

Agenda Item 3

Minute

Draft

FALKIRK COUNCIL

Minute of the meeting of the Audit Committee held in the Municipal Buildings, Falkirk on Monday 26 September 2016 at 1.30 p.m.

Members: Councillor Steven Carleschi
Councillor Tom Coleman
Roseann Davidson (Convener)
Councillor Rosie Murray
Baillie Joan Paterson
Depute Provost John Patrick
Provost Pat Reid

Officers: Karen Algie, Head of HR and Business Transformation
Fiona Campbell, Head of Policy, Technology and Improvement
Douglas Duff, Head of Economic Development and Environmental Services
Sara Lacey, Senior Service Manager, Children's Services
Kenny McNeil, Children's Services Resources Manager
Gordon O'Connor, Internal Audit Manager
Brian Pirie, Democratic Services Manager
Mary Pitcaithly, Chief Executive
Bryan Smail, Chief Finance Officer
Amanda Templeman, Acting Depute Chief Finance Officer

Also Attending: Laura Caulder, Audit Scotland
Lisa Duthie, External Auditor, Audit Scotland
Fiona Mitchell Knight, Audit Scotland
Jim Rundell, External Audit Manager, Audit Scotland

AC23. Apologies

No apologies were intimated.

AC24. Declarations of Interest

No declarations were made.

AC25. Minute

Decision

The minute of the meeting of the Audit Committee held on 20 June 2016 was approved.

AC26. Corporate Risk Management Update

The committee considered a report by the Director of Corporate and Housing Services presenting a revised summary of corporate risks together with an update in progress made in embedding the Corporate Risk Management (CRM) policy and framework.

The Audit committee had, on 18 April 2016 (ref AC11), agreed to refer the revised CRM policy and framework to the Executive for approval together with the Corporate Risk Register. Both had been approved by the Executive on 17 May 2016 (ref EX13). In approving the documents, the committee had requested 6 monthly updates on progress in embedding the CRM policy and framework.

Services had participated in risk workshops and were currently finalising their individual risk reviews. These will include “worst case” scenarios, key controls and lessons learned. A summary of corporate risks was provided. Additionally, the Corporate Risk Management Group and the Council’s Corporate Management Team had agreed that a CRM training plan would be implemented (for members and officers) and that a risk workshop for members and Corporate Management Team would be held in early 2017. Services were currently embedding Service Risk Management arrangements as part of the Service Performance Planning process.

An audit of the CRM arrangements had been undertaken by West Lothian Council and this had resulted in substantial assurance being provided.

The Chief Finance Officer explained the risk “insufficient funding to deliver services and deliver outcomes”, following a question and summarised the mitigating factors. Members of the committee highlighted the costs of building Council housing and questioned whether, on the basis of the costs provided within previous reports to the Executive, they represented best value. The Chief Executive summarised the factors which contributed to the costs per unit and undertook to provide members with a breakdown.

In regard to the risk of insufficient funding itself, members sought clarification of those services deemed to be “statutory” as opposed to “discretionary”. In responding, the Chief Executive suggested that as budgets become tighter, Councils had to look at the services they must provide and how they provide them. The Chief Finance Officer set out the likely timetable for setting the 2017/18 budget and confirmed that a funding gap of £20m was projected.

The Head of HR and Business Transformation then confirmed that the proposed CRM workshop would be held before April 2017 and that this was in line with previous advice to members.

The committee considered the risks relating to adult services. The Chief Executive confirmed in response to a question, that the Council had sufficient officers to meet its statutory obligations. The Head of HR and Business Transformation undertook to provide members with detail of the mitigating actions in regard to Self-Directed Support.

The committee discussed the Council's budget setting process and sought information on how Council will engage and consult with staff, stakeholders and the public. The Chief Finance Officer confirmed that officers' proposed savings options would be considered by the Executive in October and engagement/consultation would begin after this. This would include staff briefings and public discussion, for example with community councils. The Head of Policy, Technology and Improvement confirmed that an engagement strategy had been agreed by the Executive in 2015.

Decision

The committee noted:-

- (1) the summary of very high and high Corporate Risks as detailed in appendix 1 of the report, and the Summary of Medium Corporate Risks at appendix 2 of the report; and**
- (2) that a Corporate Risk Management update will be provided to the Executive on 18 October 2016.**

Baillie Paterson and Councillor Carleschi joined the meeting during consideration of the previous item.

AC27. Internal Audit Progress Report.

The committee considered a report by the Internal Audit Manager setting out progress in completing the 2016/17 Internal Audit Plan.

The plan included 21 planned assignments. Five additional assignments had been added to Internal Audit's work programme. These were:-

- Carbon Reduction Commitment Energy Efficiency Scheme Audit;
- Contact Centre – Data and Information Security;
- Social Work Intermediary Accounts;
- Residential and Non Residential Charging – Debt Management; and
- LEADER funding.

The report also summarised the processes in place for monitoring Community Halls' accounts.

In regard to the agreed plan, 9 assignments were in progress, 10 had yet to be started and draft reports had been issued for 2 of the assignments. In response to questions, the Internal Audit Manager confirmed that he expected all to be completed to draft report stage or further by March 2017.

Of the additional assignments, final reports had been issued in regard to the “Carbon Reduction” and “Contact Centre” reviews. The scope of the reviews and main findings were provided in an appendix to the report.

The committee discussed progress to date and the timescales for completing the planned audits and the additional assignments. The Internal Audit Manager reiterated that he anticipated that all would be completed however the plan could be readjusted. He described the fieldwork which was being undertaken in regard to the audit of the Redundancy and Severance Arrangements, confirming that a sample of 18 applications had been used.

In regard to a review of LEADER funding, the Internal Audit Manager confirmed that this is the first annual review of compliance with SLA terms. He considered that it was more appropriate that this work was treated as an assigned piece of work as opposed to ad hoc/consultancy work. It had not, he confirmed, been initiated as a consequence of, nor was it related to, BREXIT.

Following a question on the processes for monitoring the submission of Community Halls’ accounts, the Internal Audit Manager explained the processes which were now in place to monitor and pick up issues at an early stage.

The committee discussed the continuous auditing assignment. Creditors’ duplicate payments of £7.5k had been identified so far. Members asked whether this showed that effective controls were in place or whether it indicated a larger problem. The Internal Audit Manager stated that in context the sum was small and the audit showed no indication of systemic flaws. The audit was therefore reassuring.

Decision

The committee noted that good progress is being made with completing the 2016/17 Internal Audit Plan.

AC28. 2015/16 Annual Audit Report

The committee considered a report by the Director of Corporate and Housing Services presenting Audit Scotland’s Annual Audit report to members of the Council and the Controller of Audit together with a letter of representation to Audit Scotland on the accounts.

The unaudited accounts had been considered by committee on 20 June 2016 (ref AC17). These had now been audited and the Auditor’s certificate was free from qualifications.

The Auditor’s Annual Report highlighted key messages in regard to:

- audit of financial statements;
- financial management and sustainability;

- governance and transparency;
- best value; and
- outlook.

In regard to Best Value, the report contained an extract from Audit Scotland's Best Value Follow Up report. The Auditor's report summarised the findings together with commentary. A separate report on the Best Value Improvement Plan had been considered by Council on 21 September 2016 (ref FC39).

The Auditor's report also included comments on Governance and Transparency and provided a summary of the Council's outlook.

Following questions from members, Ms Mitchell-Knight advised that the Accounts Commission would consider Audit Scotland's Best Value Follow Up Inspection report in December. It could make recommendations, hold a hearing, monitor progress via the annual audit process or request a further follow up review. The Chief Executive advised that Council had agreed, on 21 September, that in the first instance, the Leader of the Council, the Leader of the Opposition and the Provost would consider how the Council should respond to the report and that a report would be submitted to Council. The committee members discussed this and concurred that the agreed approach would allow all members to take a view on the report.

