/13
Review of Systems of Internal Control

Action Plan

Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
Payroll			
1.	Monthly payroll reports are sent to departments for checking and verification of employee details. Services have been instructed to notify the payroll section of the outcome of these checks to provide assurance that payroll processing is accurate. At the time of our review several services had not notified payroll staff of their outcome for a number of months. *Risk: there is a risk that erroneous or fraudulent payments could be made to employees*.	A monitoring process is in place to check that directors have confirmed that their monthly payroll reports have been checked.	Payroll Manager Ongoing
2.	A reconciliation between payroll output and the financial ledger was not performed between 15 August 2012 and 10 January 2013. It is the council's policy to carry out these reconciliations quarterly at a minimum. In addition, the reconciliations performed up to 10 January in 2012/13 had not been checked and authorised. *Risk: there is a risk that any discrepancies between payroll output and the amounts posted to the financial ledger are not identified promptly and become difficult to clear.*	A number of staffing issues have arisen affecting the key personnel involved in the reconciliation during this period. The income tax, NI and pension have been reconciled to ledger and payroll controls as part of the year end processing with work for other suspense accounts started and ongoing.	Payroll Manager Ongoing

Action Plan

Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
3.	Payroll exception reports are produced to identify a variety of events (e.g. percentage differentials to expected pay, high overtime, errors and warning) for internal control purposes. It is important that these reports are reviewed and corrective action taken where necessary. Our testing has shown that reports are not always being signed and dated to demonstrate who has reviewed and actioned the exception, therefore, making it difficult to confirm that a review has taken place and corrective action applied. *Risk: there is a risk that payroll errors are not detected and corrected promptly*	A reminder will be issued to all payroll staff reminding them of the need to sign and date these important reports.	Payroll Manager Implemented
4.	During our review we noted that payroll staff did not hold up to date authorised signatory lists for some services. We have been advised that there has been a delay in introducing the new electronic system for authorised signatories. However we understand that it is now anticipated that this work will be completed in June 2013. *Risk: in the absence of proper authorisation, erroneous or fraudulent payments could be made.*	The new authorisation procedures will now be implemented in June 2013. These have been delayed due to a number of additional forms being received at a late stage.	Payroll Manager June 2013

Action Plan

Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
Trade payables			
5.	We noted that from July 2012 there have been an increasing number of discrepancies highlighted by the daily reconciliation between the purchasing control account and the financial ledger. Officers explained that this is due to a bug in the system which has meant that the report is picking up invoices that have already been paid. However, sample testing has shown that these discrepancies are not always investigated to ensure that it is indeed a system fault. The total difference at 04/02/13 was not material, however, there is risk that the error accumulates over time. *Risk: there is a risk that the reconciliation differences accumulate and genuine discrepancies go undetected.*	The list of current discrepancies will be reviewed and correcting entries to be processed for any not resulting from the software bug. New software with the bug fix will be installed at the next upgrade due to take place within 6 months.	Accounting Services Manager July 2013
Corporate procurement cards			
6.	Purchase card transactions are matched to the associated bank files on a monthly basis to confirm the validity of transactions. This check is currently evidenced on a spreadsheet. There is no evidence presented on the relevant paperwork to indicate who has checked the transaction and when. We were therefore unable to confirm that	The council has in place a purchase card procedure guide for card users. This guide details the transaction matching procedure to be adopted. The guide will be updated to more clearly reflect the need for independent checking and certification.	Head of Resources & Procurement July 2013

Action Plan

Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
	segregation of duties exists between placing an order and matching the transaction. *Risk: there is an increased risk of an irregularity occurring in the absence of segregation of duties.*	The importance of adherence to Financial Regulations, in terms of payment checking and authorisation will also be emphasised in the updated guide.	
7.	Our sample testing highlighted 3 out of 30 procurement card transactions where the goods received note had not been signed to indicate that the goods received had been checked to the original order by a person independent of the individual that placed the order. *Risk: there is a risk that officers fail to identify an incorrect order or pay for goods that are not received.*	This is primarily an issue of adherence to Financial Regulations and not specifically a procurement card issue. As referenced above the purchase card guidance will be updated to highlight the importance of compliance with Financial Regulations.	Head of Resources & Procurement July 2013
8.	Our audit work indicated that the schedule of rates on the building maintenance system (Open Contractor) has not been updated to reflect current prices. The price of orders placed using the building maintenance procurement card cannot be matched to the corresponding delivery notes. *Risk: there is a risk that the council could be charged the wrong price for building supplies.*	New work instructions as part of Property Services Quality Management System will be implemented to document and control material prices and price changes.	Head of Resources & Procurement July 2013

Action Plan

Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
Council tax			
9.	During 2012/13, revenues staff did not retain evidence to demonstrate that the weekly reconciliation between the council tax system and the assessor's records had been maintained although staff verbally confirmed that they were carrying out these reconciliatiions. *Risk: there is a risk that discrepancies between the council tax system and the assessor's records are not identified and resolved.*	Weekly reconciliations are still being run and hard copies are now being retained. In addition, the report has been enhanced to retain an electronic history to compensate for any human error.	Revenues Manager Ongoing
10.	Our review of council tax arrears highlighted that no summary warrants have been issued since November 2012. In addition, we noted that no reminders were issued between November 2012 and January 2013. This was a consequence of the transfer to Civica OPEN. *Risk: there is a risk that this has an adverse impact on council tax arrears position making it more difficult to collect amounts due.*	We were conscious of the potential impact of system conversion and took the opportunity to progress as many cases to warrant immediately prior to planned down time. However, due to the extended downtime and the significant backlog that accrued we took the pragmatic decision to limit recovery action in the short term. We have a planned schedule of recovery for 2013/14 that we have enforced to date.	Revenues Manager Ongoing

Action Plan

Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
Non-domestic rates			
11.	Our review of the annual billing reconciliation between the value and number of bills and the assessment roll identified that although there was evidence that the reconciliations had been performed, there was no evidence to indicate who had prepared and reviewed the reconciliations and when. *Risk: there is a risk that the reconciliations are not completed timeously and reconciling differences go undetected.*	We have demonstrated that this was fully recorded and approved for 2013/14 charges but accept that the paper work relating to 2012/13 did not adequately demonstrate when the control had been carried out and by whom. Although not adequately recorded there is no doubt that the accounts billed reconciled with the valuation roll (and therefore the assessment roll) and the value of bills reconciled with the system calculated debit. This reconciliation is intrinsically part of annual billing process.	Revenues Manager Ongoing
12.	The original documentation held in support of charity relief applications has not been retained in all cases. In addition, there is no evidence that a formal review of charity relief cases has been undertaken since the receipt of original applications. *Risk: The absence of a formal review increases the risk that relief is granted in error to a subject that does not continue to meet the criteria for the relief.*	While no relief forms have been issued a spreadsheet of all cases with reliefs was reviewed internally. The cases will be reviewed in 2013/14 as it is accepted that documentary evidence should be refreshed.	Revenues Manager March 2014

FALKIRK COUNCIL

Subject: **SCOTLAND'S PUBLIC FINANCES – ADDRESSING THE CHALLENGES**
Meeting: **AUDIT COMMITTEE**
Date: **24 March 2014**
Author: **CHIEF FINANCE OFFICER**

1.   **INTRODUCTION**

1.1   Attached is a local follow up report from Audit Scotland as to how Falkirk Council is responding to the challenges contained in the national performance audit report "Scotland's public finances : Addressing the challenges".

1.2   Members are asked to note the report and the progress on the planned management actions.

2.   **KEY FINDINGS**

2.1   It is pleasing to note that Audit Scotland have identified several areas of good practice:
   - The Council has a clear understanding of future financial pressures
   - Work is progressing on strengthening the link between the budget and corporate plan
   - Participation in the SOLACE/Improvement Service benchmarking project
   - Participation by members of the Administration is a series of meetings with officers to discuss, consider and agree savings proposals
   - Regular budget monitoring and reserve strategy updates.

2.2   The report does however identify some areas for improvement which are noted below along with the latest update on their status.
   - Approval of proposals for dealing with the £35m budget gap

Update
Proposals have now been agreed for dealing with year 1 of that gap. A similar gap does however exist for the 3 years to 2017/18. Officers have already begun to piece together savings proposals covering that period.

   - Review and monitoring by Members of specific savings plans

Update
It remains our view to the extent that budget savings are not achieved, this will be apparent in the financial position reports to Members. The main "cross cutting" saving is in relation to procurement and savings in this area are subject to continued monitoring.

   - Consultation with Members to ensure they are confident that the financial information they receive is sufficient for their purposes

<u>Update</u>
Regular contact with Members is being maintained in this area and this will evolve as appropriate.

- The Council's approach to stakeholder consultation.

The procedure for consultation on the 2015/16 and subsequent budgets will be subject to review in the next few months.

3. RECOMMENDATION

3.1   Members are invited to note the findings from the report and progress against the Action Plan.

Chief Finance Officer

Date: 6 February 2014

Contact Officer: John Flannigan

<u>**LIST OF BACKGROUND PAPERS**</u>
NIL

Falkirk Council

Scotland's Public Finances: Addressing the challenges

A targeted follow-up report

AUDIT SCOTLAND

Contents

Executive Summary

Background

1.   Audit Scotland has a targeted approach to following up a small number of national performance audit reports to promote local impact. *Scotland's public finances: Addressing the challenges,* published in August 2011*,* was selected for targeted follow-up across the public sector in Scotland in 2012/13. This report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure.

2.   The aim of the local follow-up work is to assess how Falkirk Council (the council) is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability. This report summarises the key findings arising from our targeted follow-up work.

Key findings

3.   The following areas of good practice were identified through the review:

- The council has a clear understanding of future financial pressures facing it and these are outlined in the medium term financial plan. Budget gaps of £10.8 million, £15.7 million and £8.5 million have been identified for 2014/15, 2015/16 and 2016/17 respectively with a cumulative budget gap of £35 million by 2016/17.

- The council is working on strengthening the link between the budget and the council's corporate plan.

- The council participates in the SOLACE benchmarking project and officers have carried out recent visits to other Scottish councils to learn from good practice, for example, on priority based budgeting systems.

- Elected members were involved in the 2013/14 budget setting process and more specifically, the administration participated in a series of meetings with council officers including staff from finance. This allowed those members the opportunity to discuss, consider and challenge the savings proposals for each service.

- Members regularly scrutinise the council's financial position through budget monitoring reports and reserve strategy updates.

4.   The following areas for improvement were identified for the council to consider:

- A funding gap of £35 million has been identified in the council's medium term financial plan to 2016/17. Officers are exploring saving options consistent with that level of gap, however, these proposals have yet to be considered and approved by members. Early approval is vital to ensure that the council is well placed to monitor its response to increasing financial pressures.

- Members regularly scrutinise the council's overall financial performance through the existing budgetary control arrangements. However, as part of this process, in the future members should also review and monitor the delivery of specific savings plans.

- Officers need to regularly consult with members to ensure that the financial and other information they receive is sufficient to allow them to assess the impact of their decisions on service delivery and outcomes.

- The council has recognised the need to refine its approach to stakeholder consultation to ensure that the information extracted is useful and feeds into the decision making process.

5. It should be noted that the council has already recognised that improvements are needed in a number of the areas identified above and actions are being taken. For example, savings options for the next three years are being explored and will be discussed with members in due course. The planned improvements are at an early stage in their development and there is insufficient evidence available to us at this stage to assess whether they will be successful. We will continue to monitor the situation in future years.

Management action

6. Issues arising from this report together with management's responses are detailed in the Action Plan at Appendix 1. The factual content of this report and the management actions have been agreed with the appropriate officers.

7. The issues identified in preparing this report are only those which have come to our attention during the course of the review and are not necessarily, therefore, all the issues that may exist. It remains the responsibility of management to determine the extent of any improvement actions appropriate. We would stress, however, that commitment to an improvement agenda is an essential part of the efficient management of any organisation.

Acknowledgement

8. The assistance and co-operation received from officers during the course of our audit work is gratefully acknowledged.

Introduction

9. *Scotland's public finances: Addressing the challenges* was published by the Auditor General and the Accounts Commission in August 2011. The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In particular, the report highlighted some of the main cost pressures facing public bodies and emphasised the importance of them achieving long-term financial sustainability.

10. The key messages from the report were:

- The Scottish Departmental Expenditure Limit revenue budget will fall by £2.1 billion (eight per cent) to £23.8 billion between 2010/11 and 2014/15 while the capital budget will fall by £1.2 billion (36 per cent) to £2.1 billion.

- Public bodies will face increasing demand and cost pressures in the future. Increasing demand will be generated as a result of an ageing population and the heightened expectations of the public, while cost pressures arise in areas such as maintenance backlogs and the cost of revenue-financed capital projects.

- Public bodies need to focus on achieving long-term financial sustainability. This requires a clear understanding of the organisation's costs, a clear methodology for setting budgets based on priorities and the outcomes to be achieved, and strong leadership and governance.

- Pay restraint and reducing workforce levels are the most common approach being taken by public bodies to reduce costs over the next few years. Good workforce planning will be 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 as a way to reduce costs, but progress to date has been limited and it is likely to be a number of years before cost savings are realised.

11. The report did not make any direct recommendations but, supported by a checklist for public sector leaders and elected members, set out a number of key issues and risks which managers will need to identify, monitor and manage:

- Reforming public services - including the risk of short-termism, unclear aims and objectives and lack of commitment or constructive challenge.

- Workforce reductions - including the risk of loss of essential skills as a result of key staff leaving and increased workloads for those who remain.

- Financial sustainability - including the risk of unclear priority budget-setting, lack of risk and evidence-based cost reduction strategies, and unforeseen cost pressures.

- Leadership and governance - including the risk of lack of direction and ownership as a result of weak leadership, and inadequate scrutiny and challenge as a consequence of poor governance arrangements.

12. A key consideration of *Scotland's public finances: Addressing the challenges* was the extent to which workforce reductions were being used as a means to deliver financial savings. Audit Scotland is currently carrying out a national audit of changes to the Scottish public sector workforce that will address this issue in more detail. Our follow-up audit therefore excludes consideration of workforce planning issues in order to avoid duplication of effort.

Audit scope and objectives

13. The follow-up audit is being carried out in all 32 councils in Scotland. In addition, all health bodies, 20 central government bodies including the Scottish Government and Scottish Enterprise, and Scottish Water will be covered by the follow-up audit.

14. The follow-up work focuses on two key questions:

- Does the council have sustainable financial plans which reflect a strategic approach to cost reduction?

- Do senior officials and elected members demonstrate ownership of financial plans and are they subject to scrutiny before approval?

15. The above questions have been expanded and developed into an audit guide checklist by our performance audit colleagues. The completed checklist, and supporting evidence, formed the basis of the main findings section of this local report.

Main Findings

Does the council have sustainable financial plans which reflect a strategic approach to cost reduction?

Financial plan 2013/14

16. The council's 2013/14 revenue budget was approved in February 2013 and identified a spending gap of £10.7 million. The supporting budget papers identified significant cost pressures. These included pay awards, salary increments, fuel and energy charges, indexation of PPP/NDPO contracts and non-pay inflation.

17. The budget papers also outlined the council's approach to bridging the funding gap including :

   - review of base budgets (£2.0 million savings)

   - corporate initiatives - procurement, efficiencies, asset management (£1.0 million savings)

   - savings proposed by services (£4.9 million recurring savings)

   - application of reserves (£2.8 million).

Budget-setting process

18. As part of the 2013/14 budget setting process services reviewed individual activity areas to identify potential savings. Services were asked to complete a revenue budget template for any significant savings identified by this process. The template includes consideration of the statutory basis for the service, previous performance and benchmarking data, service standards, alignment with corporate priorities, future service demand, service delivery options, and options for savings and efficiencies. The completed templates were not used when engaging with members of the administration on the proposed options, although they were used to aid the peer review process that was carried out by the corporate budget working group. Members were provided with a high level equality impact assessment of the 2013/14 budget review. Individual equality impact assessments were performed at service level where this was deemed to be appropriate.

19. The 2013/14 budget papers show that the funding gap has been partially bridged by a review of base budgets, indicating that services are taking steps to review and respond to prior year variances. The chief finance officer has highlighted that finance staff will be engaging with relevant services to examine the scope for rebasing budgets in 2014/15.

20. There is clear evidence to show that resources reflect the council's outcomes and the external environment in which it operates. For example, there has been an increase in the provision for care of the elderly in social work services which reflects demographic pressures. In addition, the council's planned investment in affordable housing is aligned with the increasing demand as a result of the economic downturn and the rise in demand as a result of the so called 'bedroom tax'. The council is also exploring alternative methods of investment, namely Tax Incremental Financing (TIF), to boost economic growth in the local area.

