

**FALKIRK COUNCIL**

**Subject: CORPORATE GOVERNANCE ARRANGEMENTS – KEY FINANCIAL  
SYSTEMS CONTROLS**  
**Meeting: AUDIT COMMITTEE**  
**Date: 24 September 2012**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 I attach a report from the Council's Auditor following his 2011/12 review of the Systems of Internal Control.

**2. FINDINGS**

- 2.1 The External Auditor has commented that high level controls were operating satisfactorily in overall terms. However, there is some scope for improvement and the report includes an Action Plan which contains 17 points for action which are being followed-up by senior management.

**3. RECOMMENDATION**

- 3.1 Members are invited to note the External Auditor's report and the proposed management actions.

**Chief Finance Officer**

**Date: 23 August 2012**

**Contact Officer: John Flannigan**

**LIST OF BACKGROUND PAPERS**

NIL

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Mrs Mary Pitcaithly, OBE  
Chief Executive  
Falkirk Council  
Municipal Buildings  
West Bridge Street  
Falkirk  
FK1 5RS

30 July 2012

Dear Mary

**Falkirk Council 2011/12 Audit:  
Corporate Governance Arrangements - Systems of Internal Control**

Audit Scotland's Code of Audit Practice (the code) sets out the basic principles that govern all audit work and compliance with the code ensures that audits are conducted in accordance with legislative requirements and International Standards on Auditing.

The code requires the auditor to review and report on the main financial systems to contribute to an assessment of corporate governance arrangements. Our overall assessment of the main financial systems also forms part of the process of arriving at an appropriate audit opinion on the financial statements.

As part of our 2011/12 audit, we have identified the following key financial systems:

- Financial Ledger
- Budgetary Control
- Payroll
- Accounts Receivable
- Council Tax Billing and Collection
- Housing Rents
- Capital Accounting
- Treasury Management
- Accounts Payable
- Cash and Cash Equivalents
- Non Domestic Rates Billing and Collection

Our audit consisted of high level reviews of the systems with our work focused on identification and testing of key 'high level' controls within the system.

**Audit Findings**

Overall, we found that high level financial system controls were operating satisfactorily. However, we identified some areas where there is scope for improvement to the systems of control.

### **Procurement Cards**

In response to a request from Audit Scotland we have also undertaken a review of the council's arrangements for the use of procurement cards. Our review has concluded that these arrangements are satisfactory. However, we have identified one area where improvement could be made and this is included in the action plan.

### **Management Action**

The areas we identified where further improvement could be achieved are included in the action plan that follows this summary.

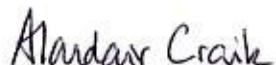
This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.

Although we have identified a number of areas for improvements to the systems of internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.

Communication of issues and weaknesses arising from this audit does not absolve management from its responsibility for addressing the issues raised and for maintenance of an adequate system of internal control.

We would like to thank your staff for their co-operation and assistance during our review.

Yours sincerely



**Alasdair Craik**  
**Senior Audit Manager**

By email: S Ritchie, Director of Corporate & Neighbourhood Services  
B Smail, Chief Finance Officer  
J Flannigan, Depute Chief Finance Officer  
G O'Connor, Internal Audit Manager  
Sharon Middlemass, BVSI Group, Audit Scotland

**Falkirk Council 2011/12 – Systems of Internal Control**  
**Corporation Governance Arrangements – Systems of Internal Control**