In response to a question on the Annual Report, Ms Mitchell-Knight stated that the message to all Councils to "work differently and to deliver services in a different way". She also confirmed that guidance suggested that Councils should review their reserves policy and make their own determination on the appropriate level of reserves held.

Decision

The committee noted the Annual Report on the 2015/16 Audit.

AC29. Annual Accounts 2015/16

The committee considered a report by the Director of Corporate and Housing Services presenting the annual accounts 2015/16 for approval.

The accounts had now been audited by Audit Scotland and were presented for approval. The audit certificate was free from qualification.

Decision

The committee approved the audited annual accounts for 2015/2016.

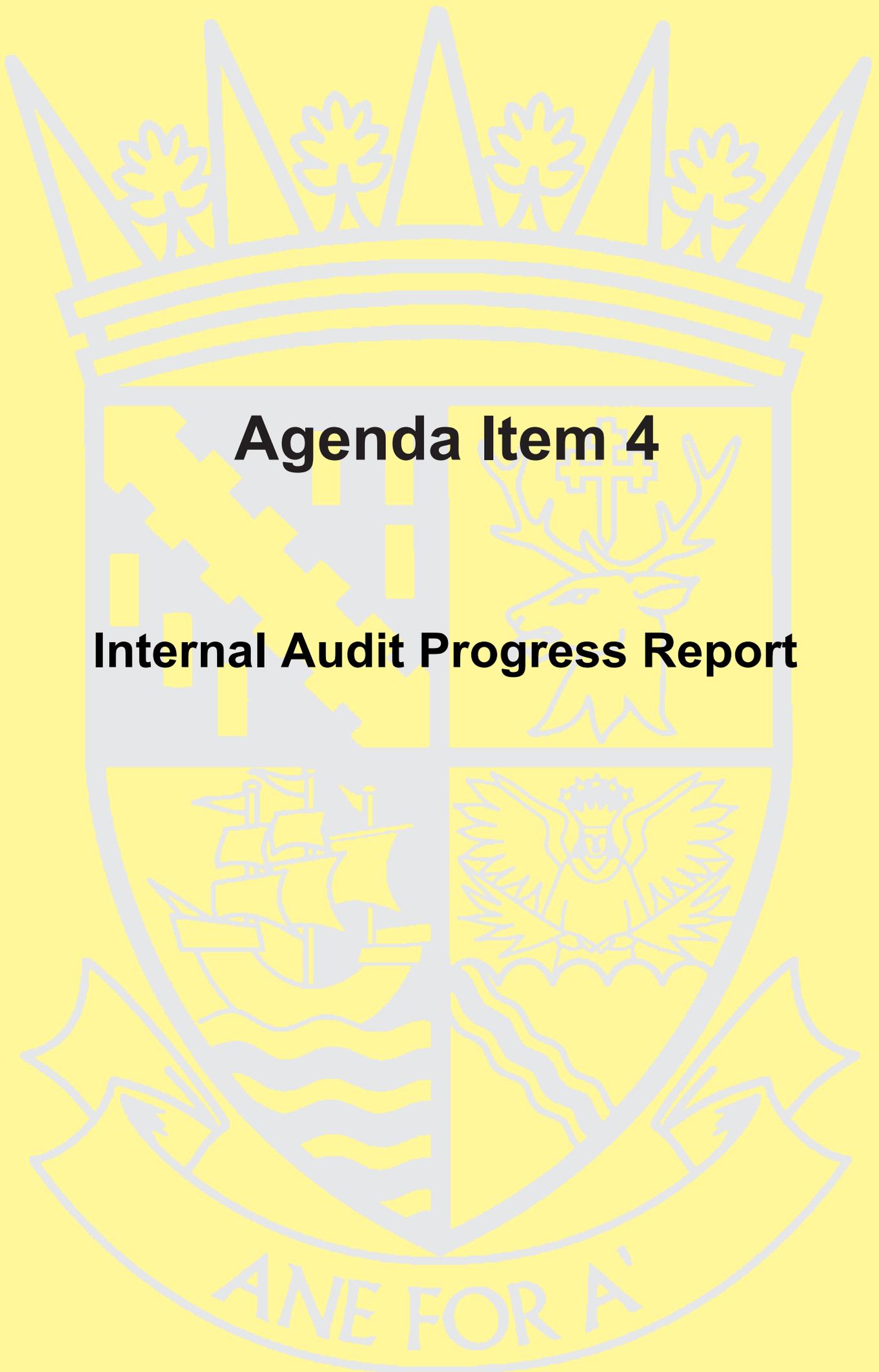
AC30. Temperance Trust Annual Accounts 2015/16

The committee considered a report by the Director of Corporate and Housing Services presenting Falkirk Temperance Trust's audited annual accounts 2015/16 for approval.

The accounts had now been audited by Audit Scotland and were presented for approval. The audit certificate was free from qualification.

Decision

The committee approved the annual audit accounts of the Falkirk Temperance Trust and agreed to recommend them to the Trust's Board for approval.



Agenda Item 4

Internal Audit Progress Report

Falkirk Council

Title: Internal Audit Progress Report
Meeting: Audit Committee
Date: 12 December 2016
Submitted By: Internal Audit Manager

1. Purpose of Report

1.1 The purpose of this report is to provide an update on:

- progress with completing the 2016/17 Internal Audit Plan;
- the Internal Audit Section's performance; and
- Internal Audit Recommendations Outstanding.

2. Recommendation

2.1 It is recommended that the Committee notes progress being made with completing the 2016/17 Internal Audit Plan and with other workstreams.

3. Background

3.1 The 2016/17 Internal Audit Plan was agreed by Audit Committee at its 18 April 2016 meeting. The Plan set out a total of 21 assignments to be completed by the team during the year. At its meeting in September, Committee noted that good progress was being made with completing the Plan.

4. Progress With Completing 2016/17 Internal Audit Plan

4.1 A summary of planned assignments, along with the current status of each, is attached as **Appendix 1**. This includes the following, additional, assignments added to our work programme over the course of the year:

- Carbon Reduction Commitment (CRC) Energy Efficiency Scheme Audit;
- Contact Centre – Data and Information Security;
- Social Work Intermediary Accounts;
- Residential and Non Residential Charging – Debt Management; and
- LEADER Funding.

4.2 Final Reports have now been issued in respect of 10 assignments. The findings arising from two of these (CRC Energy Efficiency Scheme Audit, and Contact Centre – Data Security and Practice) were previously reported to Committee in September. A summary of the scope of, and findings arising from, the remaining eight are set out at **Appendix 2**.

5. Internal Audit Performance

5.1 Internal Audit measures performance against the following five Key Performance Indicators (KPI).

Key Performance Indicator	2016/17 to date	2015/16 (at same time last year)
Complete 85% of main audit programme	42%	42%
Have 90% of recommendations accepted	100%	100%
Spend 75% of time on direct audit work	76%	76%
Issue 75% of draft reports within 3 weeks of completion of fieldwork	100%	89%
Complete (to issue of final report) 75% of main audits within budget	80%	100%

5.2 Performance is as expected, and is comparable with the same point last year. On that basis, I am confident that Internal Audit will meet, or exceed, target for each of the five KPIs.

6. Internal Audit Recommendations Outstanding

6.1 A total of 16 Internal Audit recommendations are currently outstanding beyond their agreed Implementation Date. These relate to the following assignments:

- Sundry Debtors (1 Rec);
- Business Continuity Planning and Recovery (1 Rec);
- Business Gateway (3 Recs);
- Non-Domestic Rates (1 Rec);
- Pension Administration and Pension Fund Governance (1 Rec);
- Employment and Training Unit (3 Recs);
- Members' Services: Civic Events and Receptions, Training, Allowances and Expenses (1 Rec);
- Mobile Device Security Arrangements (3 Recs);
- Social Work Intermediary Accounts (1 Recs); and
- Redundancy and Severance Arrangements (1 Rec).