21. The council recognises the need to strengthen the link between the budget setting process and the priorities set out in the council's corporate plan. Officers have been exploring opportunities to reshape the budget setting process and have carried out recent visits to Aberdeen City Council and West Lothian Council to gain an understanding of their approach to priority based budgeting. In addition, savings proposals for 2014/15 and beyond will be mapped to the council's priorities and ranked to reflect their anticipated impact on the delivery of corporate priorities. The proposals will also be allocated a risk category (low, medium, high), which will be subject to peer review.

Cost reduction plans

22. Officers recognise a need to improve the service review process to ensure that it is more focused on savings. In common with many public bodies across Scotland, a significant proportion of savings to date have been achieved through early retirement and voluntary severance schemes.

23. The 2013/14 budget utilises £2.3 million of the uncommitted general fund balance and £0.5 million of the devolved schools management reserves to help balance the budget. It is anticipated that a further element of the uncommitted general fund balance will be used to balance the 2014/15 and 2015/16 budgets. This approach to financing the funding gap is not sustainable in the long term. In 2012/13, the council has earmarked £3.5 million of the uncommitted general fund balance for spend to save initiatives. The council's chief finance officer has highlighted the importance of ensuring that reserves continue to be deployed in this manner.

24. An effective monitoring process will be critical to ensuring the successful delivery of agreed savings in the future. It is good practice for officers to prepare cost reduction plans based on SMART (**S**pecific **M**easurable **A**ction oriented **R**ealistic and with **T**imescales) criteria. Currently, there is no formal process in place to enable members to track progress against individual agreed savings, and scrutiny relies on the routine budget monitoring arrangements to highlight discrepancies.

Action Point 1

Benchmarking: costs and performance

25. Historically, the Accounts Commission's statutory performance indicators (SPIs) were the main indicators used for comparative purposes across councils. In March 2013, the first SOLACE benchmarking report was issued, based on 2010/11 and 2011/12 performance information. At this stage it is too early to comment on the council's response to the findings. The benchmarking project is an iterative process and the indicators will further develop in future years. Audit Scotland welcomes the progress that is being made by the local government community through the SOLACE led project to improve performance information.

26. In the council's assurance and improvement plan (AIP) update 2013-16 the local area network highlighted performance management as an area where further information is required. This assessment reflects the fact that the council has acknowledged this as an area for

improvement and has identified specific actions to strengthen the performance management framework and drive challenge and improvement within the council. We are continuing to monitor developments in this area and will report on our findings in our 2012/13 annual audit report.

Longer term financial strategy

27. The council's medium term financial plan forecasts the funding gap on the basis of a 2% cut in cash terms in 2015/16 and a flat cash settlement beyond this point, as advised by the Improvement Service. There is uncertainty surrounding the council's future funding, which stems primarily from factors outwith the council's control. Notably public sector reform, including pensions and welfare. The current forecast will be reviewed on an on going basis to reflect changing circumstances.

28. Work is currently underway to identify savings to bridge the £35 million funding gap for the period to 2016/17. In March 2013, a meeting was held for senior officers to highlight the significant budget gap that has been forecast over the next 3 years and its implications. Officers are exploring savings options consistent with that gap, however, these proposals have yet to be considered and approved by members. In the absence of a longer term approved savings plan there is a risk that the council fails to reach timely agreement on the necessary savings.

Action Point 2

Do senior officials and elected members demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?

Ownership of financial plans

29. As part of the 2013/14 budget setting process senior finance staff organised a series of meetings with elected members of the administration to discuss and consider the savings proposals for each service. These meetings formed an integral part of the budget setting process and provided those members with an opportunity to assess the options put forward by officers. The information provided to members was kept to a minimum to ensure the decision making process was efficient. Finance management advised us that members requested briefing papers on specific options where they felt more information was needed to make a decision. Officers need to regularly consult with members to ensure that the financial and other information they receive is sufficient to allow them to assess the impact of their decisions on service delivery and outcomes.

Action Point 3

Transparency and accountability

30. The council used a number of means to consult the public on the 2013/14 budget including issuing questionnaires with council tax bills and inviting feedback through the council's website

and Falkirk Council News. The council's corporate management team accept that more attention needs to be given to the way in which the council communicates, consults and engages with stakeholders to ensure that the information extracted is useful and influences the decision making process.

31. The chief finance officer stated in the 2013/14 budget papers that it is their intention to carry out more focused engagement with the public and stakeholders to support the budget setting process going forward. The nature of this consultation is still to be determined, however, the focus will be on ensuring that the purpose of any engagement is clearly defined.

Action Point 4

Role of audit or scrutiny committee

32. Throughout 2012/13, budget monitoring reports were presented to the policy and resources committee. The most recent budget monitoring report presented to the committee in January 2013 provided an update on the financial position as at 30 November 2013. The committee were also provided with reserves strategy updates throughout the year, which examined the use of earmarked funds and the uncommitted general fund balance. The 2013/14 budget was considered by the policy and resources committee before being referred to the full council for discussion and approval in February 2013.

33. As stated at section 24 above, members should also review and monitor the delivery of specific savings plans.

Appendix 1 - Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	24	**Monitoring of savings plans** Members regularly scrutinise the council's overall financial performance through the existing budgetary control arrangements. Members should also review and monitor the delivery of specific savings plans. There is a risk that agreed savings are not achieved, putting further pressure on future finances.	It is agreed that planned savings are achieved. To the extent they are not, this will become evident during budgetary control as the budget will have been adjusted. Notwithstanding this, the delivery of saving in cross-cutting initiatives could usefully be subject to specific review.	CFO	During financial year 2013/14
2	28	**Long term savings plans** Savings options consistent with the funding gap of £35 million are being explored but have yet to be considered and approved by members. There is a risk that the council fails to reach agreement on the necessary savings. The use of the uncommitted general fund balance to finance the funding gap is unsustainable.	The budget preparation exercise for financial years 2014/15 - 2016/17 has started early to allow savings options to be identified and to allow more time for members to evaluate savings options. It is recognised that the use of reserves to fund the gap is not sustainable and this is regularly highlighted to members.	CFO	During financial year 2013/14
3	29	**Member involvement** Officers need to regularly consult with members to ensure that the information they receive is sufficient to allow them to assess the	Notwithstanding that there is currently regular engagement, the scope for this to be developed will be kept under review.	CFO	During financial year 2013/14

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		impact of their decisions. There is a risk that members are unable to assess the true consequences of their decisions.			
4	31	**Stakeholder consultation** The council has recognised the need to refine its approach to stakeholder consultation to ensure that the information extracted is useful and feeds into the decision making process. There is a risk that decisions do not reflect the needs and wishes of the community.	Officers & members will determine a clear purpose for engagement. It is recognised that conveying to stakeholders the nature and scale of the financial demographic pressures facing the council is an important dimension. The Community Planning Framework offers a suitable platform for stakeholder engagement.	CFO/Head of Policy, Technology & Improvement	During Financial Year 2013/14

FALKIRK COUNCIL

Subject:	**INTERNAL AUDIT PROGRESS REPORT**
Meeting:	**AUDIT COMMITTEE**
Date:	**24 March 2014**
Author:	**INTERNAL AUDIT MANAGER**

1. INTRODUCTION

1.1 The purpose of this paper is to update Members on progress with completing the agreed 2013/14 Internal Audit Plan (the Plan), as presented to Audit Committee on 25 March 2013.

1.2 The paper also provides an update on: Internal Audit performance; ad hoc / consultancy work; and recommendations outstanding.

2. AUDIT PROGRESS

2.1 Progress with completing planned 2013/14 Internal Audit work is summarised in the table below:

Review / Assignment Status	Number	%
Complete	18	72%
In Draft	2	8%
In Progress	3	12%
Not Started	2	8%
Total	**25**	**100%**

2.2 The target of completing 85% of the main Internal Audit programme will again be exceeded, with no significant adjustments to the Plan. **Appendix 1** lists each planned review / assignment and current status, along with the assurance level provided for those completed (see **Appendix 2** for definitions).

2.3 Key findings arising from completed reviews / assignments are set out at **Appendix 3** (Previously Reported to Committee) and **Appendix 4** (Not Previously Reported to Committee).

3.   INTERNAL AUDIT PERFORMANCE

3.1   Performance against our established 5 Key Performance Indicators is as set out in the table below:

Key Performance Indicator	2013/14 - to date	2012/13	2011/12
Complete **85%** of main audit programme	**80%**	100%	100%
Have **90%** of recommendations accepted	**100%**	99%	99%
Spend **75%** of time on direct audit work	**77%**	78%	77%
Issue **75%** of draft reports within 3 weeks of completion of fieldwork	**95%**	96%	82%
Complete (to issue of final report) **75%** of main audits within budget	**83%**	87%	82%

3.2   As with previous years, performance against each indicator is as expected, and all will be met or exceeded.

4.   INTERNAL AUDIT – AD HOC AND CONSULTANCY WORK

4.1   Members will recall that, as part of each Annual Plan, Internal Audit allocate a number of days to ad hoc and consultancy work. This allocation of days is intended to allow Internal Audit to: provide input into corporate working groups and initiatives; comment on draft policies and procedural guidance; respond to Service requests for advice on risk and control matters; and assist with the investigation of any instances of fraud / irregularity.

4.2   While a fixed number of days is allocated to this work, the reality is that Internal Audit seek to react and respond to all requests as promptly and professionally as possible. On that basis, the Section aims to strike a balance between the delivery of planned assurance work and the more reactive (and in many cases more time critical) ad hoc / consultancy work.

4.3   At the last meeting of the Audit Committee, Members requested that I provide some information on the types of ad hoc / consultancy work Internal Audit have been involved in during 2013/14. The following list, while far from exhaustive, seeks to give a flavour of the exercises, projects, and initiatives we have input into:

- regular or ad hoc attendance at, and input to, groups such as Corporate Management Team; Corporate Risk Management Group; the Fit Fleet Group; the Website Editorial Group; Corporate Asset Management Group; and the Social Work Homecare Real Time Monitoring Project Board;

- review and comment on various corporate strategies, policies, and guidance. Examples include the ICT Strategy; various HR Policies; Business Improvement Team Project Management documentation; Financial Regulations and Contract Standing Orders; Risk Management Strategy, Policy, and Guidance; and various Service Business Continuity Plans;

- input to, and attendance at, the annual Procurement Capability Assessment; and

- advice, guidance, and assistance in relation to various instances of theft, loss, or misappropriation.

4.4 Related to the final bullet point, work has started on the review and update of the Anti Fraud and Corruption Strategy. It had been my intention to bring an updated draft Strategy to this meeting, with the key driver for the review being the need to include reference to the relevant sections of the Bribery Act 2010 (as recommended by Audit Scotland in their 'Annual Report on the 2012/13 Audit').

4.5 I have delayed completing the draft, however, pending further clarity in a number of areas, particularly:

- the timing, role, and remit of the DWP Single Fraud Investigation Service. While the overall picture is beginning to crystallise, there remains a degree of uncertainty as to how this will impact on the potential to divert existing resource towards preventative corporate fraud work;

- the recently established Police Scotland Public Sector Counter Corruption Unit is working on an 'Integrity Model' aimed at assisting Local Authorities prevent and detect fraud and corruption; and

- the Scottish Government has recently established a Cross-Sector Counter Fraud Group, which includes Local Authority representation. One of the aims of this group is to identify areas of good practice in relation to counter fraud governance and practice.

4.6 While it is acknowledged that the existing Anti Fraud and Corruption Strategy remains in need of review and update (albeit it remains broadly fit for purpose), in my view it would be prudent to await further clarity in relation to the above three workstreams. On that basis, I would ask for Members' agreement that preparation and presentation of an updated Anti Fraud and Corruption Strategy be delayed until the 22 September meeting of this Committee.

4.7 In addition to the work highlighted above, Internal Audit have provided input to the ongoing corporate Business Transformation project. To date this has involved engaging with, and gathering information from, Services, and the subsequent review and analysis of that information. Further engagement with Corporate Management Team and with Services is currently underway to discuss and agree workstreams to be progressed on the basis of this first phase of work.

4.8 Internal Audit will retain an involvement in this project during 2014/15, and Business Transformation work will continue to be balanced and progressed alongside our other assurance and ad hoc / consultancy work.

5. REPORTING OF RECOMMENDATIONS OUTSTANDING

5.1 Members will recall that, at the last meeting of the Audit Committee, it was agreed that reporting on Internal Audit recommendations outstanding should focus on:

- Recommendations where the Agreed Action Date has lapsed;
  AND
- Where no revised (and reasonable) Action Date has been agreed with managers;
  AND
- Where there is a clear and material link to one of the Council's seven agreed risk categories (ie financial; information; human resource; asset; change management; governance / accountability; or partnerships).

5.2 Since the last meeting of the Committee in December, much work has been done by Services in relation to progressing work on implementing recommendations. In some cases the recommendation has been implemented in full and in others a revised, future, implementation date has been agreed with Internal Audit.

5.3 At the time of writing this report a total of 58 recommendations are 'live', ie not implemented. In every case, however, the original implementation date has yet to lapse or a revised implementation date has been agreed.

5.4 On that basis, then, there are no specific areas of concern to report to Members or recommendations that I would wish to highlight. The much improved position, and the level of on-going dialogue with Services, confirms managers' commitment to implementing our recommendations and improving the Council's framework of internal control.

6. RECOMMENDATIONS

6.1 Members are invited to:

6.1.1 note that good progress is being made with planned Internal Audit work;

6.1.2 note performance against KPIs, as reported at paragraph 3.1;

6.1.3 agree that an updated Anti Fraud and Corruption Strategy be presented to the 22 September meeting of this Committee; and

6.1.4 note that significant progress has been made by Services in implementing Internal Audit recommendations.

………...

Internal Audit Manager

Date: 13 March 2014

INTERNAL AUDIT PLAN 2013/14 – PROGRESS AT MARCH 2014

No.	Service/Status	Review / Assignment	Level of Assurance
	Reviews / Assignments Complete		
1.	Corporate and Neighbourhood	Fleet Management – Operator's Licence Requirements	Substantial
2.	Finance	Debtors	Substantial
3.	Governance	Records Management	Substantial
4.	Social Work	Clients' Funds / Intermediary Accounts	Limited
5.	All Services	Statutory Performance Indicator Verification	Substantial
6.	Social Work	Cash Spot Checks	Substantial
7.	All Services	Corporate Purchasing	Not Applicable [1]
8.	Development / Finance	Strategic Projects – Position Statement	Not Applicable
9.	All Services	Continuous Auditing	Not Applicable [2]
10.	All Services	Welfare Reform – Position Statement	Not Applicable
11.	Finance	General Services Capital Programme	Substantial
12.	Corporate and Neighbourhood / Finance	Chip and Pin and Paye.Net	Substantial
13.	Education	Site Key Control Testing (Head of Muir Primary School)	Limited
14.	All Services	Premises Managers' Handbook Compliance – Follow Up to Previous Work	Not Applicable
15.	All Services	Business Continuity Planning	Substantial
16.	Finance	Corporate Fraud – Ongoing Workstream	Not Applicable
17.	All Services	Serious Organised Crime – Ongoing Workstream	Not Applicable
18.	Falkirk Community Trust	Repairs and Maintenance / Library Acquisitions / Payroll	As reported to Trust Board
	Reviews / Assignments In Draft		
19.	Development	Reciprocal Review with West Lothian Council – Falkirk Council Carbon Management Arrangements	Not Applicable
20.	All Services	Data and Information Security – Governance and Practice	Not Applicable

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[1] **NOTE** – Report issued 04 October 2013 covering period 01 April 2013 to 30 September 2013. A second report will be issued in April 2014, at which point a formal 'Level of Assurance' will be reported.

[2] **NOTE** – reporting is on an on-going basis. Focus is on analysis of transactions rather than provision of system assurance.

No.	Service/Status	Review / Assignment	Level of Assurance
	Reviews / Assignments In Progress		
21.	Social Work	Self Directed Support	Not Applicable
22.	All Services	National Fraud Initiative	Not Applicable
23.	Education	Premises Management Arrangements at Larbert High School [3]	Not Applicable
	Reviews / Assignments Not Started		
24.	Development	Falkirk Townscape Heritage Initiative	Not Applicable
25.	Internal Audit	Income Generation	Not Applicable

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[3] **NOTE** – This replaces the planned review of Education Services' Financial Governance and Management.