## Action Plan

### Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
<b>General Ledger</b>			
1.	<p>Our review identified issues in relation to access to the Integra ledger system:</p> <p>There are no formal processes for:</p> <ul style="list-style-type: none"> <li>• user departments to advise the system administrators of leavers to enable their access rights to Integra to be disabled timeously</li> <li>• reviewing access rights of employees to Integra. Such reviews are carried out on an infrequent basis.</li> </ul> <p><b><i>Risk: individuals may be able to gain unauthorised access to the system or to perform tasks for which they do not have authorisation.</i></b></p>	<p>Monthly reports are received from Payroll detailing leavers that month. These are checked against the Integra user records and leavers deleted.</p> <p>On a quarterly basis reports are produced to ensure no user has both data entry and authoriser access for purchase ledger and purchase ordering to minimise potential fraud.</p> <p>On an annual basis details of current users are sent to Services together with a note of who hasn't logged on for at least 3 months. Services are requested to review the list and advise of any user id's to be deactivated. The review for 2012 has been delayed due to staff secondment and will be undertaken by September 2012.</p>	H MacArthur Accountancy Services Manager – Ongoing / September 2012
<b>Capital Accounting</b>			
2.	<p>Procedural guidance notes are in place for various aspects of the capital accounting process to ensure that appropriate procedures are followed. We note, however, that there are no instructions in relation to recording transactions on the Fixed Asset Register.</p>	<p>User manuals for the Logotech fixed asset register are in place and are referred to regularly. However, it is agreed that more comprehensive procedures should be available. These will be drafted as time permits.</p>	Capital Manager First draft by 31 December 2012

## Action Plan

### Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
	<b><i>Risk: the absence of guidance notes may result in errors being made when staff update the Fixed Asset Register.</i></b>		
<b>Treasury Management</b>			
3.	<p>Daily dealing sheets are prepared to identify the Council's daily borrowing requirements, based on available cash balances. The sheets provide for the required borrowing level to be authorised by a senior manager. From a sample of 30 daily dealing sheets checked, we noted that:</p> <ul style="list-style-type: none"> <li>• 17 had not been authorised by a senior manager</li> <li>• 1 was authorised by an accountancy assistant.</li> </ul> <p><b><i>Risk: without proper review borrowing requirements may be inappropriately set.</i></b></p>	<p>Risk not accepted. Our Treasury Management Practices give authority to accounting assistants and treasury assistants to enter into borrowing and investment decisions subject to a number of restrictions. This is essential in ensuring efficient and timeous cash management. Decisions taken are noted in the daily dealing sheets which are then typed. The typed versions are ultimately counter-signed by the Chief Finance Officer as part of a review of all transactions undertaken. No change to current practice is intended.</p>	No action
<b>Payroll</b>			
4.	<p>Monthly payroll reports are sent to departments for checking and verification of employee details. Services have been instructed to notify the Payroll section of the outcome of these checks to provide assurance that payroll processing is accurate. At the time of our review several services had not notified payroll staff of their outcome for a number of months. (This risk was</p>	<p>Service Directors are requested to confirm by e-mail that they have reviewed the report and investigated any anomalies. Payroll monitor and record these confirmations and issue e-mail follow ups where confirmations are not received. It is noted that the follow up procedures were not operated fully during the maternity leave of</p>	<p>Payroll Manager / Payroll Officer (Systems &amp; Control) - 31 August 2012</p>

## Action Plan

### Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
	also highlighted in 2010/11.) <b><i>Risk: there is a risk that erroneous or fraudulent payments could be made to employees.</i></b>	the Payroll Officer (Systems & Control) in 2011/12. These procedures have now been re-introduced.	
5.	During our 2010/11 audit we identified that Payroll staff did not hold up to date authorised signatory lists for some Services. We were advised that the Payroll section was introducing a new system for authorised signatories, to be in place by the end of January 2012. However we now understand that it is now anticipated that this work will not be completed until the end of October 2012. <b><i>Risk: in the absence of proper authorisation, erroneous or fraudulent payments could be made.</i></b>	Introduction of the new Authorisation procedures was delayed due to the maternity leave of the Payroll Officer (Systems & Control). Work has re-commenced on this and it is expected that the new procedures will be operational by 1 October 2012 as referred to in the report.	Payroll Manager / Payroll Officer (Systems & Control) - 1 October 2012
6.	Payroll exception reports are produced to identify a variety of events for internal control purposes. It is important that these reports are reviewed and corrective action taken where necessary. We noted that the exception reports selected in our sample had not been signed or dated to evidence who had actioned the exception and it is not therefore possible to confirm that a review has taken place and corrective action applied.	Payroll staff involved in the checking of exceptions will be reminded of the need to evidence that the checking procedure has been completed by initialling the pages they have checked.	Payroll Manager / Payroll Officer (Operation) - 1 August 2012