6.2 Details of each of these recommendations are set out at **Appendix 3**. Internal Audit continues to work with Services to ensure that appropriate, and proportionate, action is taken to address all recommendations made by the team.

7. Implications

Financial

7.1 The role of Internal Audit is to provide assurance on the Council's arrangements for risk management, governance, and control. This includes controls which are designed to help safeguard the finances of the Council.

Resources

- 7.2 Recommendations or advice from Internal Audit may impact on the way in which resources are deployed and utilised.

Legal

- 7.3 Internal Audit may, on occasion, comment on the legality of transactions, activity, or processes.

Risk

- 7.4 The role of Internal Audit is to provide Members with assurance on the Council's arrangements for risk management, governance, and control. Recommendations made by Internal Audit aim to reduce or mitigate risk to which the Council may be exposed.

Equalities

- 7.5 An equality and poverty impact assessment was not required.

Sustainability / Environmental Impact

- 7.6 A sustainability / environmental assessment was not required.

8. Conclusions

- 8.1 Good progress is being made with planned Internal Audit work, and performance against each of the five Key Performance Indicators is as expected. Internal Audit will continue to work with Services to ensure that all recommendations are fully and timeously implemented.

Internal Audit Manager

Author: Gordon O'Connor, Internal Audit Manager, 01324 506339
gordon.oconnor@falkirk.gov.uk

Date: 02 December 2016

APPENDICES

- **Appendix 1** – Internal Audit Plan 2016/17 – Progress at December 2016;
- **Appendix 2** – Summary of Key Findings Arising From Assignments Complete to Final Report – Not Previously Reported to Committee; and
- **Appendix 3** – Internal Audit Recommendations Outstanding.

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None.

INTERNAL AUDIT PLAN 2016/17 – PROGRESS AT DECEMBER 2016

Planned Assignments (as per 2016/17 Internal Audit Plan)			
	Service	Assignment	Status
1.	All Services	Code of Corporate Governance	Not Started
2.	All Services	Compliance with Financial Regulations	Not Started
3.	All Services	Welfare Reform	Not Started
4.	All Services	Corporate Purchasing and Contract Monitoring	Final Report Issued – Substantial Assurance
5.	All Services	Serious Organised Crime / CONTEST / PREVENT	In Progress - input at national and local level on-going
6.	All Services	Building Security (Council Buildings)	Final Report Issued – No Assurance
7.	Corporate and Housing / All Services	Redundancy and Severance Arrangements	Final Report Issued – Substantial / Limited Assurance
8.	Corporate and Housing / All Services	Payroll – Temporary and Permanent Adjustments	Final Report Issued – Substantial Assurance
9.	Corporate and Housing	Integrated Housing Management System – Security and Management	In Progress – fieldwork underway
10.	Corporate and Housing	Housing Rents	In Progress – fieldwork underway
11.	Corporate and Housing	ICT Service Desk and Support	In Progress – fieldwork underway
12.	Corporate and Housing / Children's / Adult Social Work	Procurement of Services from External Providers of Social Work Services	Not Started
13.	Development	Refuse Collection	Final Report Issued – Substantial Assurance
14.	Development	Financial Vetting, Insurance, and Performance Bonds	Draft Report Issued
15.	All Services	National Fraud Initiative	Ongoing Participation – all required data submitted October 2016. Matches released 26 January 2017.
16.	All Services	Continuous Auditing	Ongoing Reporting – Creditors Duplicate Payments of £8.7k identified to date and being recovered

Planned Assignments (as per 2016/17 Internal Audit Plan)			
	Service	Assignment	Status
17.	Corporate and Housing	Reciprocal Audit Review with West Lothian Council (WLC)	Not Started – WLC’s Audit and Risk Manager will follow up his 2015/16 review of Falkirk Council’s Risk Management Arrangements
18.	Internal Audit	External Quality Assessment – Participation in External Quality Assurance Programme	Not Started – This review will be undertaken by South Ayrshire Council’s Chief Internal Auditor during 2016/17
19.	Falkirk Pension Fund	Falkirk Pension Fund	Not Started
20.	Falkirk Integration Joint Board	Falkirk Integration Joint Board	In Progress – via support to IJB Chief Internal Auditor, and in line with IA Plan approved by IJB in August 2016
21.	Falkirk Community Trust	Falkirk Community Trust	In Progress – in line with IA Plan approved by Trust Audit and Performance Sub-Group in August 2016

Additional Assignments			
	Service	Assignment	Status
1.	Development	CRC Energy Efficiency Scheme Audit	Final Report Issued – Substantial Assurance ¹
2.	Corporate and Housing	Contact Centre – Data and Information Security	Final Report Issued – Limited Assurance ¹
3.	Adult Social Work	Social Work Intermediary Accounts	Final Report Issued – Substantial Assurance
4.	Corporate and Housing / Children’s / Adult Social Work	Residential Charging and Non Residential Charging – Debt Management	In Progress – fieldwork underway
5.	Development	LEADER Funding	Final Report Issued – to support annual submission to Scottish Government

¹ **NOTE** – the findings arising from these reviews were previously reported to Committee in September and so have not been included in Appendix 2 of this report.

**Summary Of Key Findings Arising From Assignments Complete to Final Report
– NOT PREVIOUSLY REPORTED TO COMMITTEE**

No.	Assignment Area and Service	Assurance and Key Findings
1.	Corporate Purchasing and Contract Monitoring All Services	<p>Substantial Assurance</p> <p>The Council's Financial Regulations and Contract Standing Orders provide a framework for the procurement of goods and services, with the aim of demonstrating fairness, consistency, transparency, and best value.</p> <p>On a weekly basis, Internal Audit receive a report setting out suppliers who have been paid in excess of £10k in the preceding week. We review a sample of payments to assess whether appropriate tendering / market testing was undertaken, as well as arrangements for subsequently ensuring compliance with (and monitoring) compliance with contract terms and conditions.</p> <p>Over the course of the year to date we have found that, in general, goods and services are procured from contracted suppliers, with market testing undertaken prior to incurring expenditure from 'other' suppliers.</p> <p>We also found that the terms and conditions agreed with suppliers during market testing were, in the main, being applied, with appropriate action being taken to re-tender (or, where appropriate extend) contracts nearing their expiry.</p> <p>To further enhance the framework of control, and ability to monitor expenditure on a self service basis at contract and supplier level, consideration is to be given to building on existing finance system functionality.</p>

No.	Assignment Area and Service	Assurance and Key Findings
2.	<p>Building Security</p> <p>All Services</p>	<p>No Assurance</p> <p>The purpose of this assignment was to evaluate and report on the controls in place to ensure that the Council's buildings and contents are secure. Findings were based on visits to a sample of operational buildings to review physical security measures, as well as arrangements for monitoring, recording, reporting, and investigating security incidents. The sample of buildings visited included schools, an operational depot, a care home, and a headquarters building.</p> <p>We found that, at the time of the audit, there was significant scope for improvement. In particular:</p> <ul style="list-style-type: none"> • unauthorised entry was gained to six operational buildings via, eg unlocked doors, open fire exits, and unattended receptions; • at a corporate level no Officer has overall responsibility for developing, disseminating, and enforcing building security standards; and • clear and comprehensive guidance was not available to Premises Managers setting out key security controls and the process for recording, investigating, and reporting security incidents / breaches. <p>Since issuing this report a significant body of work has been undertaken to address the issues identified.</p> <p>The Council's Corporate Risk Management Group has taken ownership of the report and has put in place an action plan for addressing corporate and building specific findings. Building Security will remain a standing agenda item for that group until the issues identified in this report are addressed.</p> <p>Revised and updated guidance on building security has been put in place and is available to staff on 'Inside Falkirk'. Related to that, a poster campaign has been rolled out to raise awareness, and the Premises Managers' Handbook is being reviewed and updated to provide better guidance on building security. All Premises Managers will be required to attend a training workshop on the key requirements of the (updated) Premises Managers' Handbook.</p> <p>In addition, a security expert has been identified to undertake risk assessments in higher risk premises, including a Primary School, a Secondary School, and a care home. Once complete, these will form the basis of templates to be used across other locations.</p> <p>All Services are taking forward actions specific to their buildings (in conjunction with Building Design – Facilities team), and all Premises Managers have been asked to undertake a check of security arrangements to ensure they are proportionate and working effectively.</p> <p>Internal Audit will undertake further unannounced spot checks in high risk premises to ensure that agreed actions are being implemented.</p>