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

REVIEWS / ASSIGNMENTS COMPLETE – SUMMARY OF KEY FINDINGS
2013/14

(Previously Reported to Audit Committee)

No	Review / Assignment Area and Service	Assurance and Key Findings
1.	Fleet Management – Operator's Licence Requirements Corporate and Neighbourhood Services	**Substantial Assurance** Covered arrangements for ensuring compliance with the conditions attached to the Standard National Goods Vehicle Operator's Licence granted to Falkirk Council in August 1995. In general, adequate arrangements were in place. A robust vehicle servicing and maintenance programme has been developed, with all vehicles covered by the Licence subject to regular inspection. We did, however, note scope for improving: training for drivers, Service Transport Officers, and line managers; risk management; first use vehicle checks; line manager sample checking; driver infringement reports; and management information.
2.	Debtors Finance Services	**Substantial Assurance** Covered controls over the identification, input, and authorisation of debtor information on Integra; arrangements for recording payments; debt management, arrears, and write-offs; reconciliations; and management information. Sound systems of control were in place, with clear roles, responsibilities, and guidance. There was some scope for further improving system access and administration; authorised signatory lists; debt-write off and recovery arrangements; and performance information.
3.	Records Management Governance	**Substantial Assurance** Covered arrangements for ensuring an effective records management function, focussing on compliance with the Public Records (Scotland) Act 2011. We found that work in relation to the six compulsory elements of the Act was substantively complete, with work planned to address any remaining outstanding areas. Of the remaining eight, non-compulsory, elements, we noted that there were several where improvements are planned or in progress. In overall terms, however, we found that the Records Management Plan submitted to the Keeper of the Records of Scotland complied, in general terms, with the requirements of the Act.

No	Review / Assignment Area and Service	Assurance and Key Findings
4.	Clients' Funds / Intermediary Accounts Social Work Services	**Limited Assurance** Covered policies, procedures, and guidance; financial and operational controls; the security and retention of clients' funds records; and the production of management information. Internal Audit visited Brockville, Camelon, and Grangemouth Area Offices to review local arrangements. While we noted that operational guidance had recently been updated and that training had taken place, there remained a number of weaknesses. In particular, we made recommendations in relation to criteria for appointeeship; the application of segregation of duties; management checks; reconciliations and record keeping; reviewing account balances; and management information.
5.	Statutory Performance Indicator Verification All Services	**Substantial Assurance** Reported on Internal Audit's role in collecting and validating SPI returns prepared by Services. For each of the SPIs falling within our remit, we found that the information gathered for publication was accurate and complete.
6.	Cash Spot Checks Social Work Services	**Substantial Assurance** We reviewed procedures for the receipt, recording, and reconciliation of cash (imprest, donations, and client funds) at Torwoodhall and Grahamston House Care Homes, and at Caledonia Clubhouse. While arrangements were generally sound, we made a number of recommendations relating to security and record keeping.
7.	Corporate Purchasing All Services	**Level of Assurance To Be Confirmed in April 2014** On a weekly basis Internal Audit reviews a sample of payments of greater than £10,000 to assess compliance with Financial Regulations and Contract Standing Orders. All sampled payments are checked to ensure that a contracted supplier has been used. Where this is not the case, Internal Audit contact the 'authorising officer' to confirm whether the appropriate quotation / tendering exercise was undertaken. To date, we have found there to be broad compliance with Financial Regulations and Contract Standing Orders when procuring goods and services. An interim report on our findings was issued to management in October 2013. We will continue to undertake weekly sample checking, with a view to issuing a final report, incorporating a formal 'level of assurance', in April 2014.

No	Review / Assignment Area and Service	Assurance and Key Findings
8.	Strategic Projects – Position Statement Development / Finance Services	**Not Applicable – Position Statement** Internal Audit has maintained an oversight role in relation to strategic projects, focussing on the Tax Incremental Finance project. We noted that significant work had been undertaken to satisfy the requirements of the Scottish Government's terms and conditions of approval, and to put in place governance and management structures. In the short term, the TIF Delivery Team need to ensure that a full risk register is maintained to allow robust risk reporting to the TIF Steering Group and TIF Executive. In addition, it is important that the programme of meetings with the Scottish Futures Trust and Scottish Government is maintained. Internal Audit will continue to monitor progress, and will include review of ongoing arrangements for monitoring, measuring, governance, and reporting in future Internal Audit Plans.
9.	Continuous Auditing All Services	**Not Applicable – Ongoing Reporting and Assurance** To date, work has focussed on: • creditors duplicate payments; • supplier database – data cleansing; • overtime payments; • finance system access control; • debtor analysis (feeding into Review of Debtors); • VAT registration number / post code validity; • Scottish Welfare Fund; and • taxi operator licences. Various reports have been issued and, in the main, these continue to provide positive assurance on transactional processes. As with previous years, a number of duplicate creditors payments have been identified (totalling c£35k for 2013/14 to date) – action has been taken (or is being taken) to recover these amounts (either by credit note or refund).
10.	Welfare Reform – Position Statement Corporate and Neighbourhood / Finance Services	**Not Applicable – Position Statement** Internal Audit has maintained an oversight role in relation to Welfare Reform planning and change management. This includes governance arrangements (via the Welfare Reform Governance Group), risk management, and the associated operational work programme. A Welfare Reform Project Manager (PM) has recently been appointed. The PM will further develop and improve monitoring and reporting, project risk management, and project planning arrangements. Much work has been undertaken to satisfy the requirements of the Welfare Reform Change Programme set by the Department for Work and Pensions. The implementation of welfare reforms is, however, an ongoing process, and Internal Audit will continue to allocate resource to the project in future Internal Audit Plans.

REVIEWS / ASSIGNMENTS COMPLETE – SUMMARY OF KEY FINDINGS
2013/14

(NOT Previously Reported to Audit Committee)

No	Review / Assignment Area and Service	Assurance and Key Findings
1.	General Services Capital Programme Finance Services	**Substantial Assurance** Focussed on roles, responsibilities, policies, and procedures; the efficiency and effectiveness of the capital bid and decision making process; budget monitoring and payment arrangements; and management information. In general, we found that sound systems of control were in place. Capital Section were involved at all stages of the management and co-ordination of the programme, with guidance and a programme timetable in place. There was some scope for improvement in relation to bid sheet completion and submission, agreement of the bid scoring matrix, and the recording and monitoring of expenditure information.
2.	Corporate Payment System – Chip and Pin / Paye.Net Finance Services	**Substantial Assurance** Internal Audit reviewed system documentation, training, and guidance; roles and responsibilities; physical and environmental controls; data and information management and security; and business continuity arrangements, in relation to the Chip and Pin / Paye.Net system. Visits were made to seven sites using the Paye.Net system and, at each, good controls were in place. The Paye.Net system replaces the previous 'Streamline' system – we recommended that the exercise to replace all Streamline devices with Paye.Net is completed as soon as possible. We also recommended that a formal and comprehensive business continuity (and recovery) plan is prepared for Paye.Net.
3.	Site Key Control Testing – Head of Muir Primary School Education Services	**Limited Assurance** Internal Audit visited Head of Muir Primary School to review Premises Management and financial arrangements. This included visitor arrangements, security, fire safety, health and safety, maintenance, inventory, first aid provision, risk management, business continuity, budget monitoring, ordering of and payment for goods and services, and income collection and recording. While we found there to be a number of areas of good practice, we did identify scope for improvement in relation to: visitors; fire alarm arrangements; CCTV; the opening, closing, and inspection of premises; business continuity plan testing; income handling; segregation of duties; and school meals income.

No	Review / Assignment Area and Service	Assurance and Key Findings
4.	Premises Managers' Handbook Compliance All Services	**Not Applicable – Undertaken as Follow Up to Previous Work** This review followed on from an initial audit undertaken in August 2012. Our 2014 work focussed on visits to a sample of seven premises, to assess the extent to which Annual Statement of Assurance (SoA) returns reconciled to actual supporting documentation. In summary, we found there to be discrepancies between the SoA return and actual supporting documentation at six of the seven premises visited.
5.	Business Continuity Planning Development / All Services	**Substantial Assurance** Focussed on overarching corporate arrangements for establishing business continuity and recovery plans; the adequacy of guidance and training for staff; and arrangements for testing the adequacy and robustness of documented plans. The Council's Business Continuity Management Policy is in the process of being approved. In addition, significant work is ongoing to update Service business continuity plans and to put in place guidance and training for staff. While no testing of updated plans has yet been undertaken, this has been programmed in and will be a key element of the rolling business continuity plan review and update process.
6.	Corporate Fraud Finance Services	**Not Applicable – Ongoing Workstream** Internal Audit continues to work with colleagues in Finance – Revenues and Benefits to consider and scope out the potential for the establishment of a Corporate Fraud Team. This will, to some extent, depend on the roll out of the DWP Single Fraud Investigation Service, as well as issues arising via other national initiatives, such as the recent formation of the Scottish Government Cross-Sector Counter Fraud Group and guidance from the new Police Scotland Public Sector Counter Corruption Unit. This workstream will be rolled forward into the 2014/15 Internal Audit Plan.

No	Review / Assignment Area and Service	Assurance and Key Findings
7.	Serious Organised Crime All Services	**Not Applicable – Ongoing Workstream** The Internal Audit Manager acts as Falkirk Council's Single Point of Contact with Police Scotland in relation to Serious Organised Crime (SOC). Actions undertaken over the course of 2013/14 include: • continued involvement with the Divert / Deter sub-Group of the Scottish Government's SOC Taskforce; • co-ordinating the Council's response to Divert / Deter actions delegated to SOLACE within the SOC Taskforce Implementation Plan; • running a SOC related desktop business continuity planning exercise with CMT, in conjunction with Police Scotland; and • delivering a presentation at the national launch of the Police Scotland Public Sector Counter Corruption Unit on our approach to auditing SOC readiness. In addition, the approach developed by Falkirk Council Internal Audit in relation to the risks associated with SOC has been adopted by the SOC Taskforce for roll out across all other Scottish Local Authorities.
8.	Repairs and Maintenance / Library Acquisitions / Payroll Falkirk Community Trust	**Not Applicable** As reported to Falkirk Community Trust Audit and Performance Sub-Group.

FALKIRK COUNCIL

Subject:	**INTERNAL AUDIT CHARTER AND EXTERNAL QUALITY ASSESSMENT**
Meeting:	**AUDIT COMMITTEE**
Date:	**24 March 2014**
Author:	**INTERNAL AUDIT MANAGER**

1. INTRODUCTION

1.1 The purpose of this paper is to seek Members' approval of a new Internal Audit Charter setting out the role, authority, and responsibility of the Council's Internal Audit Section.

1.2 It also seeks Members' approval of a proposal to participate in a national External Quality Assessment scheme being developed by the Scottish Local Authorities Chief Internal Auditors' Group.

2. BACKGROUND AND CONTEXT

2.1 Members will recall a previous paper to Audit Committee advising that the Public Sector Internal Audit Standards (PSIAS) came into force on 01 April 2013, replacing the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.

2.2 The PSIAS Standards were developed jointly by CIPFA and the Chartered Institute of Internal Auditors (CIIA) and are the first set of truly pan-public sector Standards. The full text of the Standards is available via this link: http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards.

2.3 Rather than fundamentally changing the way in which Internal Audit sections operate, the PSIAS Standards are an evolution of the previous CIPFA Code, while drawing on various other areas of best practice.

2.4 That said, it is worth summarising the key points / changes arising from the new Standards, and these are as follows:

- the Standards stress the need for Internal Audit to be a value adding activity;

- they are framed around Attribute Standards (characteristics of Internal Audit providers), Performance Standards (on the nature and quality of Internal Audit services), and Implementation Standards (on specific activities, eg assurance, consulting);

- there is a requirement for an Internal Audit Charter;

- Internal Audit Sections are required to develop and maintain a quality assurance and improvement programme (through internal and external assessment); and

- the need for Internal Audit to take account of other, alternative, sources of assurance is stressed.

2.5 The remainder of this paper focuses on two of the above, namely the requirement for an Internal Audit Charter, and the requirement for periodic External Quality Assessment.

3. INTERNAL AUDIT CHARTER

3.1 The PSIAS Standards require that all public sector Internal Audit providers establish an Internal Audit Charter. The Charter must set out the role, authority, and responsibility of the Internal Audit Section, and the Standards require that it is approved by 'the board' (in this case, Falkirk Council's Audit Committee).

3.2 The draft Charter set out at **Appendix 1** has been prepared in line with the requirements of the PSIAS Standards. It includes sections on:

- The Role of Internal Audit;
- Professionalism;
- Authority and Scope;
- Organisation;
- Independence and Objectivity;
- Responsibility – Reporting Requirements;
- Responsibility – Consultancy Work and Fraud / Corruption; and
- Quality Assurance.

3.3 The Charter is largely based on the high level principles of the functioning of the Section. A separate Internal Audit Manual is in place that guides staff through the practical matters of planning, undertaking, and reporting on Internal Audit work.

3.4 Nevertheless, the Charter will be kept under review, with any changes presented to Audit Committee on a two yearly basis (or earlier if required).

4. EXTERNAL QUALITY ASSESSMENT

4.1 The PSIAS Standards also require that the Internal Audit Manager develops a quality assurance and improvement programme, designed to enable evaluation of compliance with the Standards. This must include an annual self assessment and, on a five yearly basis (commencing 01 April 2013), an independent external assessment.

4.2 The annual self assessment will be undertaken as a matter of course, with the results summarised in the Internal Audit Annual Assurance Report presented to the June meeting of the Audit Committee.

4.3   The requirement for an external assessment is less straightforward. The Standards are clear that the assessment must be undertaken by a qualified, independent assessor. The indicative cost of procuring an independent external assessment from a third party provider (such as the Chartered Institute of Internal Auditors) is between £6,000 and £9,000. This is in addition to Officer time preparing for, and participating in, the assessment process.

4.4   As an alternative to this, the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) has developed the proposal set out at **Appendix 2**.

4.5   Fundamentally, the approach set out in this proposal would allow Authorities to participate in a 'peer review' scheme, whereby each Authority would be allocated another Authority to act as assessor. Each Authority would be assessed once, and act as assessor once, over the initial five years of the scheme.[1]

4.6   While there would be a cost to each participating Authority in relation to the training required to become an assessor, this will not be material within the context of the cost of purchasing the service from an external provider. In addition, an allocation of 'days' will have to be made to allow Falkirk Council's Internal Audit section to fulfil our obligations as an assessor but, again, this is likely to be minimal (with an assessment likely to take 5-7 days, and a requirement to undertake an assessment only once every five years).

4.7   The requirement for external assessment is mandatory and, at some point over the coming five years, the Internal Audit Section will require to source and undergo assessment. In my view, the SLACIAG proposal is a low cost / high quality option, which allows for the retention of an acceptable degree of independence.

5.   RECOMMENDATIONS

5.1   Members are invited to:

5.1.1   Consider and approve the Internal Audit Charter attached at Appendix 1; and

5.1.2   Consider and approve Falkirk Council Internal Audit's participation in the SLACIAG External Quality Assessment scheme.

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Internal Audit Manager

Date: 10 March 2014

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[1] This differs from the previous 'reciprocal peer review' process with West Lothian Council in that, under the SLACIAG proposal, one Authority could not assess an Authority which they have been assessed by.

FALKIRK COUNCIL   **APPENDIX 1**

INTERNAL AUDIT CHARTER

Falkirk Council

INTERNAL AUDIT CHARTER

Prepared By:	Gordon O'Connor, Internal Audit Manager
Distribution:	Audit Committee, Internal Audit Section
Version:	v1.0.0
Current Version Date:	10 March 2014
Previous Version Date:	N/A

1.   Internal Audit Charter

1.1   This Internal Audit Charter sets out the role, authority, and responsibility of the Council's Internal Audit Section, in accordance with the UK Public Sector Internal Audit Standards (PSIAS). The Charter will be reviewed bi-ennially.

1.2   It is a requirement of PSIAS that the Charter is approved by the 'Board'. Within Falkirk Council, the Audit Committee is deemed to be the Board.

2.   Role of Internal Audit

2.1   Internal Audit is an independent and objective assurance and consulting activity that aims to add value to, and improve the operations of, Falkirk Council.

2.2   The main objective of Internal Audit is to provide a high quality, independent, and innovative audit service, culminating in an Annual Assurance Report providing an opinion on the adequacy of the Council's arrangements for risk management, governance, and control.

2.3   In addition to this assurance role, Internal Audit will also:
- present periodic Progress Reports on the Section's work to Audit Committee;
- provide ad hoc consultancy and advice to Services;
- monitor and report on the implementation of Internal Audit recommendations; and
- help promote an anti-fraud and corruption culture, and assist with investigations as appropriate.

