

Falkirk Council

External Audit Progress Report



Prepared for Falkirk Council Audit Committee

June 2015

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

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Annual Audit Plan 2014/15

1. Our Annual Audit Plan (AAP) 2014/15 provides a summary of planned outputs for the year and the timescales for delivery. Appendix 1, accompanying this update, provides a summary of progress against the Annual Audit Plan. To date we are on schedule to deliver all outputs by the planned dates.

Governance work

2. **Review of internal audit.** In terms of *International Standard on Auditing 610 (Using the work of internal auditor)* we have placed formal reliance on aspects of internal audit's work to meet our financial statement responsibilities. In particular, we have relied on aspects of the work carried out by internal audit in the following areas:
 - Non Domestic Rates
 - Council house buy backs
 - Payroll (overtime and allowance administration)
 - Trade receivables (reliance on prior year work)
3. Relying on internal audit work avoids duplication of effort and allows us to focus on other areas of risk. We also met with the Internal Audit Manager on a regular basis throughout the year to discuss audit issues and share information and intelligence.
4. **Internal controls and governance work:** We have concluded our testing on the key internal controls systems. We concluded that internal controls are operating satisfactorily although we did identify some areas where improvements could be made.
5. **ICT audit.** We have carried out a high level review of the ICT function including the council's compliance with security measures set out in the Public Services Network (PSN) Code of Connection. We are pleased to note that the Cabinet Office issued the council with a PSN compliance certificate for the period 27 January 2015 to 27 January 2016.
6. **National Fraud Initiative (NFI).** NFI is a computerised biennial data matching exercise that compares and matches information about individuals held by various public bodies on their financial systems to identify potential fraud or error. Presently, we are assessing the arrangements put in place by the council for reviewing and investigating data matches. There

are continuing problems with Blue Badge matches. Our conclusions will be reported through the medium of our Annual Audit Report.

Performance

National Performance Studies

7. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. One report has been published since the last progress report to the Audit Committee in April 2015.
8. **Update on developing financial reporting (March 2015).** This report is primarily aimed at the Scottish Government but it also contains a number of general points that are relevant to the wider public sector. In particular, the report emphasises the importance of comprehensive, transparent, reliable and timely financial reporting. It is crucial to show that public money is used properly and effectively. Also, financial information should be presented in a way that is clear, easy to follow and understandable.
9. The Auditor General for Scotland also emphasised the importance of good financial reporting and was quoted as saying 'Scotland's public finances are on the cusp of significant change, at a time when services are facing considerable pressure from falling budgets and increasing demand. A transparent financial reporting framework to support these changes is more important than ever to safeguard public confidence and ensure accountability'.
10. The report noted that the Public Finance and Accountability (Scotland) Act 2000 requires public bodies that allocate money and provide services to produce annual accounts. In general, Scottish public sector bodies demonstrate good practice in the way they prepare their accounts.
11. The aforementioned legislation also gives ministers the power to prepare consolidated accounts for any financial year for the 'Scottish Administration together with such bodies and office holders...as they may designate'. The report says that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of the financial position. In the absence of easily accessible, aggregate information in one place on what the public sector owns (assets) and owes (liabilities) overall, it is difficult for the Scottish Parliament, taxpayers and others to get a full picture and understanding about where the money is spent and the longer-term implications for public finances.

Financial statements

12. **Financial statements audit 2014/15.** We formally commence the financial statements audit on 22 June 2015 with the aim of substantially completing the audit by the end of August 2015. By this time we will be in a position to issue a proposed audit opinion.
13. We have also been liaising with finance staff to improve and streamline the contents of the financial statements so that they are more readily understood by the readers of the accounts.
14. In order to complete the audit efficiently and effectively we have already commenced testing in a number of areas including the following:
 - verification of assets
 - year end bank reconciliations
 - substantive checking of payroll costs
 - substantive checking of trade payables
 - review of arrears levels and debtors' reconciliations.
15. Also, as part of our more streamlined reporting arrangements, we will no longer be issuing a separate ISA 260 Report (i.e. report to those charged with governance). Instead, we produce a combined Annual Audit Report and ISA 260 Report. This should be available for consideration and review by Audit Committee members no later than 21 September 2015. This earlier reporting will provide members with the opportunity to consider the audit report while the financial statement's audit is still current.
16. The timescale for completing and reporting on the financial statements audit is relatively short. Consequently, we will be relying on the Chief Finance Officer and his team to provide a comprehensive working papers package in support of the financial statements.

Appendix 1

Progress against Annual Audit Plan 2014/15

Planned outputs	Target delivery date	Actual delivery date
Review of adequacy of internal audit	31 December 2014	16 December 2014
Draft Local Scrutiny Plan	13 February 2015	13 February 2015
Annual Audit Plan	31 March 2015	3 February 2015
Internal controls management letter	30 June 2015	12 June 2015
Combined ISA 260 and Annual Audit Report	By 30 September 2015	
Audit opinion on the financial statements	By 30 September 2015	

Note: We will perform the audit of Falkirk Temperance Trust in parallel with the audit of the council's financial statements and issue a separate audit opinion by 30 September 2015.