No.	Assignment Area and Service	Assurance and Key Findings
3.	<p>Redundancy and Severance</p> <p>Corporate and Housing / All Services</p>	<p>Substantial / Limited Assurance Internal Audit reviewed policies, procedures, roles, and responsibilities within, and between, Services, Human Resources, Payroll, Pensions, and Accountancy Services; application, assessment, and approval arrangements; the accuracy and consistency of entitlement calculations; arrangements for the payment of entitlements; and the accurate and timely production of management information.</p> <p>We were able to provide Substantial Assurance in relation to the Severance Policy (including roles and responsibilities) and Limited Assurance in relation to the level of compliance with the Policy.</p> <p>All staff consulted were clear about their roles and responsibilities, with adequate segregation of duties in place between the assessment and approval of applications and the calculation and payment of compensation entitlements.</p> <p>While there was a Policy in place there was some scope for improving this by, eg including formal timescales for the completion of each stage of the process, and setting out more detail on how pension benefits have been affected by changes to the Scottish Local Government Pension Scheme.</p> <p>Our work on compliance with the Policy highlighted that limited checking is undertaken to confirm the accuracy of compensatory payments and pension strain costs. While the error amounts identified by our sample checking were not significant, inadequate checking could, potentially, lead to incorrect decisions on whether (or not) to approve a voluntary severance request.</p> <p>We also found instances where the audit trail was incomplete, and where there was delay in amending / deleting posts previously occupied by employees who have left via the severance process. Documentation to terminate an applicant's employment was not always provided to Payroll Section on a timely basis by Services, resulting in the delay of payment of compensatory entitlements.</p>
4.	<p>Payroll – Temporary and Permanent Adjustments</p> <p>Corporate and Housing / All Services</p>	<p>Substantial Assurance Work focussed on policies, procedures, roles and responsibilities; controls over the authorisation and processing of Payroll changes, including new appointments, leavers, and salary changes; and service standards and performance monitoring.</p> <p>We found that the operational controls associated with the processing of Payroll changes were working effectively, and that all staff consulted during the review were clear about their roles and responsibilities.</p> <p>We made a small number of recommendations aimed at further enhancing operational controls, the recovery of any overpayments, and the checking of monthly payroll reports.</p>

No.	Assignment Area and Service	Assurance and Key Findings
5.	Refuse Collection Corporate and Housing Services	<p>Substantial Assurance We reviewed the roles and responsibilities of those involved in the day to day domestic refuse collection, trade waste, and special uplift arrangements managed and operated by the Council; financial control arrangements; and performance monitoring and the accurate and timely production of management information.</p> <p>We found that all staff consulted were clear about their roles and responsibilities, and that management and supervision of refuse collection crews well controlled. Management information was comprehensive and up to date.</p>
6.	Continuous Auditing All Services	<p>N/A – Ongoing Assurance Work has focussed on Creditors duplicate payments. To date, duplicate payments with a total value of c£8,700 have been identified. All amounts have been, or are being, recovered.</p>
7.	Social Work Intermediary Accounts Adult Social Work Services	<p>Substantial Assurance The Council acts as ‘appointee’ for some Social Work clients who either live in the community or in long term care, and has authority to collect these clients’ benefits on their behalf. It administers and manages these clients’ funds in ‘intermediary’ bank accounts, operated from Area Offices. At the time of this review around £1.3m was being administered on behalf of clients.</p> <p>This review focussed on visits to three Area Offices to review operational controls.</p> <p>We were content that each of the sample of transactions reviewed had been authorised and accurately recorded (with appropriate supporting documentation). There was, however, scope for introducing a regular programme of management checks on the day to day operation of the accounts, and for ensuring that senior managers are provided with regular management information (on, eg balances and number of clients with accounts).</p> <p>There was also scope for establishing criteria to evidence the decision to apply for appointeeship.</p>

No.	Assignment Area and Service	Assurance and Key Findings
8.	LEADER Funding Development Services	<p>Not Applicable</p> <p>LEADER is a national programme using European funds to deliver community led local rural development projects. It is delivered through partnerships between the Scottish Government and Local Action Groups responsible for developing a Local Development Strategy and for distributing funds against that Strategy.</p> <p>Falkirk Council acts as the 'Accountable Body' for the Kelvin Valley and Falkirk (KVF) 2014-2020 LEADER Programme. As Accountable Body, Falkirk Council has overall responsibility for the delivery and cash flow of the KVF LEADER Programme – a service Level Agreement (SLA) between Falkirk Council and the Scottish Government defines this role.</p> <p>In June 2015 the Scottish Government confirmed an indicative allocation to KVF LEADER of c£2.8m (over the life of the programme).</p> <p>The SLA requires an annual Internal Audit of the functions and services undertaken by the Accountable Body, including review of compliance with SLA terms; clarity of LAG / AB governance and management processes; LEADER administration processes (including application and award); and the LEADER administration grant claim process.</p> <p>In overall terms we found arrangements to be sound, with the main requirements of the SLA being adhered to, and a revised and updated Business Plan being prepared for submission to the Scottish Government. The respective roles and responsibilities of the LAG and AB were clear and well understood.</p> <p>We did, however, make a number of recommendations relating to demonstrating full compliance with the SLA, updating the KVB Business Plan to reflect current processes, and enhancing some elements of the audit trail.</p>

INTERNAL AUDIT – RECOMMENDATIONS OUTSTANDING

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
1.	31 Dec 2013	Corporate and Housing Services	Sundry Debtors	Substantial	A debt recovery policy for Sundry Accounts should be developed.	Revenues Manager	The draft Corporate Debt Policy has been prepared. Once agreed, the debt recovery policy for Sundry Accounts will link to this.	31 Dec 2015	Corporate Debt Policy is being finalised, with a single issue to be addressed regarding how the Housing Revenues Account (HRA) debts (house rent in particular) are integrated into Corporate Debt approach. There has been progress on this issue and, subject to consultation with HRA tenants, it is hoped that a policy will be considered by Executive early in 2017.
2.	31 Dec 2014	Development Services	Business Continuity Planning and Recovery	Substantial	A corporate Business Continuity Plan should be prepared.	Civil Contingencies Coordinator	A draft Corporate Business Continuity Management Plan, that meets Civil Contingencies requirements and the Council's BCM Policy, will be developed and approved by CMT.	31 Dec 2015	The Executive has approved the Business Continuity Management Policy.
3.	31 Oct 2015	Development Services	Business Gateway	Limited	The Adviser's Guide should be formally agreed and rolled out, and should take into account the recommendations made in this report.	Growth and Investment Manager and BG Contract Manager	Progressing on plan. Cannot be progressed further until National Business Gateway provide Service Specification to all providers.	01 Dec 2015	National Service Spec has been commissioned by Business Gateway National Unit and awarded to EKOS (Jan 2016). Unable to progress until this concluded. Stage 2 operational application remains to be approved nationally by Scottish Government. Action cannot be progressed as outwith FC control.