2.4   The Internal Audit Manager acts as Key Contact for the bi-ennial National Fraud Initiative exercise and as the Council's Single Point Of Contact (SPOC) with Police Scotland in relation to Serious Organised Crime and Corruption.

3. Professionalism

3.1 Internal Audit will adhere to the PSIAS. These Standards set out the fundamental requirements for the professional practice of Internal Auditing, and are based on the Institute of Internal Auditors' mandatory guidance. They also set out requirements in relation to evaluating the effectiveness of the Internal Audit Section's performance.

3.2 Internal Audit will adhere to Council policies, procedures, and guidance, and will operate in line with its own Internal Audit Manual.

3.3 All Internal Audit staff participate in the Continuous Professional Development (CPD) requirements of the relevant Chartered Institute, and in the Council's Achievement and Personal Development Scheme (APDS). To assist with compliance with these CPD requirements, the Council's Finance Service is an accredited CIPFA and ACCA CPD employer, and the Internal Audit Section has been awarded the equivalent CIIA accreditation.

3.4 Internal Audit staff are also required to adhere to the Chartered Institute of Internal Auditors' Code of Ethics, and are reminded of this requirement on an annual basis.

3.5 Networking and sharing of good professional practice across Local Authorities is achieved through the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) and its Computer Audit Sub-Group (CASG). Both of these Groups meet periodically throughout the year to discuss topical issues, emerging risks, and to progress specific initiatives.

4. Authority and Scope

4.1 The scope of Internal Audit allows for unrestricted coverage of the Council's activities. To allow the Section to provide a truly independent service, all Internal Audit staff will have authority to:
- enter any Council premises or land;
- access any records, documents, or correspondence (held in any format) relating to any matter which may have audit or assurance implications for the Council;

- require explanations relating to any matter under review from any employee, including Chief Officers; and

- require any employee (or agent) of the Council to produce cash, stores, assets, or any other property under their control or to which they have access.

4.2   This access is on demand and need not be subject to prior notice.

4.3   In addition, the Internal Audit Manager will have unrestricted access to:

- the Chief Executive;

- the Convener and Members of the Audit Committee;

- Chief Officers; and

- all Council employees.

4.4   The Internal Audit Manager has the right to report directly to the Council in any instance where he / she deems it inappropriate to report to the Chief Finance Officer, Chief Executive, or Audit Committee.

4.5   Right of access to other bodies funded by the Council should be set out in the conditions of funding or relevant contractual arrangement.

5.   Organisation

5.1   The Internal Audit Manager reports functionally to the Audit Committee and administratively to the Chief Finance Officer, who is a member of the Council's Corporate Management Team.   The Internal Audit Manager meets with the Convener of the Audit Committee prior to each meeting of the Committee to discuss matters relating to the Agenda.

5.2   Functional reporting means that the Audit Committee will:

- approve the Internal Audit Charter;

- approve the annual risk based Internal Audit Plan;

- consider reports on Internal Audit activity, including an Annual Assurance Report;

- seek assurances from Chief Officers that appropriate action has been taken to address Internal Audit recommendations; and

- make enquiries of management and the Internal Audit Manager to identify any inappropriate scope or resource limitations.

5.3   The Internal Audit Manager, Senior Internal Auditors, and Internal Auditors are required to hold a relevant professional qualification and to be suitably experienced.

6.   Independence and Objectivity

6.1   Internal Audit staff will act independently and objectively at all times. In addition, it should be noted that Internal Audit is not an extension of, or substitute for, the functions of line management and will remain free from any undue influence or other pressure affecting its actions and reporting.

6.2   Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment. They may, however, be consulted on the implementation of new systems or processes to ensure that, as far as possible, sound and proportionate arrangements for risk management, governance, and control are built in.

6.3   It is Service management's (not Internal Audit's) responsibility, to:
- maintain a robust framework of internal control within their area of responsibility;
- put in place arrangements to prevent, detect, and resolve instances of fraud or corruption;
- consider and act upon Internal Audit findings and recommendations, or accept the risk of not acting on these; and
- inform Internal Audit of any material proposed changes to systems or processes.

6.4   Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being reviewed.

They must make a balanced assessment of all the relevant circumstances, and not be unduly influenced in forming judgments.

6.5   The Internal Audit Manager will report to Audit Committee in his / her own name, and will confirm, in his / her Annual Assurance Report, the organisational independence of the Internal Audit Section.

7.   Responsibility - Reporting Requirements

7.1   The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's risk management, governance, and control arrangements.

7.2   It is the responsibility of Internal Audit to complete sufficient work to allow an Annual Assurance Report to be presented to the Audit Committee. This report provides an annual, overall, opinion on the adequacy of arrangements for risk management, governance, and control, and informs the Council's Annual Governance Statement.

7.3   The Annual Assurance Report will be based on the range of risk based reviews set out in the Annual Internal Audit Plan, and will encompass:

- systems and processes for establishing and embedding effective risk management across Falkirk Council;
- corporate governance arrangements;
- routine business processes and central systems; and
- non-key processes.

7.4   In preparing the Annual Internal Audit Plan, cognisance will also be taken of information obtained from Internal Audit's own Audit Needs Assessment model, previous audit reviews, and from consultancy / advice work. In addition, consideration will be given to information obtained through regular contact with Service managers, and from other independent review activities, eg external audit, REFLECT, and the work of external inspection agencies.

7.5   For each individual audit review, Internal Audit will develop a Terms of Reference and agree this with the relevant Service managers. Reviews are carried out using a risk based approach, taking account of the objectives of the activity being reviewed, risks to that activity, and the adequacy of existing risk management, governance, and control arrangements.

7.6   Internal Audit will develop and document work programs for each review, setting out the approach to be taken for identifying, analysing, evaluating, and documenting information during the review. A detailed file will be kept as a record of work undertaken. This will be done in line with the standards set out in Falkirk Council's Internal Audit Manual.

7.7   Matters arising from each Internal Audit review will be reported to management in the form of a draft audit report. Each report will be reviewed by the Internal Audit Manager and will include a statement on the level of assurance that can be provided, as well as an action plan setting out any recommendations. The overall assurance will be provided in line with the definitions set out below.

Level of Assurance	Definition
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There may be some scope for improvement as current arrangements may undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

7.8   The report and completed Action Plan will form the final record of each audit.

7.9   Reports will be provided to the Audit Committee at its March and November / December meetings detailing progress in completing each Annual Internal Audit Plan and highlighting any key matters arising. These progress reports will also provide information on

any ad hoc / consultancy work undertaken by Internal Audit as well as any significant instances of theft, fraud, or irregularity considered by Internal Audit.

7.10 The Progress Reports to Audit Committee in March and November / December will also provide information in relation to Internal Audit Recommendations that remain outstanding.

7.11 Internal Audit maintain a spreadsheet logging all recommendations made along with management responses provided. This spreadsheet is periodically circulated to Service Directors / Chief Officers with a request that they provide an update on those recommendations falling within their area of responsibility. Any recommendations that have been fully implemented are removed from the spreadsheet with updates added where corrective action has commenced but not yet been completed.

7.12 The reporting to Audit Committee of recommendations that remain outstanding will focus on:

- recommendations where the agreed Action Date has lapsed; **and**
- where no revised (and reasonable) Action date has been agreed with Managers; **and**
- where there is a clear and material link to one of the Council's seven agreed risk categories.

7.13 This approach allows any particular areas of risk / concern to be highlighted, and positive assurance to be provided where appropriate.

8. Responsibility – Consultancy Work and Fraud / Corruption

8.1 Internal Audit will include an allocation of 'days' in the annual Internal Audit Plan for Consultancy Work and Fraud / Corruption.

8.2 Consultancy work includes commenting on draft procedural guidance and responding to management requests for advice on risk and control issues. Approval will be sought from

the Audit Committee if there is to be a significant variation in consultancy work above the allocation within the Internal Audit Plan.

8.3   As per Section 24.6 of Financial Regulations, Chief Officers are responsible for identifying and managing the risk of fraud. Chief Officers are, however, required to notify the Chief Finance Officer of all financial irregularities or of any circumstances that may suggest the possibility of irregularities. The Chief Finance Officer will form an opinion on the process to be followed on notification of an irregularity, and this may involve requesting that Internal Audit assist with, or take a lead on, any investigation. Ultimately, this decision will be taken with due regard to the Council's Anti Fraud and Corruption Strategy.

9.   Quality Assurance

9.1   Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of the Section's activity (and its compliance with PSIAS). This consists of an annual self assessment, ongoing performance monitoring, and a periodic external assessment.

9.2   The Internal Audit Manager is responsible for undertaking an annual self assessment and for reporting the results of this self assessment to the Audit Committee (within the Internal Audit Annual Assurance Report).

9.3   External assessments will be conducted at least once every five years by a suitably qualified, independent, assessor. The Internal Audit Manager will discuss and agree options for these assessments with the Chief Finance Officer and Convener of the Audit Committee.

COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS - REQUIREMENT FOR EXTERNAL QUALITY ASSESSMENT

Background and Context

1.   The mandatory Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive develops a Quality Assurance and Improvement Plan (QAIP). The QAIP is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards, along with an evaluation of whether Internal Auditors apply the Code of Ethics. The QAIP must include both internal and external assessments. This document outlines options for Local Authorities in Scotland to comply with the requirement for the External Quality Assessment (EQA).

2.   Standard 1312 of the PSIAS requires that an '*external assessment must be carried out at least once every 5 years by a qualified independent assessor or assessment team from* **outside** *the organisation*'.

3.   The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) has considered compliance with this aspect of the PSIAS in one of two ways:

- the individual procurement of an external team to undertake the review; or

- the development of a framework for external assessments to be undertaken by member authorities of SLACIAG on a broadly reciprocal arrangement utilising a peer review pool.

Option 1

4.   Each individual Authority would undertake procurement activity at the appropriate time within their own organisation to secure an external organisation to undertake the EQA. The Institute of Internal Auditors conduct EQAs and their fees for the basic service, a validated self assessment, range from £6k to £9k. In addition, there would be the time of appropriate Officers to take part in the assessment.

Option 2

5.　　The second option would be for SLACIAG to develop a framework for undertaking the EQA of member Authorities with costs being contained within individual member Authorities' own budgets.　The remainder of this document outlines the proposal for this peer review option.

SLACIAG Proposal

6.　　The Committee of SLACIAG, with support from its members, would undertake to oversee the development of a framework which would satisfy the requirements of the PSIAS. The PSIAS states that external assessments can be in the form of a full external assessment, a facilitated self assessment, or a self assessment with independent validation.　SLACIAG's proposal would take the form of a validated self-assessment for each of the Authorities and would be undertaken within the required timetable for compliance (ie within the first 5 years of the PSIAS being in place, but subject to the principle that each authority has an EQA to provide assurance to current Council members).　The validated self assessment will include reviewing the self assessment checklist completed by the Chief Audit Executive, examining relevant evidence, and interviewing key stakeholders, including the Convener of the Audit Committee or equivalent.

7.　　Following the development of the framework, the Committee will oversee its implementation and will also provide a level of scrutiny and quality assurance to ensure the adequacy of the process and to arbitrate over any disputed outcomes as required.

8.　　Each Authority which signs up to the scheme will be allocated another authority to assess as an EQ Assessor.　Such allocations will take cognisance of the existing closeness of relationships which already exist between Authorities, and also of geographical and logistical issues which may be relevant.　The arrangements which will be developed will ensure that there is sufficient transparent independence in place to ensure that the assessment is truly an external assessment of conformance.

9.   Each Authority may appoint either the Chief Audit Executive, or a team which would be headed by the Chief Audit Executive, to undertake the assessment of the body to whom it has been appointed. All members of any EQA team will be employed directly by the Authority in question. A qualified assessor, or assessment team, would need to demonstrate competence in two areas: the professional practice of Internal Auditing; and the external assessment process, and it is for the Chief Audit Executive of the body being assessed to determine whether the assessor or team is sufficiently competent. Where a team is undertaking the inspection, these competencies must be held by the team collectively and not necessarily by all individuals within the team.

10.   Whilst the requirement for EQA is for at least every 5 years, SLACIAG would propose that an EQA be undertaken in line with each electoral cycle to ensure that each administration receives at least one EQA report. This will mean that an EQA would be undertaken at an appropriate time within each electoral cycle.

Benefits

11.   The implementation of the proposed framework would minimise the costs to each constituent Authority, as there would be no direct fee paid for the EQA. Each Authority would absorb the time for the EQA, anticipated to be in the region of 5 – 7 days, within their Internal Audit Planning process. Any travel / accommodation costs would be kept to a minimum and charged to the Authority being assessed.

12.   There is scope for developing Internal Auditors within teams undertaking the EQA in terms of their CPD requirements, and of gaining an increased level of understanding of Internal Audit within the Local Government sector outwith their own organisation.

Next Steps

13.   The PSIAS requires the Chief Audit Executive to discuss with the Board (ie, the Audit Committee):

- the form of external assessments;

- the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest; and

- the need, if any, for more frequent external assessments.

14. SLACIAG requests that the Chief Audit Executive discuss this proposal with line management and also with their Audit Committee. A response will be required from each Chief Audit Executive as to whether their Authority would be involved in such a scheme were it to be established. In the event that this proposal has sufficient backing (a minimum of 20 authorities), a detailed framework will be developed for use across the Group.

15. To allow for the development of a scheme, a decision on whether each Authority wishes to participate will be required by 31 March 2014.

FALKIRK COUNCIL

Subject:	**INTERNAL AUDIT PLAN 2014/15**
Meeting:	**AUDIT COMMITTEE**
Date:	**24 March 2014**
Author:	**INTERNAL AUDIT MANAGER**

1. INTRODUCTION

1.1 The Public Sector Internal Audit Standards 2013 (PSIAS) require that the Internal Audit Manager prepares a risk based Internal Audit Plan (the Plan) to determine the priorities and work programme of the Internal Audit Section over the coming 12 months.

1.2 The Plan should take account of the Council's risk management and performance management arrangements, and should set out the approach to relying on other sources of assurance. It should set out the resources available to Internal Audit, and comment on the adequacy of those resources.

1.3 This Plan has been prepared in line with the requirements of PSIAS.

1.4 As part of their responsibilities under CIPFA's guidance on Audit Committee principles, Members are required to consider and agree the Internal Audit Plan.

2. INTERNAL AUDIT RESOURCES

2.1 Internal Audit must be adequately resourced to meet its objectives, in terms of knowledge, skills, and other competencies needed to complete planned work. The staffing position within the Section has been stable for some years now, with a good mix of experience, qualifications, and skills.

2.2 All members of the Internal Audit Team are qualified (either with CIPFA, the Chartered Institute of Internal Auditors, the Information Systems Audit and Control Association, or a combination of these) and experienced, with Continuing Professional Development requirements ensuring that all remain well versed in new and emerging working practices, issues, and risks. In addition, three members of the team have recently achieved Lean / Six Sigma Green Belt status, allowing the Section to offer new services in relation to process streamlining and re-engineering.

2.3 The current team structure is set out overleaf:

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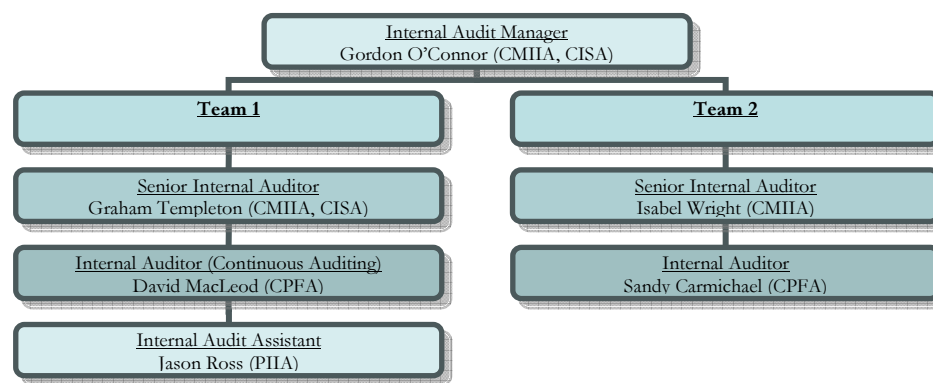
2.4 The Internal Audit Plan for 2014/15 has been developed on the assumption that the above position will not change [1]. Resources will be allocated as follows:

Activity	Planned Days
Direct Internal Audit Time	770
Ad Hoc / Consultancy Work	110
Work on Recommendations Outstanding	20
Total Direct Internal Audit Activity	**900**

2.5 Ad hoc / consultancy work arises throughout the year, and relates to things like: involvement in corporate projects and working groups; the provision of advice on guidance and controls; short-term assignments requested by Services; and involvement in the investigation of actual or alleged irregularities. Significant pieces of ad hoc work will be included in Progress Reports to Committee.

