



Agenda Item 6

External Audit Recommendations 2017/18

Falkirk Council

Title: External Audit Recommendations 2017/18

Meeting: Audit Committee

Date: 8 April 2019

Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 The purpose of the report is to present the progress with implementing the recommendations made by the External Auditors (Ernst & Young) as part of the audit for 2017/18.

2. Recommendation

- 2.1 **The Committee is asked to consider note the progress with implementing the External Audit recommendations for 2017/18.**

3. Background

- 3.1 As part of the Annual Audit Report presented to the Audit Committee in September 2018, Ernst & Young prepared an action plan detailing a number of recommendations.

4. Considerations

- 4.1 There were 8 recommendations detailed in the Action Plan and progress with implementing these is set out at Appendix One. Overall the actions agreed have been progressed and taken forward. It is anticipated that the External Auditors will review the actions taken as part of their audit for 2018/19.

5. Consultation

- 5.1 This report does not require consultation.

6. Implications

Financial

- 6.1 There are no financial implications arising from the report recommendations.

Resources

- 6.2 There are no resource implications arising from the report recommendations.

Legal

- 6.3 There are no legal implications arising from the report recommendations.

Risk

- 6.4 There are no risks arising from the report recommendations.

Equalities

- 6.5 There are no equalities implications arising from the report recommendations.

Sustainability/Environmental Impact

- 6.6 There are no sustainability/environmental implications arising from the report recommendations.

7. Conclusions

- 7.1 Overall satisfactory progress has been made with implementing the External Audit recommendations.

Director of Corporate & Housing Services

Author –Danny Cairney, Senior Corporate Finance Manager 01324 506388,
danny.cairney@falkirk.gov.uk

Date: 27 March 2019

Appendices

1. External Audit Recommendations 2017/18

List of Background Papers:

None

Ernst & Young 2017/18 Audit Recommendations

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.	
No. Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe	Falkirk Council Progress
1. Financial statement presentation – management commentary We concluded that the content of the Management Commentary and Annual Governance Statement was consistent with the financial statements and prepared in accordance with the statutory guidance. In our view the commentary could be further enhanced to provide a greater breadth of understanding for the reader, and bring it more in line with the standard we have noted elsewhere across the sector.	As part of the year two audit debrief and year three planning arrangements, we will again discuss with management expectations and recommendations around enhancements that can be made to the Management Commentary and Annual Governance Statement. <i>Grade 2</i>	As part of the debrief of the final accounts process with the auditors we will reflect on further improvements and enhancements that can be made to the Management Commentary and Annual Governance Statement and incorporate into 2018/19 final accounts. Responsible officer: Corporate Finance Manager Timeframe: 31 March 2019	As noted in the management response both statements will be reviewed during the final accounts process for 2018/19 and we will discuss further with external audit prior to the preparation of the statements.
2. Financial statement presentation – Expenditure and Funding Analysis The draft financial statements were prepared with the EFA in advance of the primary financial statements without being listed as a primary statement. Audit Scotland guidance directs the EFA to be presented as a note to the financial statements.	Management should ensure the EFA is presented in the 2018/19 financial statements in line with available guidance, which currently recommends it is presented as a note to the financial statements. <i>Grade 3</i>	Having reviewed the Code of Practice, we have left the EFA adjacent to the CIES. We will give further consideration to its positioning in 2018/19, again with regard to the revised Code. Responsible officer: Corporate Finance Manager Timeframe: 31 March 2019	The Code of Practice does give Council's discretion as to where the EFA statement should be positioned within the accounts. But for the 2018/19 accounts the statement will be placed within the notes.

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3. IAS 19 accounting for defined benefit pensions We identified a projected audit difference in the accounting for pensions of £6.8 million, resulting from an understatement of the Council's share of the Falkirk Pension Fund's assets at 31 March.	Recognising there is a risk of these differences re-occurring next year, given the timing differences will always exist, we have agreed to discuss with management and the actuaries arrangements in advance of the financial yearend to seek to address this before the IAS 19 reports are drafted. <div style="text-align: right;"><i>Grade 2</i></div>	Management notes that dialogue will be taking place between Audit firms and Actuaries to review the way in which pension fund asset valuations are determined. Management will liaise with the Falkirk Pension Fund actuary in relation to the 2018/19 IAS19 process and incorporate any recommendations emerging from the wider discussions, all with a view to minimising the risk of a material difference occurring in the future. Responsible officer: Corporate Finance Manager Timeframe: 31 December 2018	Guidance from the actuary has just recently been received. The probable course of action is to obtain the relevant information as per previous years (which incorporates a degree of estimation) to enable the accounts to be timeously drafted. The estimated data will then be compared with the finalised data during the audit process and adjustments will be made if required.