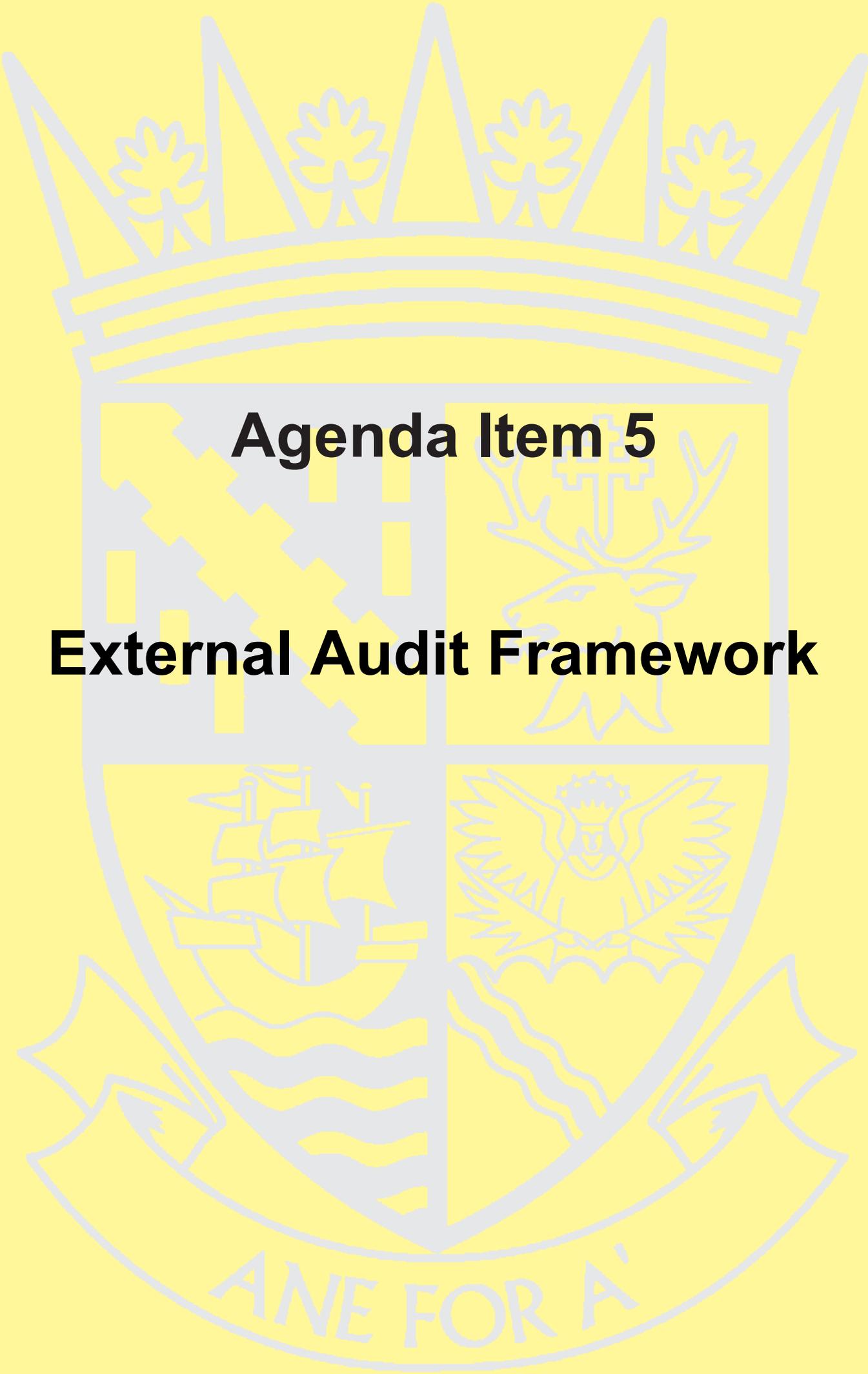
No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
4.	31 Oct 2015	Development Services	Business Gateway	Limited	Consideration should be given to more specifically recording and accounting for Falkirk Business Gateway provision (as well as related ERDF 60% match funding and Business Support). This should include ensuring that management fee spend is broken down and accounted for separately.	Growth and Investment Manager and BG Contract Manager	Part achieved. ERDF unit cost methodology to be finalised by Scottish Government. Unable to progress until this is done.	30 Apr 2016	Scottish Government now no longer progressing with Unit Cost and Flat Rate Direct Staff Costs has been agreed. Awaiting Stage 2 Operational Approval from Scottish Government before this can be completed. Outwith FC control.
5.	31 Oct 2015	Development Services	Business Gateway	Limited	Invoice overhead charge arrangements should be reviewed and streamlined.	Growth and Investment Manager and BG Contract Manager	Progressing, however National Business Gateway spec is awaited.	30 Nov 2015	National Service Spec has been commissioned by Business Gateway National Unit and awarded to EKOS (Jan 2016). Unable to progress until this concluded. Stage 2 operational application remains to be approved nationally by Scottish Government. Action cannot be progressed as outwith FC control.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
6.	31 Dec 2015	Corporate and Housing Services	Non-Domestic Rates (including TIF)	Substantial	The Council's discretionary policies on NDR should be subject to formal review.	Revenues Manager	It is accepted that discretionary policies require to be updated and to be approved by Members, and work has started on this. The date proposed is provisional, and may be impacted by the absence of the Depute CFO.	31 Dec 2015	A review has been carried out and a draft policy has been prepared. However, before seeking approval for this policy it is essential that we fully evaluate the impact changes in the policy could have on individual ratepayers. This evaluation cannot be carried out until the revised 2017 Revaluation values are known (November 2016) and Scottish Government announce their intentions regarding changes to relief schemes and thresholds (Between December 2016 and March 2017).
7.	31 Mar 2016	Corporate and Housing Services	Pension Admin and Pension Fund Governance	Substantial	A Register of Interests should be established to record details of any actual / potential conflicts relating to members of the Committee and the Board. The Register should be published on the Fund's website.	Pensions Manager	Recommendation Accepted.	31 Mar 2016	Register of interest report has been prepared but, following consultation with Governance, have agreed to combine with Conflicts of Interest Policy document and take both proposals to the Pensions Committee in due course.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
8.	29 Feb 2016	Development Services	Employment and Training Unit	Substantial	Concise and written guidance, incorporating process flowcharts, should be developed for Employment and Training Unit staff.	Employment and Training Unit Manager	Appropriate processes will be pulled into a Manual. A review of processes will be undertaken and potential changes risk assessed prior to implementation. Written guidance and process flowcharts will clearly articulate all policies and procedures relating to day-to-day operations. Operating rules and compliance documents for external programmes will be referenced as part of written guidance.	29 Feb 2016	The installation of VISIO was delayed and this action is now being taken forward.
9.	31 Mar 2016	Development Services	Employment and Training Unit	Substantial	A Procurement Strategy for training programmes should be developed and implemented along with a standard checklist of payment evidence requirements. An approved Training Providers Framework should be developed.	Employment and Training Unit Manager	Employment and Training Unit will take these points forward in partnership with the Corporate Procurement Unit.	31 Mar 2016	This is ongoing with Procurement Unit, and has been linked to budget process and external contracts which has delayed progress.
10.	31 Dec 2015	Development Services	Employment and Training Unit	Substantial	A run through of each initial grant start up process should be undertaken prior to commencing the project.	Employment and Training Unit Manager	In advance of the start of the European Social Fund programme in January 2016 a meeting will be held with Scottish Government European auditors.	31 Dec 2015	Meetings still ongoing with Scottish Government and the timescale is outwith our control but we are hoping for final clarification by the end of May 2016. The project will be required to start in April 2016, and a full risk assessment will be undertaken accordingly.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
11.	31 Mar 2016	Corporate and Housing Services	Members' Services: Civic Events and Receptions, Training, Allowances and Expenses	Substantial	The points relating to procedural guidance should be addressed.	Business and Members' Services Manager	Develop an action plan and implement the recommendations listed in the report.	31 Mar 2016	Business and Members' Services work plan now contains the schedule of tasks for development by 31 December 2016. Induction training planning has also commenced in conjunction with the production of Elected Members' Notebooks, covering a range of topics from the first few weeks in office, to the roles of Members at Ward and Council level, to national policy and legislative content. The Members' Development Portal has been updated to link with the Improvement Service, where useful information on becoming a Councillor is available and will continue to expand.
12.	31 Aug 2016	Corporate and Housing Services	Mobile Device Security	Substantial	The Information Security Policy should be reviewed and updated.	Technology and Infrastructure Manager	Recommendation Accepted.	31 Aug 2016	Acceptable Use Policy (AUP) and Information Security Policy (ISP) have been discussed and agreed with the Information Governance Manager. The existing policies will be jointly reviewed and updated by 31 December 2016.
13.	31 Aug 2016	Corporate and Housing Services	Mobile Device Security	Substantial	The Acceptable Use Policy should be reviewed and updated.	Technology and Infrastructure Manager	Recommendation Accepted.	31 Aug 2016	AUP and ISP have been discussed and agreed with the Information Governance Manager. The existing policies will be jointly reviewed and updated by 31 December 2016.
14.	31 Aug 2016	Corporate and Housing Services	Mobile Device Security	Limited	The remote standard build should be tested before installing on ipads / tablets and mobile phones.	Improvement Manager / Technology and Infrastructure Manager	Recommendation Accepted.	31 Aug 2016	Consultants are currently working on the automation (17 / 18 November). We will quality control check the work and provide a further update w/c 05 December.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
15.	01 Oct 2016	Adult Services	Social Work Intermediary Accounts	Not Applicable	Criteria should be established to evidence Social Work's decision to apply for appointeeship.	Head of Social Work Adult Services	<p>Criteria have now been finalised and implemented. Any new appointeeships must also be authorised by Service Manager.</p> <p>The service is hoping to transfer appointeeships to providers from 01 Oct 2016.</p>	01 Oct 2016	<p>Criteria have now been finalised and implemented. Any new appointeeships must also be authorised by Service Manager.</p> <p>Teams are reviewing their number of appointeeships prior to transfer to providers. This will be completed by the end of March 2017.</p>
16.	30 Nov 2016	Corporate and Housing Services	Redundancy and Severance Arrangements	Substantial / Limited	Compensatory lump sum and pension benefit / strain calculations should be subject to robust accuracy checks, with supporting documentation certified to confirm completion of these checks.	HR Systems and Payroll Manager	<p>System to be updated to include double check of HR calculations.</p> <p>In relation to the compensatory lump sum, the relevant staff will be reminded about the importance of ensuring that the calculation is undertaken in accordance with the instruction from HR regarding any regular allowances and an additional check will be introduced on the employee's age.</p> <p>Evidence of checking on pension strain estimates and payments needs to be reinforced, however, the errors alluded to were the result of differences in the way Altair calculated the strain payment as compared to the old in-house system (both approaches had been deemed reasonable by the Fund Actuary).</p>	30 Nov 2016	Procedures are in place and currently being followed, and staff have been reminded. System changes being progressed and will be complete by 31 December 2016.