3. DEVELOPMENT OF THE INTERNAL AUDIT PLAN, AND PLANNED AUDIT COVERAGE

3.1 As required by PSIAS, the Plan has been developed taking account of risk. In practice, this comprised:

• review of corporate and Service Plans and Risk Registers;
• discussions with Directors and senior managers; and
• consideration of our own Internal Audit Needs Assessment model.

3.2 The landscape within which the Council operates continues to change, with on-going financial pressure and ever increasing onus on managers to ensure that the balance between service delivery and robust internal control is maintained. Internal Audit also recognise the need to apply common sense and pragmatism, particularly around the level of internal and external scrutiny applied to Services, and in relation to the number and type of recommendations we make.

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[1] **NOTE**, the nature of Internal Audit's continued involvement in the corporate Business Transformation project may impact on the figures proposed in the table at paragraph 2.4.

3.3   We will seek to place reliance on work undertaken by other inspectors and assurance providers, where possible, when considering the overarching opinion we will provide on the Council's arrangements for risk management, governance, and control, in our 2014/15 Annual Assurance Report. This will include working closely with Audit Scotland, to ensure that our work is co-ordinated and programmed to avoid duplication and maximise assurance.

3.4   On that basis, then, our planned 2014/15 Internal Audit work programme is set out at **Appendix 1**.

3.5   Following this meeting I will agree the broad timing of each planned review with the relevant Chief Officer, and allocate work within the Internal Audit Section.

4.   REPORTING ARRANGEMENTS

4.1   On completion of each review Internal Audit will issue a draft report to the relevant manager. The report will include an overall opinion on the adequacy of risk management, governance, and control arrangements in the area under review, and an action plan setting out any recommendations for improvement. The assurance will be provided in line with the definitions set out at **Appendix 2**.

4.2   The manager will be required to provide responses to each recommendation, and the report and completed action plan will form the final record of the audit.

4.3   I will provide periodic reports to the Audit Committee on our progress with completing the 2014/15 Plan, and summarising the findings arising from each completed review. In June each year I will provide an Annual Assurance Report providing an overall opinion on the Council's risk management, governance, and control arrangements, based on the work that Internal Audit has carried out.

5.   RECOMMENDATIONS

5.1   **Members are invited to:**

    5.1.1   note the resources available to Internal Audit;

    5.1.2   agree planned Internal Audit coverage for 2014/15; and

    5.1.3   note that progress against the Plan will be reported to the Audit Committee on an ongoing basis.

…...

Internal Audit Manager

Date: 10 March 2014

AUDITS PLANNED FOR PERIOD APRIL 2014 TO MARCH 2015

Audit No.	Service	Purpose and Scope of Audit
A1	All Services	**Corporate Purchasing** We will assess arrangements for ensuring compliance with the purchasing elements of Financial Regulations and Contract Standing Orders. This will be done on the basis of review of a sample of payments on a weekly basis.
A2	All Services	**Senior Officer Financial Controls** Internal Audit will review the senior officer financial control framework. Areas of potential coverage include: • pre-employment checks and vetting arrangements; • the adequacy of policies, procedures, and guidance; • arrangements for controlling and monitoring authority to commit and incur expenditure; • systems of accountability, scrutiny, performance monitoring, and management information.
A3	Social Work Services	**Health / Social Care Integration** In conjunction with colleagues from Fife, Tayside, and Forth Valley NHS Internal Audit Consortium, we will consider roles, responsibilities, and arrangements for the management, financing, and delivery of Internal Audit services to the joint delivery of Health and Social Care services.
A4	Corporate and Neighbourhood Services	**Procurement** To cover all aspects of procurement, including the setting up, and use of, central contracts, e-procurement (PCS and Quick Quotes), and use of the corporate purchasing card. Consideration will also be given to the steps necessary to move towards the Procurement Capability Assessment 'Superior Performance' category.
A5	Development and Finance Services	**Strategic Projects** Internal Audit will continue to maintain an oversight role, particularly in relation to the ongoing TIF project.
A6	All Services	**System Interfaces** Internal Audit will ascertain existing system interfaces and seek to identify opportunities for establishing workable and cost effective interfaces where these would help eradicate unnecessary re-work.
A7	Education Services	**Devolved School Management** We will review Education Services' arrangements for devolving responsibility for budgets, and the management of those budgets, to schools.

Audit No.	Service	Purpose and Scope of Audit
A8	Social Work Services	**Self Directed Support** Internal Audit will review steps being taken to plan for, and implement, Self Directed Support, and for ensuring compliance with the Social Care (Self Directed Support)(Scotland) Bill.
A9	Finance Services	**Overtime and Allowance Administration** To cover the processing of overtime and allowance claims and payments, as well as claim authorisation and verification arrangements. Also, to review whether Service exercises to reduce overtime and allowance expenditure have achieved their aims.
A10	Development Services	**Business Support** To include the provision of support to new and growing businesses in the Forth Valley area via the management of the Business Gateway Contract.
A11	Corporate and Neighbourhood and Governance Services	**Council House Buy Back** We will review arrangements for the acquisition of privately owned housing for inclusion in the Council's housing stock.
A12	Finance Services	**Non-Domestic Rates** Internal Audit will focus on calculation, billing, collection, advice, reliefs and exemptions, appeals, accounting, and management information. We will also review the monitoring and management of arrears, and the impact of the TIF project.
A13	Education Services	**Community Learning and Development** We will review strategies, policies, procedures, roles, and responsibilities, as well as the provision of learning and development and the evaluation of outcomes.
A14	All Services	**National Fraud Initiative** To co-ordinate and manage the NFI process (data submission and data match investigation) for Falkirk Council.
A15	Social Work	**Criminal Justice Services** To cover policy, procedures, and performance monitoring, and to include the SW Unit at Polmont Young Offenders' Institute, Youth Justice, and other key initiatives.
A16	Development Services	**Falkirk Townscape Heritage Initiative (THI)** Internal Audit will prepare audit certification as required by project terms and conditions.

Audit No.	Service	Purpose and Scope of Audit
A17	Finance Services	**Corporate Fraud** Building on previous work undertaken, Internal Audit will continue to provide input to the scoping, set-up, and operation of corporate fraud arrangements.
A18	All Services	**Statutory Performance Indicator Verification Work** To collect, collate, and verify relevant SPI returns, in conjunction with Research and Information Team.
A19	All Services	**Continuous Auditing** To consider, review, and test transactional systems on an ongoing basis.
A20	All Services	**Site Key Control Testing** Intensive, short, multi-auditor visits to a sample of Council properties / sites (including schools). This will cover financial, information, security, premises / asset management controls, HR, and governance / management key controls.
A21	To Be Confirmed	**Reciprocal Audit Review with West Lothian Council** West Lothian Council Internal Audit will undertake a review of an agreed Falkirk Council system, and vice versa.
A22	Falkirk Community Trust	**Falkirk Community Trust** To be determined and agreed with Trust management.

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Substantial Assurance	Largely satisfactory risk, control, and governance systems are in place. There may be some scope for improvement as current arrangements may undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited Assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No Assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

FALKIRK COUNCIL

Subject:	**FALKIRK COUNCIL – ICT SERVICE REVIEW 2012/13 REPORT FROM AUDIT SCOTLAND**
Meeting:	**AUDIT COMMITTEE**
Date:	**24 MARCH 2014**
Author:	**DIRECTOR OF CORPORATE & NEIGHBOURHOOD SERVICES**

1. INTRODUCTION

1.1 This report presents to the Audit Committee, the ICT Service review report from Audit Scotland for 2012/13. This audit report, attached at appendix one, outlines Audit Scotland's assessment of the Council's ICT functions and estate and notes key risks and potential challenges.

2. RISKS IDENTIFIED AND ACTION PLAN

2.1 The main section of the audit report looks at the key findings of the audit including, the Council's technology strategy, service delivery, access controls and compliance, asset protection and business continuity. The final section of the report notes the main risks and mitigating actions.

2.2 Since the report was finalised, significant challenges facing the Council have been addressed including reaccreditation under the Government's PSN / GSX compliance regime. A new technology strategy has been developed and is now being taken forward and significant work has been undertaken to refresh our business continuity arrangements.

3. RECOMMENDATIONS

3.1 Members of the Audit Committee are asked to note the ICT service review report and the key actions being taken to address the risks outlined in appendix 4 of that report.

....………………………..
DIRECTOR OF CORPORATE & NEIGHBOURHOOD

Date: 13 March 2014
Ref: ABB0314FC – Report to Audit Committee re ICT
Contact Name: Fiona Campbell

Falkirk Council

ICT service review

2012/13

AUDIT SCOTLAND

Contents

Summary

Introduction and audit approach

1. As part of our risked based assessment carried out during the initial planning stage of Falkirk Council audit, we identified Information and Communication Technology (ICT) as a priority area for review in 2012/13. The audit work was based on an established computer services review methodology developed by Audit Scotland. It provides a high-level risk based assessment of ICT services in five key areas as outlined below.
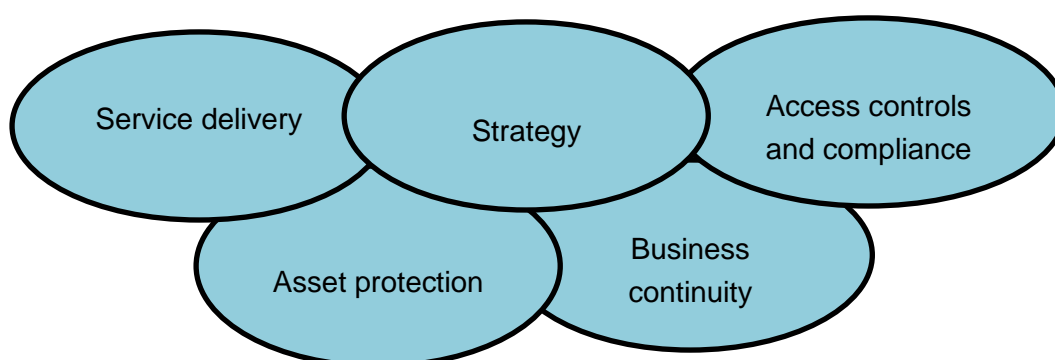
2. Our audit was carried out using a Computer Services Review (CSR) Client Questionnaire (CQ). The questionnaire was completed in consultation with ICT management who also provided supporting documentation as evidence. In addition, a number of the ICT service functions were previously tested by us to confirm their operational effectiveness.

Key findings

3. The council's ICT section deals with the management of ICT resources, requests for services and business continuity, as well as managing ICT projects and information security.

4. A number of good practices were identified and include the following:

    - effective work practices are in place to manage the council's ICT infrastructure and data centres

    - a service desk process is in place to ensure effective control over support calls

    - sound practices are in place for managing user access to council controlled systems

    - business continuity arrangements have been developed for the back-up and recovery of data although they remain under review

    - effective arrangements are in place for managing the council's ICT hardware and software assets

    - the public sector standard project management methodology (Prince2) is used to control ICT projects.

5. At the same time there are a number of challenges facing the council:

- Investment in ICT provision has to be balanced between priority areas and increasing user and government demands.

- The ICT service is part of a programme of continuous service improvement within the council and is being progressed through service and skill re-alignment.

- Continuous changes in the ICT environment and the sharing of data through collaborative partnerships places new demands on information security policy and arrangements.

- The maintenance of business continuity / disaster recovery arrangements is part of an on-going process which involves completing formal business impact analysis worksheets for all systems.

- The Scottish Government are looking for councils to help develop and deliver plans for superfast broadband as part of the shared services agenda.

Risk exposure and planned management action

6. This report summarises the findings from our review and identifies areas where the council may be exposed to significant risk. Although this report identifies certain risk areas, it is the responsibility of management to decide the extent of the internal control system appropriate to the council. We would stress, however, that an effective control system is an essential part of the efficient management of any organisation. Also, it should be noted that risk areas highlighted in this report are only those that have come to our attention during our normal audit work and, therefore, are not necessarily all of the risk areas that may exist.

7. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be risk aware with sound processes of risk management, rather than risk averse. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value. Risk can be either inherent or due to the absence of effective controls. Risks take a number of forms including financial, reputational, environmental or physical.

8. The action plan included as Appendix A of this report details the areas where we have identified exposure to risk and which require management action.

Conclusion

9. Our overall conclusion is that the controls surrounding the management of the ICT service within the council are sound. There are, however, challenges in terms of costs as investment is targeted to the priority needs of the council, and the Scottish Government, while trying to deliver improvements in overall service delivery.

Acknowledgements

10. The contents of this report have to be agreed with senior officers within the ICT service to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

Main Findings

Introduction

11. There is an increasing reliance upon ICT initiatives to provide improved service to the public at both a national and local level. In addition organisations such as local authorities must continuously strive to achieve value for money from their ICT investment while ensuring the promised benefits from the technology are fully realised.

12. Falkirk Council has a strategically driven approach to provide the services it needs. The council also recognises that the Scottish Government in conjunction with the Improvement Service has a programme of services designed to encourage online access to council and other public services. Management advised us that it will adopt on-line access to services where it considers it appropriate to meet local and service demand.

13. Moreover, management are responsible for ensuring that sound operational controls are in place covering such matters as information security, hardware and software management, and disaster recovery and business continuity processes.

Strategy

14. The council has a strategic ICT vision to meet the needs of local service delivery and the requirements of the Scottish Government in its wider demands for efficiency in the use of technology. The ability of the council to deal with changing information needs and technological innovation to improve service delivery is of key importance to stakeholders.

15. The council's vision for the use of ICT in service provision and improvement should be taking cognisance of national strategies such as the Local Government ICT Strategy, issued in January 2013, and Scotland's Digital Future: Delivery of Public Services which includes the Scottish Wide Area Network programme (SWAN). SWAN is the first major action launched by Scottish Ministers to achieve the goals set out in Scotland's Digital Future: Delivery of Public Services. The SWAN programme aims to deliver a single, public services network available for the use of any, and potentially all, public service organisations within Scotland; delivering both cost and performance advantages.

16. The existing 2007 ICT strategy is currently being refreshed to cover the five year period from 2013. In line with other strategies it will align with the council's overall corporate plan. The ICT function is seen as an enabling function which supports the Council in its delivery of services. The targets and goals for the planning and delivery of ICT services are included under the Head of Policy Technology & Improvement (PT&I) in the Corporate & Neighbourhood Services (C&NS) three year Service Performance Plan 2013 - 2016.

Refer risk no. 1

17. The council's new ICT Strategy will cover the strategic priorities for the council and the necessary technical solutions needed to deliver them. In addition, the council is developing a

wireless network strategy. The council aims to deliver wireless networking solutions which will both meet the requirements of the users in a particular setting and protect the integrity and security of the existing council network. At the time of our audit review, the wireless network strategy was in draft and had yet to be finalised and approved.

Refer risk no. 2

18. To replace the current governance arrangements it is proposed that a new Improvement Board has responsibility for ensuring the implementation and delivery of ICT related strategies. The development and maintenance of such strategies remains the responsibility of the Head of Policy, Technology and Improvement.

19. The IT service's Improvement and Technology & Infrastructure Units function is to deliver a range of complex services. This requires a systematic and planned approach to initiate, develop and implement new systems. To address this requirement they have adopted a robust project planning methodology.

Service delivery

Organisational structure

20. The ICT function has been structured and organised into two distinct service areas:

    - Technology & Infrastructure, and

    - Improvement.

21. Technology & Infrastructure covers hardware support and maintenance including network connections and security. It also includes the provision of first and second line support for corporate applications and the installation and testing of software upgrades / new releases.

22. Improvement includes the provision of business analysis, capital planning, business continuity planning & management and IT training. It also covers IT procurement and contract management.

23. One of the main requirements for effective service delivery is a sound management environment with a staffing structure that focuses on, and identifies, the needs of the council's service priorities. The ICT function has a well defined structure having recently come through a programme of workforce re-structuring. Part of the re-structure was to ensure all posts were filled and supported by current job descriptions. We noted that job descriptions are in place for the new structure although a few positions are still described as vacant.

