

Falkirk Council

Annual Audit Plan 2012/13



Prepared for Members of Falkirk Council
February 2013

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.

Contents

Summary Plan	4
Summary of planned audit activity	4
Introduction	4
Our responsibilities	5
Our approach	5
Responsibility for the preparation of accounts	6
Format of accounts	6
Audit issues and risks	6
Materiality	7
Reporting arrangements	8
Quality control	9
Fees and resources	9
Independence and Objectivity	10
Appendix A - Summary assurance plan	11
Appendix B - Financial statements audit timetable	16
Appendix C - Audit team	17
Appendix D - Independence and Objectivity	18

Summary Plan

Summary of planned audit activity

Based on our analysis of the risks facing Falkirk Council (the council), our planned work in 2012/13 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of Falkirk Council as at 31 March 2013 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2012 Code of practice on local authority accounting in the United Kingdom (the Code)
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2013/14 to 2015/16
- provision of the annual report on the audit addressed to the members of the council and the Controller of Audit
- a review and assessment of the council's governance and performance arrangements in a number of key areas including the review of: internal controls; the adequacy of internal audit; statutory performance indicators; national study follow-up work; and ICT computer service reviews
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative (NFI) arrangements throughout 2012/13.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to the council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the council, and sets out the audit work that we propose to undertake in 2012/13.
2. In addition to this annual audit plan which focuses on those risks which may impact on the financial statements, we will issue, on behalf of the Local Area Network (LAN), an Assurance and Improvement Plan Update which will update the LAN's joint assessment of the strategic and performance risks facing the council and set out the planned scrutiny activity in the council for the period April 2013 to March 2016.

Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.

Our approach

5. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the council, and identification of the key audit risks and challenges in the local government sector generally.
6. We have considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2012/13 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for provision of accounts and working papers being agreed
 - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2012/13.
7. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the council. Overall, we concluded that the internal audit service operates in accordance with the 2006 CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.
8. For our financial statements audit work we plan to review the findings and place formal reliance on the work of internal audit in the following areas:
 - Trade receivables
 - Payroll
 - Integra - supplier management and payments
 - Corporate purchasing and contract monitoring

9. For our governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
 - Corporate risk management arrangements
 - National Fraud Initiative
 - SPI verification work
10. At the completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

11. It is the responsibility of the council and the chief finance officer, as proper officer, to prepare the financial statements in accordance with the Code. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of the council as at 31 March 2013 and its expenditure and income for the year then ended
 - reviewing the main components of the system of internal control, including the arrangements for internal audit and group entities. This should include consideration of issues identified as part of the audit process
 - preparing an explanatory foreword.

Format of accounts

12. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government and is required to prepare its accounts using common accounting principles and standard formats for summarisation.

Audit issues and risks

Summary assurance plan

13. This annual audit plan focuses on governance and other risks specific to the financial statements of the council. Our Assurance and Improvement Plan Update 2013-16 also provides an analysis of wider risks and issues which relate to aspects of the council's performance against agreed outcomes and targets.

14. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified a range of risks for your organisation which require further consideration as part of our 2012/13 audit. In most cases, actions to manage these risks are either planned or underway within the council. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake are also set out in Appendix A. In the period prior to the submission of the unaudited financial statements we will liaise with senior officers on any new or emerging risks.

Performance audit

15. Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and the Accounts Commission. Recent studies of relevance have included:
- Health inequalities in Scotland (December 2012)
 - Reducing re-offending in Scotland (December 2012)
 - How Councils Work - Managing Performance: Are you getting it right?
 - How Councils Work - Using Cost Information to Improve Performance: Are you getting it right?
 - Protecting consumers (January 2013)
16. Future reports will include, Major capital investment in councils (March 2013) and An overview of local government in Scotland (March 2013).
17. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits, we will follow up a number of studies at a local level. In 2012/13, this will involve the completion of impact templates to describe how the council has considered relevant national reports and a targeted follow-up review of *Scotland's Public Finances: Addressing the challenges* (published in August 2011).
18. The council should consider all relevant issues identified in national studies and take appropriate action as required.