The background of the slide features a large, light blue watermark of the University of Alberta crest. The crest is a shield divided into four quadrants. The top-left quadrant shows a building, the top-right shows a stag's head, the bottom-left shows a sailing ship, and the bottom-right shows an eagle with its wings spread. Above the shield is a crown with four floral motifs. Below the shield is a banner with the motto 'ANNE FOR A'.

Agenda Item 5

External Audit Framework

Falkirk Council

2016 - 2021

External Audit Framework

December 2016



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About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Falkirk Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

In May 2016, the Accounts Commission appointed EY as your external auditor for the five year period 2016/17 to 2020/21 in accordance with the Local Government (Scotland) Act 1973. The appointment comes at a period of significant challenge and opportunity for local authorities across Scotland. Over the next five years, the public sector landscape in Scotland will continue to change. Greater powers and responsibilities are being devolved to the Scottish Parliament for taxation and social security. Locally, financial pressures and increasing demand for services represent significant challenge to authorities. The introduction of Integration Joint Boards is one of the new ways in which services are being delivered. To manage these challenges, it is essential that entities have a strong and effective system of financial control, accountability and transparency that supports the best use of public money in the public interest.

As auditor of Falkirk Council (“the Council”), we will provide independent assurance that public money is being appropriately used and that the Council is delivering value for money to the taxpayer. We provide insight and challenge to ensure the effective use of resources and how services are delivered.

Under the terms of the appointment, we are required to conduct our audit in accordance with Audit Scotland’s Code of Audit Practice (“the Code”). The Code was revised in May 2016 and now puts greater responsibility on auditors to consider and conclude on the four dimensions of the wider scope of public sector audit: **financial sustainability**; **financial management**; **governance and transparency**; and **value for money**. This builds upon our responsibilities to provide an opinion on the Council’s financial statements.

This document summarises the audit framework. It provides details of the evolving focus of public sector external audit, our approach over the term of our appointment and initial areas of focus for the Council. We will present our annual audit plan to the Audit Committee in February 2017 upon completion of our initial planning process.

The rest of this document sets out how we will take forward our audit appointment with the Council.

Public sector audit framework

We provide an overview of the framework for public sector audit within which we operate.

Audit strategy and approach

We provide a summary of our overall approach to delivering on our audit responsibilities over the five year term of our appointment.

Financial statements

We detail our risk based audit approach and areas of initial audit focus as part of our statutory audit of the financial statements.

Wider scope audit dimensions

We fulfil the requirements of the Code in respect of the four wider scope dimensions applicable to public sector audit.

Other responsibilities

As your appointed auditor, we undertake and participate in a broad range of intelligence gathering, information returns and grant claim certification as part of our responsibilities under the Code.

1. Public sector audit framework

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as your external auditor for the five year period 2016/17 to 2020/21. We will undertake our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016) and the requirements of International Standards on Auditing (UK and Ireland) (ISA). The Code outlines the principles and standards to be followed by auditors and their responsibilities. Our responsibilities extend beyond the statutory audit of the financial statements. We have responsibilities to review, conclude and report on the four wider scope dimensions of public sector audit as well as other responsibilities under the terms of our appointment.

Financial statements audit

We are responsible for conducting an audit of the financial statements of the Council. Our audit work will be planned and undertaken in accordance with International Standards on Auditing (UK and Ireland). Our responsibilities in relation to the audit of the financial statements are defined within the Code and statute. We will provide an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

Wider scope audit dimensions

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide conclusions on the four dimensions of wider-scope public audit: **financial sustainability; financial management; governance and transparency; and value for money.**

There is a requirement on appointed auditors to report and conclude on the arrangements across the Council. Our audit work over the four wider scope audit dimensions is aligned with and compliments our financial statements audit.

Best Value

Under the Local Government (Scotland) Act 1973, councils have a statutory responsibility to make arrangements to secure best value through the continuous improving in the performance of their functions. With considerable pressures on available finances, difficult choices are being faced by councils both in respect of scope of local services and delivery of those services.

As part of our annual audit we will consider the Council's Best Value arrangements through our wider scope audit work. Over a five year cyclical period, the Council will receive at least one report on Best Value concluding on its performance relating to Best Value characteristics and improvements. Our annual work around the wider-scope audit dimensions will help inform and develop our assessment of the Council's Best Value arrangements. We will work in partnership with Audit Scotland Performance Audit and Best Value staff in delivering this work, in line with the Accounts Commission's new model for Best Value audits.