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4. Capital programme monitoring and reporting The capital programme outturn has followed a similar pattern in recent years; brought forward spend through prior year slippage, then increasing slippage in the programme through the year resulting in significant underspends at year end. There is scope to improve the monitoring and reporting around the capital programme.	Management should ensure the capital programme is reviewed in conjunction with the related monitoring and reporting arrangements to support more accurate measurements and forecasting, which in turn facilitates delivery of the programme through identification and resolution of risks and issues. <div style="text-align: right;"><i>Grade 2</i></div>	As noted in a report to the August Executive, discussions have taken place with Internal Audit and the 2018/19 Audit Plan includes a review of the General Fund Capital Programme. This work is currently underway and is focused on reviewing mechanisms for recording, reporting and monitoring expenditure relating to the General Capital Fund Programme, including arrangements for dealing with slippage. The main findings of this review will be reported to members in due course. Responsible officer: Capital Manager Timeframe: 31 December 2018	The Capital Programmes Update 2018/19 report that went to the November 2018 Executive detailed the findings and recommendations of the Internal Audit Review. The recommendations require that the CPRWG Terms of Reference be amended and that the Capital Bid Sheets for next round of Capital Programme 2020/21 – 2024/25 be amended. In addition to the CPRWG Terms of Reference being amended, the “Guide to Capital Expenditure” prepared and issued by Finance will also be amended. A draft of the amended documents was discussed at CPRWG on 20 February. These discussions have led to some other amendments being required. The amended CPRWG Terms of Reference and Guide to Capital Expenditure will be agreed and finalised in March and although not formally approved by CPRWG until May, the operational changes will be in place by 1 April 2019. The amended Bid Sheets will be distributed to Services in April when the Bid Packs are issued for the next round of the Capital Programme

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5. Governance and transparency – internal audit improvement actions Actions are planned over improvements to be made to internal audit planning and reporting arrangements, but implementation remains outstanding at the time of reporting. As part of these arrangements there is scope to ensure the Audit Committee is better sighted on the status of implementation of recommendations.	Management should ensure the Audit Committee is better sighted on the status of implementation of recommendations in respect of audit and other scrutiny activity to facilitate more effective scrutiny and challenge. <div style="text-align: right;"><i>Grade 2</i></div>	<p>The 2018/19 Internal Audit Plan agreed by Audit Committee in April 2018 linked planned assignments to the relevant corporate risks as per the Corporate Risk Register. It prioritised assignments by categorising as Annually Recurring Assignments, Committed Assignments (for first six months of the year), and Indicative Assignments (for second 6 months of the year).</p> <p>Internal Audit KPI's have been reviewed and proposed; revised indicators are set out in the Internal Audit Progress paper to 27 September Audit Committee.</p> <p>On grading of recommendations, we have canvassed the SLACIAG peer group and will consider the outputs of that exercise in devising any grading of our recommendations.</p> <p>In relation to Audit Committee being fully sighted on recommendations arising from audit and scrutiny activity, Internal Audit Recommendations form part (but not all) of this. We will commit to including IA Recommendation status twice yearly to Audit Committee (April and November meetings) – this will include recommendations outstanding beyond their agreed implementation date. This has been done in the past, but accepts that there is a need to be timetabled regularly.</p> <p>Responsible Officer: Internal Audit Manager Timeframe: November 2018</p>	<p>Revised suite of Key Performance Indicators agreed at 27 September 2018 meeting of Audit Committee.</p> <p>Process for grading recommendations agreed at 19 November 2018 meeting of Audit Committee. Definitions are consistent with those used by External Audit. All Falkirk Council recommendations now graded on this basis.</p> <p>Internal Audit recommendations that remain outstanding beyond the agreed implementation date are now reported twice yearly to Audit Committee. This was done at the 19 November 2018 meeting of Audit Committee, and a further update will be included in the Internal Audit Progress Report to the 17 June 2019 meeting.</p>