Refer risk no.3

24. Staff are the key to successful service delivery and in recognition Corporate Services which includes Policy, Technology and Improvement was recently re-awarded Investors in People (IIP). It is also important that the council employ the right staff with the right skills and maintain these through training and development. We noted that the council continues to invest in staff training with the aim of ensuring they have sufficient skills to enable them to make the most effective use of the facilities provided. The commitment to training and

development is outlined in the council's Corporate Training & Development Policy which is supported by an Achievement & Personal Development Scheme (APDS). Individual APDS plans are prepared annually with review meetings taking place 6 months following agreement of the APDS Plan. While managers are aware of their staff's ability and skills there is no overall skill matrix available to assess service training needs.

Refer risk no. 4

Installation management

25. The council's main computer suite is located in the Municipal Buildings (Falkirk) and is secured by a swipe card entry door system. The room housing the main corporate servers is accessed by key fob and is alarmed out of hours. In addition the computer suite is protected by an automatic fire suppression system using a widely accepted HFC227 gas based extinguishing system.

26. A feature of the business continuity arrangements for the Municipal Buildings (which cover the Computer Suite) is protection from the loss of mains electricity through a back-up generator. In addition, all servers and core network equipment within the computer room are protected by uninterrupted power supplies (UPS). The generator is tested monthly and serviced twice a year. Load testing was carried out at installation while the council successfully used the generator in a 'live' scenario in January 2011. We were also advised that there is to be a review of the requirements for a future test to confirm generator capacity.

Refer risk no. 5

27. User access to corporate systems through the council network needs to be tightly controlled for security purposes. The primary method of controlling user access is through the use of "active directory" user profiles. These are assigned to council employees by ICT staff and provide access to email, internet and corporate data files (based on service management authorisation). In addition, server access allows service administrators to set up users in key areas such as financial systems.

28. As part of the control and management of access to the council's computer systems and networks it is the responsibility of the ICT function to ensure the use of the "super user" level of access is restricted, logged and monitored to ensure that there is no misuse. Super user / administrator access generally provides full unrestricted access to systems. This level of access is controlled by team leaders, with passwords securely stored in fire safes. Usage is regularly reviewed and passwords changed, as required, including where staff turnover has taken place.

29. In terms of capacity management, the ICT function is responsible for ensuring that there is sufficient storage capacity for retaining data. ICT are also responsible for maintaining network capacity and ensuring that there is sufficient bandwidth to provide the required access to data at main and remote sites. For change management there is a requirement to ensure amendments to either infrastructure, or systems, are appropriately tested and authorised prior to implementation. Our review found that sound controls were in place for capacity and change management and these were functioning adequately.

Service monitoring

30. The council has a help desk system in place with specific staff assigned to manage the system. They report to the Technology and Infrastructure Manager. The help desk system has recently undergone some fundamental change with the implementation of new work practices. The main change has been the amalgamation of first line support with the service desk function. This has required a different skill mix with the staff carrying out this function now all working as support engineers. This change has also allowed the introduction of staff rotation and enabled staff to undertake more technically complex second and third level support. The aim is to help resolve more calls at an earlier stage as well as support staff development.

Refer risk no. 6

31. Furthermore, the ICT service has carried out a number of customer satisfaction surveys as part of continuous service improvement. In this context performance figures are produced monthly to show how well targets are being met. These are scrutinised by Services and PT & I management with actions taken to resolve any issues as they occur.

Access controls and compliance

32. The ICT department has a number of policies and arrangements in place to comply with corporate and national standards governing the provision of security and confidentiality of sensitive information. The recent fine of £150,000 imposed on Glasgow City Council, by the Information Commissioner's Office, for the loss of two encrypted laptops containing the personal details of local tax payers only serves to highlight the importance of ICT security.

33. In our review of overall security arrangements we identified an information security policy (ISP) dated May 2011 which was approved by the Corporate Management Team. The policy includes rules for matters such as data sharing and home / remote working. It also cross-refers to the council's Acceptable Use Policy (AUP) dated May 2011. The AUP covers, amongst other things, computer use, email use and internet use. We noted, however, that the security policy makes reference to the British Standard on Information Security BS7799-2. This standard has been superseded by BS ISO/IEC 27001 which is also under revision and planned for re-issue by the end of 2013.

Refer risk no. 7

34. Government and statutory agencies such as the Information Commissioner's Office (ICO) are placing increased demands on councils to have secure practices and policies in place for issues such as information classification and data sharing. The ISP makes reference to both areas of information management and the creation of an Information Management Strategy which will be part of the new ICT Strategy. Falkirk Council engages in sharing data with partner agencies/ organisations and is a member of the Forth Valley Data Sharing Partnership. The objective in all cases is to enable the efficient flow of information without compromising security, integrity and confidentiality. Notwithstanding this and given an increasing demand for sharing services, and data, the council through the Governance section

need to ensure that all services remain fully aware of their responsibilities when granting access to areas where sensitive data is held.

35. A fundamental principle of any security environment is to prevent incidents (e.g. viruses) and to detect them promptly. We noted that the council have antivirus software and firewalls are in place. The effectiveness of the council's measures to prevent and detect problems is monitored and updated on a regular basis. For example, penetration testing takes place for all new systems which span across the firewall while access to download files/executable programmes from the internet is restricted and monitored through internet filtering software.

Asset protection

36. The council's ICT policies require that asset protection (including the availability, confidentiality and integrity of data) meets the following principles:

    –   Maintain appropriate protection of corporate assets.

    –   Ensure that information assets are recorded

    –   Ensure that information assets receive an appropriate level of protection.

37. Assets can only be protected if they are appropriately identified and recorded. The council's ICT section maintains a register of hardware and software assets while all assets have been tagged for physical identification. Also, the council uses the System Centre Configuration Manager (SCCM) to manage its ICT hardware and software inventory. In addition, as part of a proposed programme of physical checking of assets, a pilot is underway within Corporate & Neighbourhood Services to check compliance with the ISP and AUP in relation to mobile devices.

Refer risk no. 8

38. An important part of the lifecycle of hardware assets is disposal. The council must ensure that all data is erased so that no sensitive personal data will be placed at risk of disclosure. We were informed that the ICT service currently manages asset disposals through a Waste Electrical and Electronic Equipment Directive (WEEE) certified 3rd party organisation. This external company deals with the final destruction of equipment and also does a hard drive 'wipe' and disposal service.

39. In addition to its asset registers the council should have an information asset register (IAR) relating to important datasets. These information assets should be managed in line with council policy to ensure that data is appropriately protected. As previously noted an Information Management Strategy will be part of the council's new ICT Strategy and this should include the creation of an IAR. The IAR should record important information such as data ownership, sensitivity and whether the data is shared with partner organisations.

Refer risk no. 9

40. As part of the process for managing information all relevant data held by the council including customer records and corporate information should be backed up and stored in a secure manner. We noted that operating procedures are in place which cover data back-up including

off-site replication for resilience and ease of recovery. The completeness and accuracy of this process is monitored on a daily basis.

Business continuity

41.   Falkirk Council recognises that planning for emergencies is an integral part of good business practice. For the ICT service the term disaster recovery is used to refer to the ability to resume essential information technology services (data networking, key application systems and email) in the event of a significant outage.

42.   In addition, the council acknowledges the need for business or service continuity planning and management, which is defined as the processes put in place to ensure the delivery of its core services in the event of unforeseen circumstances short of total service outage. It is recognised by the council that the circumstances can be a natural or man-made disaster (adverse weather conditions, flooding, and terrorism), unavailability of key premises for carrying out the services or long term absence of key staff.

43.   The main legislative requirement upon the council to ensure continuity of service is based upon the Civil Contingencies Act 2004 and the resultant Contingency Planning (Scotland) Regulations 2005.

44.   A significant aspect of business continuity planning and disaster recovery planning is prevention and minimising risk through the provision of resilient systems and a protected physical environment. The measures as noted include a back-up generator and all servers and core network equipment are protected by UPS and back-ups are taken with on and offsite storage of data.

45.   We found that the council has plans in place to address business continuity planning (BCP) and disaster recovery (DR) relating specifically to information technology and ICT services. The ICT BCP / DR plan is intended to allow for numerous scenarios allowing part or parts of the plan to be chosen depending on the situation. These plans are reviewed at least annually and tested by the Emergency Planning Team. Specific ICT BCP exercises take place regularly; however there is no test plan within the DR plan and there was no feedback available from the last exercises to allow review of results. It would also be useful if the plan had a document information page to record changes as a result of tests or other amendments.

Refer risk no. 10

46.   The council has employed Gallacher Basset to help develop a formal risk analysis methodology and identify business critical systems. As part of this process all services are required to complete formal business impact analysis (BIA) worksheets. The ICT has started to complete this documentation. Once completed all BIA worksheets will form part of the council's IT Business Continuity Planning System - a new web based system which will allow services to view what BCP documentation is held for their systems.

Refer risk no. 11

Appendix A

Risk identification and action plan

Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
1	16	The ICT strategy is an important means of providing a "roadmap" and benchmark for measuring the delivery of ICT enabled service improvement going forward. ***Risk: without a current ICT strategy aligned to service plans it is possible that effective ICT enabled services will not be delivered.***	As of July 2013, the draft strategy has been out for discussion. It is planned to discuss this with services prior to seeking approval from Members.	Head of Performance, Technology & Improvement	October 2013
2	17	The wireless networking strategy is required to provide the council with a flexible approach in the implementation and delivery of ICT enabled systems. ***Risk: without a wireless networking strategy the council could reduce its options for making use of the most appropriate technology for delivering services.***	The policy has been in draft for some time and we will undertake a final review and update of this. This will then require CMT and committee approval.	Technology & Infrastructure Manager	December 2013
3	23	There are a number of vacancies within the ICT staffing structure. ***Risk: ICT lack skilled staff and capacity to deliver services effectively.***	The vacancies noted at the time of the audit have been filled.	Service Unit Managers	Initial issues completed

Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
4	24	The APDS requires that employees have individual training and development plans. This should not preclude the development of a departmental skills matrix to inform training provision. *Risk: if the ICT service does manage its departmental training plans it could be difficult to provide or improve service.*	We will continue to ensure that all employees undertake these. Additionally, we are reviewing options for undertaking skills analysis using the SOCITM Skills Framework for the Information Age (SFIA).	Head of P,T&I, Unit Managers, Team Leaders	APDS - ongoing March 2014
5	26	It is essential that the capacity of the generator providing business continuity to the Municipal Buildings is known. *Risk: if the generator's capacity is not fully known then system support cannot be guaranteed.*	The known capacity of the generator is 40% greater than the maximum supply to the building which Scottish Power can provide. A further successful 'live test' took place in May 2013.	Technology & Infrastructure Manager	Now completed
6	30	The effective amalgamation of support functions is required to improve service. *Risk: savings and improvement may not be delivered without effective measurement of outcomes.*	Work is underway to review all areas of T&I to better utilise the staff resources available to the team. Changes have already been made to the Service Desk.	Technology & Infrastructure Manager & Team Leaders	Mar 2014
7	33	The ISP should, where appropriate, reflect best industry practices and reference the most current standards.	The ISP will be reviewed in early 2014 - changes to the document will be made to reflect technology changes,	Head of P,T&I	June 2014

Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
		Risk: if policies do not reflect current standards the council may not be able to respond to security incidents effectively.	the introduction of Public Records (Scotland) Act PRSA, changes to industry standard, the SASPI and changes coming from the national IT strategies.		
8	37	The pilot exercise for checking council mobile devices should be able to identify all mobile assets for which the council is responsible. *Risk: if checks cannot be designed to identify all ICT assets then the council could suffer loss of both hardware and data.*	Once the pilot in C&NS has been completed, other services will be encouraged to participate.	C&NS All Heads of Service	December 2013
9	39	The council should be able to identify all information assets including data ownership, sensitivity and if shared with partner organisations. *Risk: if information assets are not documented in an IAR then security measures may be inadequate or inappropriate.*	Part of the new Strategy will be to work with Services, the Records Management and Corporate Risk Management Groups to prepare an Information Management Strategy. Additionally, the Scottish Accord for the Sharing of Personal Information (SASPI) and associated framework	Head of P,T&I. Service and Improvement Governance Board Chief Governance Officer, Services	Jan 2015 Ongoing

Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
			documentation has superseded the original Data Sharing partnership Framework and should be used in all Data Sharing situations. Governance is the lead Service for this.		
10	45	Part of the Disaster Recovery / Business Continuity Planning process is to carry out testing and to learn lessons which can then be used to update plans. *Risk: if testing is not planned and results documented lessons learned may not be reflected in plans.*	We will ensure that tests continue to take place with ICT as well as participating in wider Council and Service wide business continuity plans and exercises. We will request feedback from Civil Contingencies staff for future exercises.	Head of P,T&I, Unit Managers	Ongoing
11	46	The effective assessment of service risk is important in identifying business critical systems. *Risk: if services do not complete and maintain their business impact analysis work sheets then BCP plans may not accurately reflect all business critical systems.*	We will continue to work with Services on the central and Service based BCP plans. We are also participating in the Gallagher Bassett risk analysis exercise. We also maintain a specific ICT risk register.	Head of P,T&I, Unit Managers All Services' Civil Contingencies Officer Corporate Risk Management Group	Ongoing

Falkirk Council

External Audit Progress Update Report

AUDIT SCOTLAND

Contents

Annual Audit Plan 2013/14

1. Our Annual Audit Plan (AAP) for the 2013/14 is attached as a separate agenda item and details what we perceive to be the key financial statements and wider dimension risks facing Falkirk Council in 2013/14.

2. The Annual Audit Plan also outlines our audit responsibilities, audit approach and planned outputs. It also includes details of our proposed audit fees which, in the current year, have been held at last year's levels. In addition, Appendix 1, accompanying this update, provides a summary of progress against the Annual Audit Plan.

Governance work

3. **Review of internal audit**. We have completed our review of the internal audit service in terms of International Standards on Auditing 610 (Considering the Work of Internal Audit) and reported our findings to the Chief Finance Officer. Our review identified that we plan to place formal reliance on the work of internal audit in relation to general services capital programme and debtors for the purposes of our financial statements responsibilities. We also outlined areas where we plan to consider the work of internal audit in terms of our wider dimension audit responsibilities including welfare reform and strategic projects (specifically Tax Increment Financing). In addition, we have agreed to meet the Internal Audit Manager on a regular basis throughout the year to discuss audit issues and share information.

4. **Internal Controls**. Currently we are updating our knowledge of the organisation in relation to governance and accountability to ensure that our systems notes and control evaluations are up to date. This allows us to target our resources at areas of higher risk. In addition, we have adapted our audit approach to place reliance on prior year's audit work where no significant weaknesses have been identified. This also means that we will not be covering all financial systems every year but will adopt a more cyclical approach for those systems considered to be less of a risk. Our work is progressing well and we are committed to reporting our findings by the end of June 2014 at the latest or earlier where possible.

5. **National Fraud Initiative** (**NFI).** NFI is the biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies on their financial systems to identify potential fraud, error or anomalies. It is part of the statutory audit.

6. As part of our work on NFI we monitor the council's arrangements throughout the year for prioritising and investigating data matches. Audit Scotland have asked auditors to review progress made by councils in matching blue badges against deceased holders as this has been identified as an area of risk. In Falkirk's case, work in this area has been low profile although we understand that resources are now being deployed to investigate data matches.

Performance

National Performance Studies

7. Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. A number of reports have been published in 2013/14 as summarised below.

8. **Charging for services: are you getting it right? (October 2013)**: This report is part of the *How councils work* series which aim to stimulate change and help local authorities continue to improve their performance. The report contains a number of key messages including:

   • Councils should have clear policies in place for charges and concessions. They should regularly review charges to ensure that they are appropriate and meet their intended objectives.

   • Councillors should take a lead role in determining charging policies. They should be involved and consulted over the design of charges and concessions.

   • Charges can be used to influence behaviour to help meet councils' objectives. They should not be seen solely as a means to generate income.

   • Councils should improve their use of cost information, including unit costs. This is essential for councils to design charges and understand the extent to which they will recover costs.

   • Charges for services vary markedly between councils, reflecting local circumstances and policy priorities. Councils should be transparent in how they set charges and be able to explain their charging decisions to the public.

9. The report recommends that councils should follow the good practice set out in this report. This includes identifying charging options, assessing their impact on services and the people that use them, and making comparisons with other providers. The report also contains a checklist for councillors and officers to use when considering charges.

10. **Housing in Scotland (July 2013):** The audit looked at how Scotland's housing sector works, how much public money is spent and what that money delivers. We assessed how well the Scottish Government and councils plan to meet Scotland's housing needs and the main challenges in the future. A number of key messages were highlighted in the report:

   • Housing in Scotland is facing significant challenges. The recession has affected the availability of housing and the sector is now working with constraints on lending, competing and increasing demands on capital resources, and reduced government subsidies. Population changes and welfare reform will add to these pressures.