Other responsibilities

Under the terms of our appointment, our role and responsibilities extend beyond the audit of the financial statements. There a number of further areas of audit activity that we will cover over the term of our appointment. These include our responsibilities in relation to following the public pound, statutory performance information and audit activity across the National Fraud Initiative and grant claims.

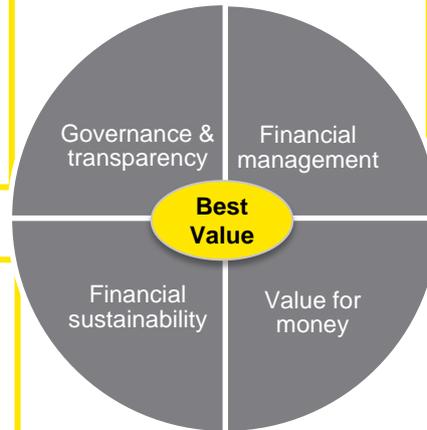
Adding value

In line with the general principles outlined in The Code, we aim to add value through our audit work by providing clear judgements and conclusions from our audit work and providing constructive, appropriate and proportionate recommendations for improvement where significant risks are identified.

1. Public Sector Audit Framework

We review the adequacy of governance arrangements. In particular, we consider and report on; whether these are appropriate and operating effectively and that there is effective scrutiny, challenge and transparency on decision-making.

We consider the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.



We conclude on the effectiveness of financial management arrangements. This includes considering whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

We consider whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

2. Audit strategy and approach

2. Audit strategy and approach

We perform our audit in accordance with International Standards on Auditing (UK and Ireland), the International Standard on Quality Control (UK and Ireland), ethical standards and applicable Practice Notes and other guidance issued by the Auditing Practice Board.

Our audit strategy and planning follows a risk based approach. This reflects our overall assessment of the relevant risks that apply to the Council. This ensures that our audit focuses on the highest areas of risk.

Planning methodology

Our detailed audit plan will be presented to the Audit committee in February 2017, following finalisation of the Audit Scotland planning guidance and completion of our audit planning processes. We adopt a risk based planning approach, analysing the risks inherent in your external influences, the key strategic, operational and financial risks for the Council and our knowledge of other factors that may impact the financial statements. Our planning considers the following key areas:

- Review of Audit Scotland planning and technical guidance.
- Review of the Council's corporate strategies and plans.
- Review of the Council's risk register.
- Consideration of recent reviews including external audit reports and self assessments.
- Engagement with internal audit.
- Discussion with senior officers.
- Engagement with Audit Scotland.
- Participation in the Shared Risk Assessment process.
- Consideration of the work of other inspection bodies.
- Detailed understanding of the Council's key financial systems and processes and control environment.

Wider scope audit assurance

Our audit planning process extends our risk assessment beyond the standard scope of an audit of the financial statements.

Under the requirements of the Code, our planning process will consider the four dimensions of **financial sustainability; financial management; governance and transparency; and value for money** when undertaking our annual risk assessment and audit planning.

This will enable us to develop a rounded, risk based audit plan to allow us to both identify, assess and report on the Council's Best Value arrangements.

Joined up assurance planning

As your external auditor we participate in the Local Area Network (LAN). LAN's bring together representatives from across local government scrutiny bodies to agree a Shared Risk Assessment (SRA). The SRA informs the local scrutiny plan ensuring that for risks identified there is sufficient scrutiny activity.

Our audit planning activity will both inform and build upon the SRA ensuring that there is a co-ordinated approach to assurance activity. We also work in partnership with Audit Scotland to develop a joined up approach to Best Value audit.

3. Financial statements audit

Financial statements are an essential part of demonstrating stewardship of public resources and the financial performance in the use of those resources. A core element of our role as your external auditor is undertaking a robust audit to allow us to express an opinion on the Council and group financial statements. We perform our audit in accordance with International Standards on Auditing (UK and Ireland), the International Standard on Quality Control (UK and Ireland), ethical standards and applicable Practice Notes and other guidance issued by the Auditing Practice Board. Our audit strategy and planning follows a risk based approach. This reflects our overall assessment of the relevant risks that apply to the Council.

Financial statements audit

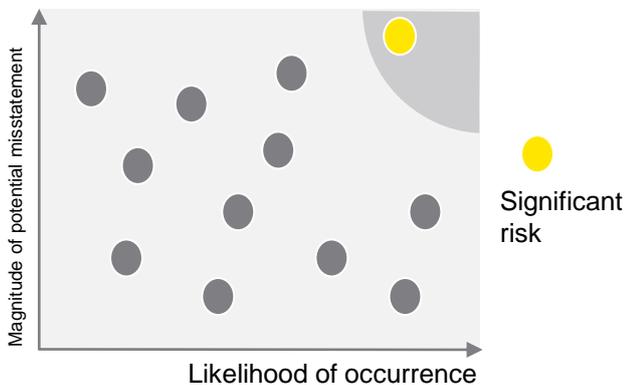
Our responsibilities in relation to the audit of the financial statements are defined within the Code and statute. We provide an opinion on the financial statements as to whether they:

- give a true and fair view in accordance with applicable law and the Code of Practice on Local authority Accounting of the state of the affairs of the council and its group as at 31 March and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code of Practice, and have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.

We are also required to provide an opinion on other prescribed matters, in particular, whether the part of the Annual Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014 and the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Significant risks

Auditing standards require us to consider whether any of the risks identified are 'significant' risks to our audit of the Council and the group. Financial statement significant risks are defined as those with a higher likelihood of occurrence and, if they were to occur, could result in a material misstatement of the consolidated financial statements, as set out in the graphic below:



We are required to identify financial statements significant risks in the audit, and perform specific procedures over those risks, including identification and testing of the design and implementation of key controls designed to address the risks.

We are required to specifically highlight these significant risks to 'those charged with governance' i.e. the Audit Committee.

The outcome from our risk assessment will be included in our annual audit plan.

Controls based approach and coordinated assurance

We work with management and internal audit to develop our understanding of the Council's control environment to reduce the level of reliance on substantive procedures.

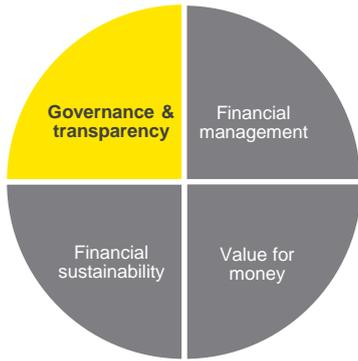
We will look to work with internal audit and other assurance providers to ensure a co-ordinated assurance approach. In our first year we will undertake a detailed review of the work performed by internal audit to satisfy ourselves that this meets relevant guidance and standards and to determine the extent of reliance we can place on work performed.

Value through use of our analytical tools

We utilise our data analytics tools to provide enhanced assurance over key transaction data sets. This enables us to assess complete account balances and reduce the use of sample testing of transactions to gain assurance.

4. Wider scope audit dimensions

4. Wider scope audit dimensions



Governance and transparency

Members and officers are responsible for establishing robust governance arrangements. This includes ensuring effective systems of internal control, including arrangements to safeguard public money, and compliance with applicable laws and regulations. Crucial to this is ensuring that there is sufficient monitoring and review of corporate governance arrangements to ensure that these remain fit for purpose.

Our responsibilities

In response to the changing economic pressures and demands, local authorities are undergoing a significant period of change, as service function and delivery is updated and aligned with available funding.

It is increasingly important that the Council's governance arrangements are sufficiently robust to ensure that these challenges and opportunities are effectively managed and delivered.