## Action Plan

### Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
	<b><i>Risk: payroll errors may go uncorrected.</i></b>		
<b>Accounts Payable</b>			
7.	<p>High value payments originating in Finance Services are not separately authorised by a senior Finance manager.</p> <p><b><i>Risk: there is a risk that erroneous or fraudulent payments could be made.</i></b></p>	<p>There are only five Finance Managers with high value authorisation limit of £100,000 for payments originating in the Section. It is not considered feasible to have the CFO and Depute CFO counter signing these payments. If the payment is to a one-off supplier the Managers will get another signature on the payment voucher although if payment is to a regular supplier it will be authorised electronically in Integra. Pension and Payroll payments are initially processed by a different person from the authoriser.</p> <p>During the processing of the payment runs reports are produced detailing any payment for £100,000 or above and the Senior Officer authorising the run must approve this list.</p>	H MacArthur Accountancy Services Manager – Ongoing
8.	<p>During our sample testing of invoices, we identified one instance of an invoice not being appropriately authorised</p> <p>During our sample testing, we identified one instance of a purchase order not being authorised.</p>	<p>A major review of Authorisation levels is due to be completed this month and details will be forwarded to Services with a reminder that all invoices and orders should be authorised by appropriate staff and in line with</p>	H MacArthur Accountancy Services Manager – August 2012

## Action Plan

### Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
	<b><i>Risk: there is a risk that erroneous or fraudulent payments could be made.</i></b>	Council's Financial Regulations.	
9.	<p>During our sample testing of invoices relating to purchases for domestic equipment vulnerable young adults by Social Services, it was identified that when a purchase order is raised, prices for individual items are not always shown and the supplier does not always provide a GRN to support what has been delivered.</p> <p><b><i>Risk: the council is unable to confirm that it has received the goods ordered or that it has paid the correct price.</i></b></p>	During the last few months Senior Managers in all Services have been attending "refresher" training on issue of orders and contracts, compliance with financial regulations etc. Details of this particular instance to be obtained and followed up with the Social Work Services	H MacArthur Accountancy Services Manager/ Service Accountant– August 2012
<b>Trade Receivables</b>			
10.	<p>As part of our audit testing we reviewed a sample of amendments to customer standing data. From our sample of 30 amendments reviewed, 2 had no details of the source of the amendment. We are advised that there are instances when customers advise of amendments by telephone, however staff do not request customers to follow up in writing.</p> <p><b><i>Risk: fraudulent amendments may be made to customer details.</i></b></p>	<p>Risk Not Accepted</p> <p>To facilitate accurate and timeous billing and recovery, and to avoid correspondence being issued to incorrect addresses it is essential that the capacity to amend records based on telephone calls is retained.</p> <p>It will be last resort but there are circumstances because of reluctance, or capacity, of customer that verbal advice will be acted upon. In the majority of cases, and certainly where appropriate, confirmation of this is sought in writing.</p>	Paul Ferguson Revenues Manager No Action