   • The supply of housing is not meeting current levels of need. The number of new private homes built in Scotland has more than halved in recent years while the population is

increasing. It could be more than 20 years before there are enough new homes to meet the projected increase in households in any one year.

- Between 2008/09 and 2011/12, Scottish Government revenue budgets for housing fell by 24 per cent in real terms (£199 million to £152 million) and capital budgets by 29 per cent (£534 million to £378 million). Revenue and capital funding for new homes has been particularly affected and there are significant and competing demands on capital budgets.

- National and local government recognise that good housing can make a positive contribution to many government priorities, including economic growth, community empowerment and improved health. Planning at a local level is challenging; councils have an important role but have few direct powers, and influencing change can be difficult. Effective leadership is required at a national and local level to ensure housing is well planned and linked to other policy areas.

11. The report contains a number of recommendations for both the Scottish Government and councils. Recommendations specific to councils include the need to ensure that housing strategies (and associated plans) and investment decisions are clearly based on evidence of local housing needs and are developed in conjunction with all relevant partners e.g. Registered Social Landlords and tenants.

12. The report is accompanied by a checklist which officers may want to use to identify any improvement actions that need to be taken forward locally.

13. **Managing early departures from the Scottish public sector (May 2013):** This report looks at the Scottish public sector's use of early retirement and voluntary redundancy, which are collectively known as early departure schemes or early release schemes. The report also provides a guide and reminder of good practice in managing and reporting on schemes.

14. The report says that early departure schemes can provide significant savings, and public bodies generally follow good practice. But there are striking differences between the schemes and a marked inconsistency in how public bodies report the costs and expected savings. The report, for the Accounts Commission and the Auditor General, gives pointers on good practice, including:

- demonstrating that schemes are value for money

- making sure schemes are clear, well-designed and meet business needs

- reporting openly on the costs and savings

- and ensuring good scrutiny over schemes and particularly of exit packages for senior executives.

15. Almost 14,000 employees took such packages between 2010 and 2012 (around one in 40 of all public sector staff). While the cost of these amounts to more than £550 million, organisations generally expect to make savings from their action over a number of years.

16. Auditor General for Scotland, Caroline Gardner, said:

"Scotland's public bodies are generally following good practice, and there is evidence that they are making savings as a result of voluntary releases. But they need to be more consistent in how they manage schemes, and tell the public more about the costs and the expected savings."

17. **Maintaining Scotland's Roads (May 2013):** This is a follow-up report to one reported in 2011. Major changes called for in 2011 to improve the management of roads maintenance have yet to result in significant improvements in road condition.

18. The report, based on reports from local auditors, says that the percentage of local roads in acceptable condition has marginally increased over the last two years, despite a 21 per cent reduction in spending between 2009/10 and 2010/11. However, the proportion of roads in acceptable condition is still lower than it was in 2005.

19. All councils now have a roads asset management plan in place and there is some evidence of them taking action to improve value for money by, for example, joint tendering with other councils, reorganising roads departments, and changing shift patterns. But more work is needed to improve the quality and monitoring of roads asset management plans and the consistency of costs data used for benchmarking.

20. The report notes that public concern about the condition of Scotland's roads remains high, and recommends further effort by councils, the Convention of Scottish Local Authorities, and the Society of Chief Officers of Transport in Scotland.

21. Audit Scotland expects that councils have a formal process in place for national performance reports to be reviewed and scrutinised by an Audit Committee or equivalent. This is to ensure that action is being taken locally to make improvements. Full copies of all our national reports are available for download from the Audit Scotland website (www.audit-scotland.gov.uk).

Local Performance Audit Work

22. In the current year the main focus of our local performance work will be on a targeted follow-up of two national reports:

   - Arms Length external Organisations: are you getting it right? (June 2011)
   - Major capital investment in councils (March 2013).

23. **Major capital investment in councils**: The follow-up audit is being carried out at all 32 councils in Scotland with more detailed work (Stage 2) being carried out at nine selected councils. Falkirk is not one of the councils selected for Stage 2 review.

24. At a local level, the overall aim of this follow-up work is to answer specific audit questions:

   - Have the recommendations from the report *Major capital investment in councils* been considered and effectively implemented?
   - Do councils have sustainable capital investment plans which reflect strategic priorities?
   - Are elected members provided with sufficient information to support effective scrutiny and decision-making?

25. The local audit work will also consider the extent to which the council is using the good practice guide and checklist that accompany the national report to help improve the management and delivery of its major capital projects / programmes and to support effective scrutiny of plans.

26. **Arms Length External Organisations (ALEOs): are you getting it right?** The original report was part of the 'How councils work' series. It was aimed at all councils that were considering setting up ALEOs to deliver services, as well as those with existing ALEOs. The report was designed to promote and encourage good practice in the way ALEOs are set up and operated. The report included a toolkit for improving the governance of ALEOs and this will be used in the current year to assess the governance arrangements of Falkirk's ALEOs. We have commenced our fieldwork and will keep members apprised of progress.

Assurance and Improvement Plan

27. The Assurance and Improvement Plan (AIP) sets out the planned scrutiny activity in Falkirk Council between April 2014 and March 2017. The AIP is based on a shared risk assessment undertaken by a local area network (LAN). There is a LAN for each council, comprising representatives of all the scrutiny bodies who engage with the council. The aim of the shared risk assessment process is to focus scrutiny activity where it is most needed and to determine the most proportionate scrutiny response over a three year period.

28. The draft AIP has been discussed with management and submitted to Audit Scotland for detailed review and quality assessment. We will update members once the AIP is finalised.

Financial statements

29. **Financial statements audit 2013/14.** We are planning to carry out some early substantive testing of financial transactions as part of our financial statements audit. This will help ensure a more focused and streamlined approach to our work. In this way we hope to have most of the financial statements audit work completed by the end of August 2014. This would allow us to issue a proposed audit opinion by 15 September 2014 although the prescribed deadline for issuing our audit opinion is not until 30 September 2014.

30. We have regular meetings with senior finance staff to discuss potential accounting issues that could impact on the financial statements. This ensures that we are sighted on the key areas of risk.

Appendix 1

Progress against Annual Audit Plan 2013/14

Planned outputs	Target delivery date	Actual delivery date
Governance		
Review of adequacy of internal audit	31 January 2014	7 January 2014
Annual Audit Plan	31 March 2014	14 February 2014
Assurance and improvement plan update	19 May 2014	
Internal controls management letter	30 June 2014	
Computer services review follow-up	31 July 2014	
Performance		
Targeted follow-up of performance audit: ALEOs	31 May 2014	
Targeted follow-up of performance audit: Major capital investment in councils	30 June 2014	
Financial statements		
Report to Audit Committee in terms of ISA 260 (communication of audit matters to those charged with governance)	30 September 2014	
Independent auditor's report on the financial statements	30 September 2014	
Audit opinion on Whole of Government Accounts	3 October 2014	
Annual report to Members and the Controller of Audit	31 October 2014	

Falkirk Council
Annual Audit Plan 2013/14

AUDIT SCOTLAND

Prepared for Falkirk Council
February 2014

Contents

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risk of material misstatement in Falkirk Council's financial statements. This plan summarises our assessment of the key challenges and risks facing Falkirk Council (the council) and sets out the audit work that we propose to undertake in 2013/14. Our plan reflects:

    *   the risks and priorities facing the 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

    *   issues brought forward from previous audit reports.

Summary of planned audit activity

2. Our planned work in 2013/14 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 the council as at 31 March 2014 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 2013 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)

    *   reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan update. This will provide detail on the Local Area Network's (LANs) risk assessment of the council and will include updated scrutiny plans for 2014/15 to 2016/17

    *   a review and assessment of the council's governance and performance arrangements in a number of key areas including: selected systems of internal control, the adequacy of internal audit, targeted follow-up of national studies, ICT follow-up and statutory performance indicators

    *   provision of an opinion on a number of grant claims (e.g. housing benefit) and returns, including Whole of Government Accounts

    *   review of National Fraud Initiative arrangements

    *   regular attendance at Audit Committee.

Responsibilities

3.   The audit of the financial statements does not relieve management or the Audit Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

4.   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.

5.   Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Chief Finance Officer

6.   It is the responsibility of the Chief Finance Officer, as the appointed proper officer, to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:

* acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control

* maintaining proper accounting records

* preparing financial statements timeously which give a true and fair view of the financial position of the council as at 31 March 2014 and its expenditure and income for the year then ended.

Format of the accounts

7.   The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

8. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:

    *   understanding the business of the 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 and understanding how the council will include these in the financial statements

    *   assessing and addressing the risk of material misstatement in the financial statements

    *   determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

9. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit 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 2013/14 includes:

    *   comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff

    *   clear responsibilities for preparation of financial statements and the provision of supporting working papers

    *   delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package

    *   completion of the internal audit programme for 2013/14.

10. 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. From 1 April 2013 internal audit were required to adopt the Public Sector Internal Audit Standards (PSIAS). We have identified a number of areas where internal audit are still working to achieve full compliance with the new standards. Overall, we have concluded that the areas of non-compliance with PSIAS do not impact on the range and quality of work carried out by internal audit. In addition, we have obtained assurances from the internal audit

manager that action is being taken to ensure full compliance with PSIAS in future. The findings from our review have been reported separately.

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

- General services capital programme
- Debtors (reviewed in 2012/13)

12. In terms of our wider audit responsibilities we also plan to consider internal audit work in the following areas:

- Welfare reform
- Strategic projects (TIF)

Materiality

13. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

14. When considering, in the context of a possible qualification, 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 and experience. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, 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, or an item contrary to law). Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

15. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the council and Controller of Audit within three months of the end of the financial year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. A high level timetable is included at Appendix A of this plan, which takes account of submission requirements, planned Audit Committee dates and audit resources.

16. 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 officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Chief Finance Officer, relevant senior managers, internal audit and Audit Scotland's Performance Audit and Best Value Group.

17. We will provide an independent auditor's report to Falkirk Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After 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 during the course of the audit. All annual reports are published on Audit Scotland's website: (www.audit-scotland.gov.uk).

18. Planned outputs for 2013/14 are summarised at Exhibit 1.

Exhibit 1: Planned outputs

Planned outputs	Target delivery date
Governance	
Review of adequacy of internal audit	31 January 2014
Assurance and improvement plan update (jointly prepared with other local government scrutiny bodies)	19 May 2014
Internal controls management letter	30 June 2014
Computer services review follow-up	31 July 2014
Performance	
Targeted follow-up of performance audit: ALEOs	31 May 2014
Targeted follow-up of performance audit: Major capital investment in councils	30 June 2014
Financial statements	
Report to Audit Committee in terms of ISA 260 (communication of audit matters to those charged with governance)	30 September 2014
Independent auditor's report on the financial statements	30 September 2014
Annual report to Members and the Controller of Audit	31 October 2014
Audit opinion on Whole of Government Accounts	3 October 2014
Grants	
Audit opinions on Education Maintenance Allowance, Non Domestic Rates Income Return, Criminal Justice Social Work Services and Housing Benefit Subsidy.	As required.

Quality control

19. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being

complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.

20. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Fiona Mitchell-Knight.

Independence and objectivity

21. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

22. 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 pertaining to the audit of Falkirk Council.

Audit issues and risks

Audit issues and risks

23. This annual audit plan focuses on governance and other risks specific to the financial statements of the council. The LAN's Assurance and Improvement Plan update 2014-17 also provides an analysis of wider risks and issues which relate to aspects of the council's performance.

24. **Financial management and sustainability:** In 2012/13, the council's general fund balance increased by £5.194 million. This represented an underspend of £11.216 million against budget. This is in contrast to the 2011/12 financial position when the council reported a decrease in the general fund balance of £4.482 million, which was £3.258 million more than planned. Finance officers have committed to reviewing the base budget to ensure that it is realigned with future spending requirements. We will continue to monitor the council's financial position throughout the 2013/14 audit.

25. The council has identified a funding gap of £35 million over the next three years to 2016/17. Many of the more readily achievable savings have already been made and it will be a significant challenge for the council to identify recurring savings going forward. During 2012/13 we carried out a targeted review of the council's response to Audit Scotland's report, *Scotland's public finances: Addressing the challenges*. The aim of the local follow-up work was to assess the council's response to the challenges of public sector budget constraints and its efforts to achieve financial sustainability. We identified a number of areas of good practice within the council and also agreed some areas for improvement with finance officers. We will assess progress against the agreed action plan and report our findings in the 2013/14 annual audit report.

26. **Governance and accountability:** The council approved and introduced a new decision making structure in 2012/13, replacing the traditional committee based model with an executive model. The first meetings of the new structure took place in May 2013. As reported in our 2012/13 annual audit report, not all members are participating in the new structure. This is evidenced by non-attendance of some members at the executive and scrutiny committee meetings and scrutiny and policy development panels. This could undermine the local governance and scrutiny arrangements of the council. The council has committed to carrying out a review of the structure when it has been in operation for a full year. The audit work required in this area will be determined by scrutiny partners through the shared risk assessment process.

27. **Performance management:** In 2012/13, we noted a number of developments in the council's performance management arrangements, including the introduction of a peer scrutiny review process and the establishment of a performance panel to promote challenge and improvement across the council. However, these developments are still in their very early stages. For instance, the first meeting of the performance panel was only held in November 2013. This was the first forum held for members to scrutinise service performance since the

introduction of the new decision making structure in May 2013. Management will need to ensure that all aspects of performance management and scrutiny are working effectively in the coming year. In particular, there is evidence that some service performance targets need to be revisited to ensure that they are specific and challenging to promote continuous improvement across the council. The audit work required in this area will be determined by scrutiny partners through the shared risk assessment process.

28. **Depute Chief Finance Officer post:** the Depute Chief Finance Officer's request for early retirement has been approved and he is due to retire at the end of May 2014. The depute plays a key role in co-ordinating the final accounts process and ensuring a comprehensive working papers package is provided to auditors at the commencement of the financial statements audit. Suitable transitional arrangements will be required to ensure the unaudited financial statements and a comprehensive working papers package is provided to audit by 30 June 2014. This is critical to enable the Audit Committee reporting date of 22 September 2014 and the statutory sign off deadline of 30 September 2014 to be met. Officers have yet to confirm succession planning arrangements. We will maintain regular contact with council officers to monitor developments going forward and consider the impact on our audit.

29. **The Helix project:** the Helix will come into operation in 2013/14, resulting in a change in the existing accounting treatment adopted by the council. The council has been acting as principal for the capital project since its inception, recognising the capital expenditure as 'assets under construction' on its balance sheet. In 2013/14, the operational assets will need to be transferred to their rightful owner in line with the partnership agreement for the project. We have entered into discussions with finance officers to ensure that we reach early agreement on the appropriate accounting treatment. We will review the accounting treatment as part of our 2013/14 audit.

30. **Tax incremental financing (TIF) scheme:** Scottish Government approval has been received for the council to proceed with a £67 million tax incremental financing (TIF) investment programme to boost economic development in the Falkirk area. TIF is a funding mechanism being piloted in Scotland that uses future anticipated non-domestic rates (NDR) revenues to finance infrastructure developments within a designated area. The council's TIF programme aims to support the council's ambition to be a major national hub for manufacturing, chemicals and distribution activities. The programme includes plans for M9 junction upgrades, site specific enabling works to stimulate development, a contribution towards Grangemouth flood defences and completion of the A801 Avon Gorge upgrade.

31. The 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom includes specific requirements for the TIF scheme where the council is likely to be acting as principal rather than agent. A new line has been added to the presentation requirements of the NDR income account for income retained by the council, with a requirement to report this amount separately. The council will need to ensure that they have adequate processes in place to accurately identify the amount to be retained by the council. We will review the processes and accounting treatment as part of the 2013/14 audit.

32. **Welfare reform:** The council has been proactive in preparing for the implications of the Welfare Reform Act 2012 through effective communication with Members and the public. However, as anticipated, rent arrears have been increasing in Falkirk. Revenue officers estimate that welfare reform could result in a further net increase in arrears of £400,000 during 2013/14. Finance and corporate & neighbourhood services are actively exploring ways of tackling the problem through prevention (awareness and education), intervention (support) and sanctions (using all appropriate recovery actions). Audit Scotland is conducting a housing benefit performance audit at the council, part of which will assess the council's response to welfare reform. The findings from this audit will be reported in spring 2014.

33. On 1 April 2013 council tax benefit was replaced by a council tax reduction scheme to be administered by the council. The council needs to ensure that it has robust controls in place to effectively administer the scheme. We will review the systems and processes in place to obtain assurances for our financial statements audit.