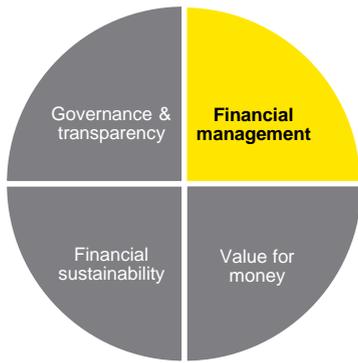
Robust governance arrangements are built upon the key areas shown in the diagram. Effective governance enables management and councillors to make clear strategic decisions through transparent management information.



Our strategy

We will evaluate and report on the Council's corporate governance arrangements. This will consider the:

- systems of internal control, including its reporting arrangements;
- arrangements for maintaining standards of conduct and the prevention and detection of corruption;
- arrangements for prevention and detection of fraud and irregularity; and
- the arrangements for the monitoring and review of corporate governance arrangements.



Financial Management

With the significant financial challenges facing public sector bodies, it is essential that the Council has robust financial management arrangements to ensure that it can continue to deliver services to the local population. Effective financial management requires good financial planning, budgetary control and financial reporting arrangements.

Our responsibilities

Financial management is concerned with financial capacity and robust financial planning processes. This includes sound budgetary processes and whether the control environment and internal controls are operating effectively. While the Council has delivered recent required financial savings targets, delivery of further efficiency savings is likely to require more fundamental decisions around services offered and service delivery.

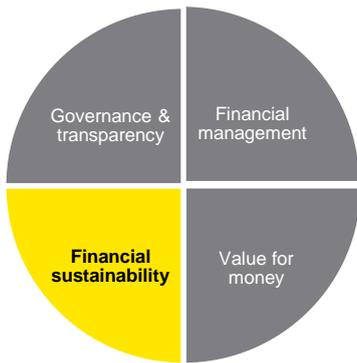
The Council faces significant financial pressures including reductions in government funding and social and demographic factors increasing the level of demand on available resources. Therefore, it is increasingly important that the Council has robust financial management arrangements to effectively manage these pressures.

Our strategy

Over the course of our audit planning and execution we will look to develop a comprehensive understanding of the Council's financial management arrangements. Our audit work will include assessing and reporting on areas including:

- the Council's arrangements to ensure systems of internal control are operating effectively;
- whether the Council can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance;
- how the Council has assured itself that its financial capacity and skills are appropriate; and
- whether the body has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

4. Wider scope audit dimensions



Financial sustainability

Financial sustainability is focused on the medium to longer term financial viability. A key challenge for authorities is ensuring that in implementing shorter term financial and operational targets, the Council does not adversely impact on the delivery of its strategic objectives and medium to longer term financial sustainability.

Our responsibilities

As part of the annual audit of the financial statements, ISA 570 requires auditors to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements. This requires auditors to consider that an entity will continue in operational for a period of at least 12 months from the date of signing the financial statements. The Code requires auditors to consider the financial sustainability of an entity for the medium to longer term, which covers a period of two to five years.

Some of the challenges facing the Council over this timescale include:

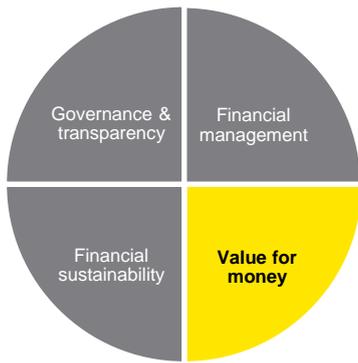
- Government grant levels which have not kept pace with inflation and service demand;
- Continuing demographic pressures with rising school rolls at one end of the spectrum and a higher number of elderly people requiring care at the other end;
- Other events, including equal pay settlements and changes to national insurance for defined benefit pension schemes.

Our strategy

Our audit work in respect of financial sustainability will include assessing and reporting on areas including:

- The effectiveness of the financial planning systems and identifying and addressing risks to financial sustainability across shorter and longer terms;
- Whether the Council can demonstrate the affordability and effectiveness of funding and investment decisions that it has made; and
- The appropriateness of the arrangements put in place to address identified funding gaps and whether the body can demonstrate that these arrangements are working.

4. Wider scope audit dimensions



Value for money

Value for money is focused on how the Council effectively utilises its resources and the arrangements in place to continually improve services.

Our responsibilities

The Council has a responsibility to achieve value for money and demonstrate this through transparent reporting to the public, demonstrating how efficiently and effectively these are being delivered. Local authorities use various mechanisms to determine the efficiency of services, including a range of performance measures and indicators. They should also look to benchmark performance against other authorities to demonstrate value for money.

A key challenge for councils is ensuring that pressures to deliver short term financial and operational targets do not hinder the achievement of medium to longer efficiency improvements. Furthermore, there is a risk that the delivery of these is not at a sufficient pace to maximise the benefits.

Under the Code we are required to consider the extent to which the Council is delivering value for money and that there is clear focus on delivering services as efficiently as possible. Two key areas of focus are:

Option appraisal process

The Council's decision making process and the extent to which it is underpinned by critical appraisal of potential options to secure the best value to the Council.

Focus on continuous improvement

The Council's arrangements for monitoring the delivery of planned efficiencies. The extent to which planned efficiencies or improvements are tracked by the organisation and achievement of these, including pace of delivery, are challenged.

Our strategy

In accordance with the Code, our audit work will include reviewing:

- The extent to which the Council can demonstrate that there is a clear link between money spent, outputs and outcomes delivered;
- Whether the Council can demonstrate that outcomes are improving;
- The extent to which there is a sufficient focus on improvement and the pace in which it is delivered; and
- The extent to which the Council can evidence that it is demonstrating value for money in the use of resources.

5. Other audit responsibilities

5. Other audit responsibilities



Under the terms of our appointment, our role and responsibilities extend beyond the audit of the financial statements and the wider scope audit dimensions. There a number of further areas of audit activity that we will cover over the term of our appointment. These include our responsibilities in relation to following the public pound, statutory performance information and audit activity across the National Fraud Initiative and grant claims. Below we provide a summary of these areas which will be further detailed in our audit plan.

Following the public pound

Local Authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on Funding External Bodies and Following the Public Pound (FPP Code). The principles of the FPP Code are embedded into the new approach to auditing Best Value. As part of our risk based planning approach we will consider the Council's arrangements to comply with the FPP Code. Over our five year appointment, Audit Scotland undertake performance audits across authorities for which we will be required to provide supporting information. During 2017, Audit Scotland will be undertaking a performance audit relating to Arms Length Organisations (ALEOs).

Statutory performance information

Local authorities have a responsibility, under their Best Value duty, to report performance to the public. One of the Accounts Commission's Strategic Audit priorities is 'the quality of council public performance reporting to help citizens gauge improvement'. Consequently, over the term of our appointment, we will focus on the Council's performance reporting arrangements and integrate this with our wider planning activity.

National Fraud Initiative and fraud returns

All local authorities are required to participate in the National Fraud Initiative (NFI). NFI involves the collection of data from various entities including authorities to identify potential irregularities for investigation. Authorities are required to participate through both initial data submission and investigation of identified matches. We are required to monitor and report on the Council's participation in NFI. We are also required to report on any frauds identified at the Council.

Other assurance activity

Under the terms of our appointment we are required to undertake a number of other areas of audit activity. These include certifying authorities Whole of Government Accounts returns as well as certifying any applicable grant claims and returns such as the non-domestic rates return and housing benefits subsidy claim.

Appendix A - Implementation timeline

Appendix A - Implementation timeline

We will develop our detailed audit plan over the coming months and report our planned audit approach. Over the term of our appointment we will develop our knowledge and understanding of the Council to help develop and inform our conclusions on the Council's Best Value arrangements. The diagram below summarises our annual audit cycle for 2016/17, as well as the longer term strategic planning.



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EYP0121 12/15. Artwork by Creative Service Group

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