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6. Governance and transparency – prior year audit recommendations Actions around previously identified areas for improvement around governance remain outstanding at the yearend.	Management should ensure the actions agreed previously around the Council's Audit Committee work plan and arrangements for Falkirk Community Stadium Limited governance are completed in a timely manner. Management should also ensure annual audit recommendations are subject to reporting to and scrutiny by the audit committee going forward. <i>Grade 2</i>	It is agreed that following approval of the Audit Committee's schedule and agenda for 2019 an underlying work plan will be prepared to supplement the core work plan that was set up with the Committee's terms of reference a number of years ago. A report on Falkirk Community Stadium's financial and governance arrangements will be provided to Members. Responsible Officer: Chief Governance Officer/Corporate Finance Manager Timeframe: December 2018	The work plan for 2019 was presented to the Audit Committee in November 2018. The arrangement where senior officers have been appointed to FCSL have been in place since the first company was formed in 2003. External Audit recommended that these governance arrangements should be reviewed due to potential conflicts of interest. It was planned to deal with this issue within an overall report considering the arrangements for the stadium. At last FSCL Board meeting in January, a paper outlining the options for managing the stadium going forward was requested. This has been drafted by the Stadium Manager for review and input by the Board.

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7. Value for money - Council of the Future monitoring and reporting arrangements In our view there are further enhancements that could be made to CoTF reporting arrangements to facilitate more effective transparency and scrutiny and to further support timely identification and action on risks around delivery of projects and the programme as a whole. We have outlined a number of possible areas for improvement below for management consideration and discussion going forward.	Management should review the reporting arrangements around Council of the Future with a view to supplementing existing reporting with the noted enhancements. <div>Grade 2</div>	A review of the Council of the Future reporting arrangement is underway. New arrangements will be reported to the Council of the Future Board and advised to the Executive. Responsible Officer: Head of Human Resources & Business Transformation Timeframe: December 2018	Briefings have taken place with project managers and project sponsors on the new reporting arrangements. Project Managers will report using the new arrangements for the first time at the start of February. The Board will receive updates based on the new reporting at its next meeting in March. The revised reporting arrangements will continue to be monitored to ensure they remain fit for purpose.

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8. Financial sustainability / Value for money – Delivery of Council of the Future and MTFP While there is alignment between the Council's financial planning arrangements and improvement plans, notably Council of the Future, the scope of savings required over the next five years continues to be significantly greater than the identified savings through CoTF over the same period. A significant amount of planning is underway to address savings requirements through to 2024. However, the implementation of these plans does not align with the pace required to address budget gaps. Our view is that the overall status of CoTF is one of being still in the early phases of implementation. Given the stage of progress of a number of these projects there is an inherently higher risk that these will not be delivered. The Council has recently been working to align future CoTF projects with the MTFP and corporate priorities, including the required savings for the next five years. This work is targeted for completion in March 2019 in conjunction the approval of the next evolution of the Council's MTFP. Management is confident the underlying project management and governance arrangements will facilitate an efficient and timely transition into delivery of new projects in 2019/20.	<p>It is important that the planned actions outlined by management in the remainder of 2018/19 are delivered to provide a comprehensive MTFP with identified savings across its five year period to cover budget gaps. Inherently linked to this process is the confirmation of the next tranche of CoTF projects with planned outputs, including financial savings, over the term of the MTFP and objectives aligned to the Council's priorities set out in its corporate plan.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Response: Work is on-going to ensure business plans are in place across the Council, which support the finalisation of the MTFP, to be presented to Members in May 2019. The COTF programme of change will be adjusted to accommodate such developments and to ensure a refreshed programme which covers the 5 year period of the MTFP.</p> <p>Responsible Officer: Head of Human Resources & Business Transformation Timeframe: March 2019.</p>	<p>This work is progressing with an update provided to Members as part of the Budget Report in February 2019. Final reports will be submitted to Members for sign off on the MTFP and refreshed change programme in the spring.</p>