34. **Health and social care integration:** The council's public service reform arrangements have been considered through the shared risk assessment process and the LAN have concluded that more information is required to assess Falkirk's readiness for health and social care integration. There are regular high level talks between chief officers of NHS Forth Valley and the council on the issue and each body is working on plans to deliver better integration. However, both organisations have yet to agree on the most appropriate model for taking forward integration and the lead-in time for developing plans is steadily reducing. The LAN will continue to monitor developments closely in this area as health and social care integration is due to be implemented from 1 April 2015.

35. **Information and communication technology (ICT):** The Public Service Network (PSN) is a significant part of the Government ICT Strategy and is required to provide an assured network over which public organisations can safely share services. The shared services at this time are only a small but significant part of the council's operations, including links to register births, deaths and marriages and to DWP benefit information. The council received PSN certification in November 2013 based on revised security arrangements. There are a number of areas where the council still needs to install permanent solutions. Our ICT auditor will continue to monitor the council's progress in this area.

36. We carried out a computer services review (CSR) as part of our 2012/13 audit process. A number of areas of good practice were reported but some areas where the council is exposed to a degree of risk were also identified. In particular, the council's ICT strategy has yet to be reviewed and approved by members. An ICT strategy is an important means of providing a "roadmap" and benchmark for measuring the delivery of ICT enabled service improvement going forward. If this issue is not resolved during 2013/14 then we would expect the matter to be highlighted as a weakness in the annual governance statement. As part of the current year audit, our ICT auditor will follow-up and report on progress against the CSR action plan that we agreed with management.

Prior year matters for follow-up

37. **Equal pay provision:** The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay and are dissatisfied with the council's proposed resolution or compensation can elect to have a case heard before an employment tribunal. Falkirk Council has received a significant number of claims for compensation. The ultimate cost to the council remains uncertain despite recent developments in case law and it is likely that the issue will take some time to resolve. As the tribunal process unfolds the extent of the council's eventual liability will become clearer. The equal pay provision will be in reviewed in 2013/14.

38. **Valuation and depreciation of council houses:** The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) states that the fair value of council dwellings shall be measured using the existing use value-social housing (EUV-SH) method of valuation. The council has been using a discounted cash flow approach to the valuation of its housing stock since 1 April 2010 which results in a significantly lower valuation. The council will align its method of housing stock valuation with the Code at the next valuation due in 2015/16.

39. The council does not charge depreciation on its council housing stock on the grounds that the amount involved would not be material. In 2012/13 we asked management to provide evidence supporting their assertion that depreciation was not material. In response, finance officers explained that as the residual value of council houses was equal to their carrying value no depreciation was chargeable. Management also consulted with specialist staff in the District Valuer's Office to confirm that this was a valid approach. We have accepted this accounting treatment on the basis that the issue will be resolved in 2015/16 when the housing stock is revalued. We will review the position in 2013/14 and obtain further management assurances for audit purposes.

40. **Provision for landfill site restoration and aftercare costs:** The council owns Kinneil Kerse, an inactive landfill site. As a result it has responsibilities regarding the restoration and aftercare costs of the landfill site. To comply with accounting requirements, IAS 37 *Provisions, contingent liabilities and contingent assets*, the council should recognise these costs as a provision in its balance sheet. In 2012/13, the council did not include a provision in the accounts for this liability and finance officers took the decision not to amend the accounts as the amount was considered immaterial.

41. At 1 April 2012 the District Valuer placed a value of £1.773 million on the necessary works over the next 60 years. This amount should have been recognised as a provision in the accounts. As restoration and aftercare work is capital in nature the adjustment would have no impact on the council's general fund balance at the year end. The council has agreed to process a prior year adjustment in the 2013/14 accounts to recognise a provision for the restoration and aftercare costs of Kinneil Kerse landfill site in line with IAS 37.

Summary assurance plan

42. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified, in the previous section, a range of risks for your organisation which require further consideration as part of our 2013/14 audit. In most cases, actions to manage these risks are either planned or underway within the council. Details of these risks, the sources of assurance that we have received and any audit work we plan to undertake are set out in Appendix B. In the period prior to the submission of the unaudited financial statements we will liaise with senior officers on any new or emerging risks.

National performance audit studies - impact and follow up

43. Audit Scotland's Performance Audit and Best Value 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 2013/14 this will include a targeted review of *Arm's-length external organisations (ALEOs): are you getting it right?* (June 2011) and *Major capital investment in councils* (March 2013).

Fees and resources

Audit fee

44. In determining the audit fee we have taken account of the risk exposure of the 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 a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2014.

45. The agreed audit fee for the 2013/14 audit of Falkirk Council is £318,799 as summarised in Exhibit 2. 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 Audit Committee meetings

- access to advice and information on relevant audit issues

- access to workshops/seminars on topical issues

- travel and subsistence costs.

Exhibit 2: Audit fee

Description	Audit fee 2010/11	Audit fee 2011/12	Audit fee 2012/13	Audit fee 2013/14
Total audit fee	£359,000	£333,973	£318,799	£318,799
% cash reduction on prior year	6.51	6.97	4.54	-

46. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited financial statements/working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

47. Fiona Mitchell-Knight, Assistant Director of Audit Services is your appointed auditor. The local audit team will be led by Jim Rundell who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

Appendix A - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January - June 2014
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2014
Planned council approval of unaudited financial statements	25 June 2014
Latest submission of unaudited council financial statements with working papers package	30 June 2014
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with Chief Finance Officer	8 September 2014
Agreement of unsigned financial statements for Audit Committee agenda, and issue of report to the Audit Committee on the audit of financial statements (ISA 260)	15 September 2014
Audit Committee date	22 September 2014
Independent auditor's report signed	30 September 2014
Latest date for submission of unaudited Whole of Government Accounts (WGA) to external audit	29 August 2014
Latest date for signing of WGA return	3 October 2014
Annual report to Members and the Controller of Audit	31 October 2014

Appendix B - Summary assurance plan

In this section we identify a range of financial statements and wider dimension audit risks facing the 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 the 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 management and sustainability		
The council's general fund balance increased by £5.194 million in 2012/13. This represented an underspend of £11.216 million against budget. It will be a significant challenge for the council to identify recurring savings going forward. *Risk: significant over or under spends may undermine effective financial management and sustainability in the future.*	• The council has recognised the level of underspend by carrying out a budget rebasing exercise for 2013/14, which has resulted in a figure of £2m being removed from service budgets. • A similar exercise has been carried out as part of the 2014/15 budget exercise. • Progress against the local follow-up report on *Scotland's public finances: addressing the challenges* to be reported to the March Audit Committee.	• Review the council's 2013/14 budget monitoring reports. • Assess progress against *Scotland's public finances: addressing the challenges* targeted follow-up action plan.
Governance and accountability		
Not all members are participating in the new decision-making structure that has been approved by council. *Risk: governance and scrutiny arrangements are not effective.*	• The council is planning to conduct a full review of the decision making structure to assess its effectiveness. The work is due to commence in April 2014.	• Audit work will be determined through the shared risk assessment process.

Risk	Source of assurance	Planned audit action
Performance management		
There is evidence that performance management arrangements have improved but many developments are still at an early stage in their development and it is difficult to gauge their effectiveness to date. *Risk: performance management and scrutiny arrangements are not effective.*	• The peer scrutiny review process will continue to operate across services. Officers will evidence how this process is driving challenge and improvement within services. • The Performance Panel will scrutinise service performance on a cyclical basis. Officers will demonstrate that scrutiny is driving improvement activity within the council.	• Audit work will be determined through the shared risk assessment process.
Depute Chief Finance Officer post		
The Depute Chief Finance Officer plays a key role in co-ordinating the final accounts process. The current post holder is due to retire at the end of May 2014 and succession planning arrangements have yet to be agreed. *Risk: the final accounts process is not managed effectively and comprehensive working papers, in support of the draft 2013/14 accounts, are not provided to audit on time.*	• A report is planned to go to an early meeting of the Council recommending replacement of the post. A permanent appointment may not be in place until August 2014. • Appropriate arrangements will be put in place until the post is permanently replaced in order to minimise any disruption to the final accounts process.	• On going dialogue with Chief Finance Officer to keep abreast of developments.
The Helix project		
The Helix will be operational at the year end. The operational assets will need to be transferred to their rightful owners per the project partnership agreement,	• The Helix partnership agreement is being reviewed to identify all assets under the council's ownership. • Officers have entered into	• Review the accounting treatment of the Helix project as part of 2013/14 audit.

Risk	Source of assurance	Planned audit action
resulting in a change in accounting treatment for the council. *Risk: there is a risk of material misstatement in the financial statements given the unique nature and high values associated with the Helix project.*	early discussions with Audit Scotland to reach agreement on the appropriate accounting treatment.	
Tax incremental finance		
The 2013/14 Code has been amended to reflect arrangements under the TIF scheme where the council is likely to be acting as principal rather than agent. The council will need to ensure that these changes are reflected in the NDR income account. *Risk: the council does not have appropriate processes in place to accurately identify the income to be retained by the council.*	• Finance staff have received updates on technical accounting issues. • The accounts will reflect the requirements of the 2013/14 Code as they relate to TIF schemes.	• Review processes and accounting treatment as part of the 2013/14 audit. • We will check compliance with the accounting and disclosure requirements of the 2013/14 Code.
Welfare reform		
The council are responsible for administering the council tax reduction scheme and officers need to ensure that there are robust controls in place to effectively carry out this duty. *Risk: under/over recovery of council tax income in the absence of an effective system of internal control.*	• A full review of all incoming and outgoing benefits documentation, appeals working practices, procedures and system output has taken place to enable the council to effectively administer the new scheme.	• Review the system in place for administering the council tax reduction scheme.

Risk	Source of assurance	Planned audit action
Health and social care integration		
The council and NHS Forth Valley have yet to agree an appropriate model for taking forward integration. *Risk: plans to support health and social care integration are not sufficiently developed to support effective implementation of new arrangements by 1 April 2015.*	• Regular meetings are being held between chief officers of the council and the health board to agree plans for taking health and social care integration forward. • The council plans to have a model in place by March 2014.	• Review minutes of meetings between the council and the health board. • Maintain regular contact with council officers to stay informed of developments.
PSN compliance		
The council received PSN certification in November 2013 although some improvements still require to be made to further strengthen ICT security arrangements. *Risk: The council may not be able to access key information from other public sector bodies (e.g. benefits) leading to significant service disruption.*	• Procurement of a robust Mobile Device Management solution. • Moving teachers and classrooms out of the council's ICT network. • Externalising GSX Mail and developing guidance for staff on this. • Other remedial works to be carried out to ensure compliance with the Cabinet Office's Code of Connection.	• ICT auditor to monitor and report on the council's progress with PSN compliance.
ICT		
Our 2012/13 CSR identified a number of areas for improvement. In particular, the lack of progress in finalising the council's ICT strategy. *Risk: The provision of effective ICT systems and infrastructure is undermined.*	• Officers are committed to progressing the action plan agreed with audit in 2012/13. • ICT strategy to be submitted to the Corporate Management Team and then to the Executive for approval by the end of March 2014.	• Follow-up and report on progress against the 2012/13 CSR action plan.

Risk	Source of assurance	Planned audit action
Equal pay claims		
The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases. *Risk: the cost of the equal pay claims is greater than that provided for by the council.*	• The council set aside a provision of £4.2m in 2012/13 to deal with equal pay claims. This sum was based on the best evidence available at the time. In addition, the council has a level of reserves, which can be used to further increase the provision if so required. • The level of provision will be subject to review as part of the final accounts process for 2013/14.	• Monitor developments throughout the year and review the equal pay provision as part of the 2013/14 financial statements audit.
Non-depreciation of council house dwellings		
The council does not charge depreciation on its council dwellings on the grounds that any depreciation, which is based on the gap between the carrying value and residual value, would not be material. *Risk: circumstances change and the depreciation becomes material.*	• The valuer will provide assurance on the materiality of depreciation in 2013/14. • The issue will be resolved in 2015/16 when council house dwellings are revalued using the existing use value-social housing (EUV-SH) methodology.	• Review accounting treatment in 2013/14 and obtain management assurances that issue will be resolved in 2015/16.
Provision for landfill site restoration costs		
To comply with IAS37 *Provisions, contingent liabilities and contingent assets* the council should recognise landfill site restoration and aftercare costs as a provision on the balance sheet. *Risk: the 2013/14 financial statements do not comply with accounting standards as interpreted by the Code.*	• A prior year adjustment will be processed in the 2013/14 accounts to recognise a provision for the restoration and aftercare costs of Kinneil Kerse landfill site in line with IAS 37.	• Early work to review 2013/14 accounting entries.

Appendix C - Audit team

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

Fiona Mitchell-Knight BA (Hons) FCA - Assistant Director of Audit Services (certifying auditor)

Fiona took up post as Assistant Director of Audit in August 2007, following 6 years as the Senior Audit Manager for a number of local authority clients including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has 20 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sector.

Jim Rundell MA (Hons) CPFA - Senior Audit Manager

Jim has 29 years public sector audit experience mostly in the local government and health sector. He was seconded to Audit Scotland's Audit Strategy Group (2002 to 2004) where he was responsible for quality appraisal. His more recent audits have included City of Edinburgh Council, NHS Greater Glasgow and Clyde and Lothian Pension Fund.

Lisa Duthie BA (Hons) CPFA - Senior Auditor

Lisa joined Audit Scotland in 2008 after graduating from the University of Glasgow in economics. Lisa has over 5 years experience in public sector audit covering local government, central government and health.

Tommy Yule CPFA - Senior Auditor

Tommy has 12 years experience of public sector audit with Audit Scotland, covering local government, health and central government. Tommy was recently on secondment as a project manager to Audit Scotland's Performance Audit and Best Value Group.

Mark Laird BAcc (Hons) - Auditor

Mark is an accountancy graduate from Stirling University with a 1st class Honours degree. He has 4 years of experience in public sector audit with Audit Scotland covering the local government and health sectors and has recently passed his final CIPFA examinations.

Gerry Collins - Auditor

Gerry has 20 years experience working as an auditor/accountant. He has spent the last 10 years working in external and internal audit within the public sector, in both health and local government.

Neil Robb - ICT Senior Auditor

Neil has 19 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.

AUDIT SCOTLAND

Mr Bryan Smail
Chief Finance Officer
Falkirk Council
Municipal Buildings
West Bridge Street
Falkirk
FK1 5RS

7 January 2014

Dear Bryan

Falkirk Council
Review of Internal Audit 2013/14

Audit Scotland's Code of Audit Practice (the 'Code') sets out the wider dimension of public sector audit. The Code requires the external auditor to undertake an annual assessment of the adequacy of the internal audit function. Also, based on this assessment we plan to rely on areas of internal audit in terms of International Standard on Auditing 610 (*Considering the work of internal audit*).

Our annual review of internal audit is based on a standard review programme and, importantly, communication with the internal audit manager. Our objective is to establish the effectiveness of internal audit arrangements and to identify areas of internal audit work where we plan to place formal reliance particularly in relation to our financial statements responsibilities.

From 1 April 2013 internal audit were required to adopt the Public Sector Internal Audit Standards (PSIAS). These standards replace the 2006 CIPFA Code of Practice for Internal Audit in Local Government on which we have based our assessment in previous years. We have identified a number of areas where internal audit are still working to achieve full compliance with the new standards. This includes the production of an internal audit charter and a quality assurance and improvement programme, including external validation arrangements. We have obtained assurances from the internal audit manager that action is being taken to ensure full compliance with PSIAS in future.

Overall, we have concluded that the areas of non-compliance with PSIAS do not impact on the range and quality of work carried out by internal audit. Moreover, we are satisfied that the existing quality assurance framework operated by internal audit is soundly based.

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

- General services capital programme
- Debtors (reviewed in 2012/13)

Mr Bryan Smail
Chief Finance Officer
Falkirk Council

7 January 2014

In terms of our wider dimension responsibilities we also plan to consider internal audit work in the following areas:

- Welfare reform
- Strategic projects (TIF)

We will continue to monitor and review completed internal audit assignments to ensure that work on which we are placing reliance has been delivered. Any failure to complete areas where formal reliance has been agreed could impact on our plan and audit fee.

Finally, I would like to thank the Internal Audit Manager for his co-operation during our review. If you have any questions on this matter please do not hesitate to contact me.

Yours sincerely

James Rundell
Senior Audit Manager

By e-mail: Gordon O'Connor, Internal Audit Manager
                    John Flannigan, Depute Chief Finance Officer