## Action Plan

### Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
<b>Council Tax</b>			
11..	<p>During our review, we identified that there were delays in the sample checking of data input by management.</p> <p><b><i>Risk: errors in data input may not be identified timeously.</i></b></p>	<p>Risk Accepted:</p> <p>Process of migrating to real time sample checking via document management system has been slower than planned and as a result we suffered delays in sample checking.</p> <p>This will be issued monthly until real-time system can be implemented.</p>	<p>Paul Ferguson Revenues Manager</p> <p>Immediate</p>
<b>Non-Domestic Rates</b>			
12.	<p>Management checks are undertaken to sample check non-domestic rate outputs to ensure the appropriateness of processing. At the time of our review, there had been delays in completing these sample checks.</p> <p><b><i>Risk: erroneous input may not be identified and corrected.</i></b></p>	<p>Risk Accepted:</p> <p>Process of migrating to real time sample checking via document management system has been slower than planned and as a result we suffered delays in sample checking.</p> <p>This will be issued monthly until real-time system can be implemented.</p>	<p>Paul Ferguson Revenues Manager</p> <p>Immediate</p>
13.	<p>Although officers have recognised the comparison of the number of bills produced at annual billing with the number of properties on the assessment roll, as a key control, there is no formal reconciliation process in place.</p> <p><b><i>Risk: there is a risk of inaccuracies in billing.</i></b></p>	<p>Risk Accepted</p> <p>Formal process now in place to record this. Implemented following feedback on 2010/11 accounts but too late for 2011/12 annual billing.</p>	<p>Paul Ferguson Revenues Manager</p> <p>In Place</p>

## Action Plan

### Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
14.	<p>Discounts are given to business properties that are unoccupied. We note, however that there is no formal timetable for empty property visits to verify that properties remain unoccupied.</p> <p><b><i>Risk: non domestic rate income may be lost if the council fails to identify when properties are re-occupied.</i></b></p>	<p>Risk Accepted</p> <p>This process to is be reviewed during 2012/13 in line with new legislation expected for 2013/14 where discount will reduce to 10% from existing 50%.</p> <p>We do currently ensure that ratepayers re-apply annually (by cancelling relief at end of each financial year) and provide supporting evidence. If there is no supporting evidence, or any doubt about application targeted visits are undertaken before applying award.</p>	<p>Paul Ferguson Revenues Manager</p> <p>To be reviewed during 2012/13 in line with legislation.</p>
15.	<p>A formal reconciliation between the Assessor's records and NDR system should be undertaken 6 monthly, i.e. September and the year end. We identified that this reconciliation had not been undertaken within the appropriate timeframe.</p> <p><b><i>Risk: the records on the NDR system may not agree to the Assessor's records.</i></b></p>	<p>Risk Accepted</p> <p>Reconciliation was undertaken six monthly but due to some technical issues one of these was not fully completed.</p> <p>Remedies have been put in place that facilitated the most recent reconciliation.</p>	<p>Paul Ferguson Revenues Manager</p> <p>In Place</p>
<b>Housing Rents</b>			
16.	<p>As part of our audit we reviewed the unidentified income suspense account. We identified that the majority of the account balance related to aged items. If these balances cannot be identified, they</p>	<p>Agreed. All aged unidentified income will be written off.</p>	<p>Revenues Senior Accountant</p> <p>July 2012</p>

## Action Plan

### Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
	<p>should be written off.</p> <p><b><i>Risk: the inclusion of old balances that cannot now be identified undermines the robustness of the reconciliation process.</i></b></p>		
<b>Procurement Cards</b>			
17.	<p>We are unaware of any formal process in place to review the use of procurement cards to confirm a service's continuing need for them.</p> <p>Risk: procurement cards may be unused within services but are not being removed, thereby increasing the risk of misuse.</p>	<p>A review of card usage will be undertaken on a 6 monthly basis. Card-holders will be contacted where cards have been identified as being unused in the preceding 6 month period. Card-holder responses will be logged and where appropriate action taken to discontinue the card. Cards unused for 12 months or more will be automatically discontinued and users asked to reapply.</p>	<p>David McGhee</p> <p>September 2012</p>

FALKIRK COUNCIL

**Subject:** INTERNAL AUDIT: ANNUAL ASSURANCE  
REPORT 2011/12  
**Meeting:** SPECIAL AUDIT COMMITTEE  
**Date:** 24 September 2012  
**Author:** INTERNAL AUDIT MANAGER

**1. INTRODUCTION**

- 1.1 The purpose of this paper is to report on 2011/12 Internal Audit work and to provide an overall assurance on the Council's arrangements for risk management, governance, and control based on that work.
- 1.2 Senior managers are responsible for establishing and maintaining robust and effective risk management, governance, and control arrangements. The CIPFA Code of Practice for Internal Audit in Local Government 2006 (the Code) requires the Internal Audit Manager to provide an Annual Assurance Report that includes:
- a statement on the overall adequacy of the Council's control environment, along with any qualifications to that opinion;
  - a summary of Internal Audit work undertaken during the year, including a comparison of work undertaken to work planned; and
  - comment on Internal Audit's compliance with the Code.
- 1.3 This report meets those requirements.