Materiality

19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control).

Reporting arrangements

21. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is important that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned committee dates and audit resources.
22. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the chief executive, chief finance officer, relevant senior managers, internal audit and Audit Scotland's best value & scrutiny improvement group.
23. We will provide an independent auditor's report to the council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the council's management of key risks.
24. All annual reports produced by Audit Scotland are published on our website (www.audit-scotland.gov.uk).
25. The full range of outputs to be delivered by the audit team are summarised in Exhibit 1.

Exhibit 1: 2012/13 Planned Outputs

Planned outputs	Target delivery date
Governance	
Assurance and Improvement Plan update (jointly prepared with other local government scrutiny bodies)	30 April 2013
Review of Adequacy of Internal Audit	28 February 2013
Internal controls management letter	31 July 2013
Performance	
Scotland's Public Finances: Addressing the challenges - follow up report	31 August 2013
Financial Statements	
Report to Audit Committee in terms of ISA 260 (communication of audit matters to those charged with governance)	30 September 2013

Planned outputs	Target delivery date
Independent auditor's report on the financial statements	30 September 2013
Audit opinion on Whole of Government Accounts	5 October 2013
Annual report to members and the Controller of Audit	31 October 2013
Grants	
Audit opinions on Education Maintenance Allowance, Non Domestic Rates Income return, Criminal Justice Social Work Services and Housing Benefit & Council Tax Benefit subsidy.	As required

Quality control

26. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case Fiona Mitchell-Knight is responsible for ensuring that our work is carried out on time and to a high quality standard.
27. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

Fees and resources

28. In the context of the challenges faced by local authorities, the impact of national spending decisions, and changes made in Audit Scotland's own overall budget we have re-examined our audit fee in 2012/13.

Exhibit 2: Audit Fee

Description	Audit Fee 2011/12	Audit Fee 2012/13	% Change
Total audit fee	£333,973	£318,799	4.54%

29. Our agreed fee for the 2012/13 audit of the council is **£318,799**. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at audit committee meetings and other committees
 - access to advice and information on relevant audit issues
 - travel and subsistence costs.

- 30. In determining the agreed fee we have taken account of the risk exposure of the council, the management assurances in place and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 28 June 2013.
- 31. In 2011/12 Audit Scotland were successful in delivering all of our work for less than the budgeted costs, largely as a result of our cost reduction plans continuing to be achieved faster than planned. As a result, you will receive a one off rebate equivalent to around 6% of the 2011/12 indicative fees. This is in addition to the on going reduction noted above.
- 32. We reserve the right to charge an additional fee for further audit work in such instances as late receipt of the draft financial statements, the lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. An additional fee may be required if our audit cannot proceed as planned.
- 33. Fiona Mitchell-Knight, Assistant Director, Audit Services, is your appointed auditor. The local audit team will be led by Jim Rundell who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience of our team are provided at Appendix C. The core audit team will call on other specialist and support staff as necessary.

Independence and Objectivity

- 34. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team. We comply with ethical standards issued by the Financial Reporting Council and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix D.

Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of the council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of Assurance	Planned audit action
Financial management and sustainability		
<p>The council continues to face pressure on its budget. This comes at a time of increasing pressures on demand-led services as well as a number of planned national reforms which are likely to have an impact on the council's future financial planning. The council's financial position as at 31 March 2012 was less favourable than anticipated. In addition, the council committed to using an element of the uncommitted general fund to balance the 12/13 budget. This approach is not sustainable in the long term.</p> <p><i>There is a risk that the council will be unable to achieve the necessary savings without compromising service delivery.</i></p>	<ul style="list-style-type: none"> • A corporate working group has been established to develop a medium term financial strategy • The council has prepared indicative budgets for the years 2014/15 to 2016/17 to aid forward planning by identifying medium-term spending pressures and funding constraints • The council refreshed the public consultation exercise on service standards and customer priorities in March 2012 and the outcome from that exercise and the revised corporate plan supported the 2013/14 budget setting process. 	<ul style="list-style-type: none"> • Review the council's budget monitoring reports to the policy and resources committee • Carry out a targeted follow-up review of Audit Scotland's national performance report Scotland's Public Finances: Addressing the challenges.

Risk	Source of Assurance	Planned audit action
Equal pay claims		
<p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p><i>There is a risk that the ultimate cost to the council is greater than anticipated.</i></p>	<ul style="list-style-type: none"> • The council set aside a provision of £5.216m in 11/12 to deal with equal pay claims. This sum was based on the best evidence available at the time • The council has a level of reserves which can be used to further increase the provision, if so required • The position will be subject to review in 2012/13 and the adequacy of the provision assessed accordingly. 	<ul style="list-style-type: none"> • Monitor developments throughout the year and review the equal pay provision as part of the 2012/13 financial statements audit.
Workforce reductions		
<p>The council continues to offer voluntary severance as a means of realising workforce savings, although the number of accepted applications has declined under the existing criteria.</p> <p><i>There is a risk that the council cannot continue to finance the up front costs of severance packages from within existing budgets and services could be adversely affected by the loss of staff.</i></p>	<ul style="list-style-type: none"> • The council holds reserves which are available to be applied to severance on a spend to save basis • Council services have regard to service delivery impact in assessing severance applications. 	<ul style="list-style-type: none"> • Review a sample of exit packages as part of the financial statements audit.
Welfare reform		
<p>The changes resulting from the implementation of the Welfare Reform Act 2012</p>	<ul style="list-style-type: none"> • The council has run briefing sessions for community organisations 	<ul style="list-style-type: none"> • Audit Scotland will carry out a data collection exercise across Scottish

Risk	Source of Assurance	Planned audit action
<p>are likely to be significant both in terms of the impact on the council and on benefit claimants.</p> <p><i>There is a risk that the council fails to meet the challenges of supporting the delivery of the reform.</i></p>	<ul style="list-style-type: none"> • Work is on going to identify the impact on services and communities • A group of officers has been established to determine how the council will deliver and manage the changes. The group is developing options and models for service delivery for presentation to members. 	<ul style="list-style-type: none"> • councils to identify the action being taken to prepare for welfare reforms. The findings will be used to inform the Accounts Commission and provide feedback to councils • Monitor preparedness through review of committee papers and discussion with officers.
Performance management		
<p>Some performance targets are being exceeded by a wide margin. In addition, some performance targets are being met but weakening trends in performance are not being identified and addressed.</p> <p><i>There is a risk that the council's performance management arrangements may not adequately manage poor performance and fail to deliver continuous improvement.</i></p>	<ul style="list-style-type: none"> • Review the self-assessment programme and the improvement planning process to ensure assessments focus on priority areas and achieve improvements • Review performance indicators to support the revised Single Outcome Agreement (SOA) and take account of the SOLACE benchmarking exercise • Review performance targets to ensure that they promote continuous improvement • Deliver training at manager level that focuses on the importance of a performance management culture • Purchase a site license for Covalent to make performance management information more readily 	<ul style="list-style-type: none"> • Meet regularly with the head of policy, improvement and technology to monitor progress against specified actions.

Risk	Source of Assurance	Planned audit action
	<p>available.</p> <p>The target date for all of the above actions is April 2013.</p>	
Risk management		
<p>In January 2013 internal audit reported weaknesses in the council's corporate risk management arrangements. Risk management is a key element of corporate governance that should play a vital role in the decision making process.</p> <p><i>There is a risk that the council fails to identify and respond to risk.</i></p>	<ul style="list-style-type: none"> • The council has recognised the need to develop risk management arrangements and strengthen links with the financial and business planning process in the 2011/12 annual governance statement • Implement action plan agreed with internal audit to address the identified weaknesses. 	<ul style="list-style-type: none"> • Review and assess the council's progress against the internal audit action plan.
Internal audit recommendations		
<p>There are a significant number of outstanding recommendations from internal audit reviews. Management are not consistently taking action to address the identified weaknesses.</p> <p><i>There is a risk that the internal control system will be weakened if management do not take action in response to internal audit findings.</i></p>	<ul style="list-style-type: none"> • Responsible officers will update internal audit when recommendations are implemented and provide evidence to support the action taken • Internal audit will carry out further testing in select cases to verify that recommendations have been implemented • The internal audit manager will provide position statements to the audit committee twice a year so that outstanding recommendations can be monitored. 	<ul style="list-style-type: none"> • Monitor position statements to the audit committee.

Risk	Source of Assurance	Planned audit action
Depreciation of council dwellings		
<p>The council does not charge depreciation on its council dwellings on the grounds that any depreciation, which is based on the gap between the carrying value and residual value, would not be material.</p> <p><i>There is a risk that circumstances change and the depreciation becomes material.</i></p>	<ul style="list-style-type: none"> • The valuer agrees with the council's valuation basis • The valuer provides assurance on materiality of depreciation. 	<ul style="list-style-type: none"> • Review 2012/13 calculation of level of depreciation to determine whether it satisfies treatment as immaterial • Obtain representations from management on treatment of depreciation.

Appendix B - Financial statements audit timetable

Key stage	Date (by)
Testing and review of internal control systems and transactions	January-June 2013
Provision of closedown procedures to audit	31 March 2013
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2013
Planned committee approval of unaudited financial statements	TBC*
Latest submission of unaudited financial statements with working papers package	30 June 2013
Progress meetings with lead officers in emerging issues	As required
Latest date for final clearance meeting with chief finance officer	13 September 2013
Agreement of unsigned financial statements for audit committee agenda, and issue of report to the audit committee on the audit of financial statements (ISA 260)	TBC*
Audit Committee date	TBC*
Independent Auditor's Report signed	30 September 2013
Latest date for submission of unaudited Whole of Government Accounts (WGA) return for external audit	31 August 2013
Latest date for signing WGA return	5 October 2013
Certified accounts and annual report presented to the council	TBC*

* A special meeting of the council will be convened in late March 2013 to determine the committee timetable.

Appendix C - Audit team

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

Fiona Mitchell-Knight BA (Hons) FCA

Assistant Director of Audit Services (certifying auditor)

Fiona took up post as Assistant Director of Audit in August 2007, following 6 years as the Senior Audit Manager for a number of local authority clients including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has 19 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sector.

Jim Rundell MA(Hons) CPFA

Senior Audit Manager

Jim has 28 years public sector audit experience mostly in the local government and health sector. He was seconded to Audit Scotland's Audit Strategy Group (2002 to 2004) where he was responsible for quality appraisal. His more recent audits have included City of Edinburgh Council, NHS Greater Glasgow and Clyde and Lothian Pension Fund.

Lisa Proctor BA (Hons) CPFA

Senior Auditor

Lisa joined Audit Scotland in 2008 after graduating from the University of Glasgow in economics. Lisa has over 4 years experience in public sector audit covering local government, central government and health.

Mark Laird BAcc (Hons)

Professional Trainee

Mark is an accountancy graduate from Stirling University with a 1st class Honours degree. He has 3 years of experience in public sector audit and is currently studying at the final stage of the CIPFA qualification.

Gerry Collins

Auditor

Gerry has 19 years experience working as an auditor/accountant. He has spent the last 10 years working in external and internal audit within the public sector, in both health and local government.

Neil Robb

ICT Senior Auditor

Neil has 18 years experience of public sector audit with Audit Scotland, covering local government, health and the central government sectors. Prior to this, Neil spent 19 years in various IT management, security and operational roles in financial services.

Appendix D - Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Financial Reporting Council (FRC). The main requirements of the Code of Audit Practice, standing guidance for auditors, and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication with those charged with governance) requires that the appointed auditor communicates:

- A statement that the engagement team, and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the FRC's Ethical Standards for auditors.
- All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor.
- The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines 'those charged with governance' as "the person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process." In your case, the appropriate addressees of communications from the auditor to those charged with governance are the s95 officer and the Finance and Audit Scrutiny Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice requires appointed auditors to carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.