**2. OVERALL OPINION**

- 2.1 Internal Audit completed 22 main audits during 2011/12, exceeding our target of completing 85% of the agreed Internal Audit Plan. I am content, therefore, that the breadth and depth of coverage is sufficient to allow me to provide a balanced opinion on the overall adequacy of the Council's control environment.
- 2.2 As Members are aware, Internal Audit use a set of Assurance Categories to provide an opinion on the adequacy of arrangements for risk management, governance, and control. A summary of these is set out at **Appendix 1** (note that these have been re-worded to aid clarity).
- 2.3 On this basis, Internal Audit can provide **SUBSTANTIAL** assurance on the Council's overall framework of controls for the year to 31 March 2012.

### 3. OPERATIONAL ACTIVITY DURING 2011/12

- 3.1 Internal Audit's Annual Plan for 2011/12 consisted of 22 main audit reviews, with two audits deferred and two audits added over the course of the year.

Audits	Number
Planned Audits	22
<b>PLUS</b> Audits Added to Plan	2
<b>LESS</b> Audits Not Completed	2
<b>TOTAL AGREED AUDITS</b>	<b>22</b>

- 3.2 Details of all Internal Audit Activity undertaken during 2011/12 are set out at **Appendix 2**, with a summary of the scope of, and findings arising from, each review set out at **Appendix 3**.
- 3.3 In the majority of cases, Internal Audit were able to provide Comprehensive or Substantial Assurance. There were, however, areas where we were able to provide only Limited (or split) Assurance, namely:
- Payment Card Industry Data Security Standards;
  - Corporate Data Security and Transfer;
  - Commissioning and Monitoring of Major School Improvement Projects;
  - Severance Arrangements; and
  - Integrated Housing Management System – Project Management.
- 3.4 It is re-assuring to note that, in each of these areas, management have accepted Internal Audit's recommendations and are working towards their implementation. In line with our revised follow-up approach, details of all outstanding Internal Audit recommendations will, in future, be reported to Audit Committee Members. This will allow Members to better monitor the implementation of recommendations particularly in areas, like those above, where we have provided Limited Assurance.
- 3.5 As Members are aware, the recent rotation of External Audit appointments by the Accounts Commission has meant that a new team of External Auditors is in place (albeit this remains an Audit Scotland team). It is in both Internal and External Audit's interest to work closely, and to ensure that coverage is complimentary. Already, the good relationship between Internal and External Audit has borne fruit through, for example, Internal Audit's follow-up work on External Audit's 'Maintaining Scotland's Roads' report. The sharing of plans and outputs remains routine practice and regular discussion takes place on a formal and informal basis between the two teams.

3.6 Internal Audit is considered by Audit Scotland to be a key element of the Council's governance framework. Members should note that Audit Scotland have confirmed in their 2011/12 Annual Audit Plan that they will place formal reliance on work undertaken by Internal Audit in the following areas:

- Severance Arrangements;
- Continuous Auditing;
- Carrongrange School and One Stop Shop Administrative Procedures and Cash Counts;
- Corporate Data Security and Transfer;
- Integra System Management and Security;
- Procon System Management and Security;
- Payment Card Industry Data Security standards; and
- Statutory Performance Indicators.

3.7 Members will be aware that Internal Audit measures its performance against a set of five Key Performance Indicators (KPI). Performance against each of these for 2011/12 (along with previous year comparator figures) is set out in the table below:

Key Performance Indicator	2011/12 Performance	2010/11 Performance	2009/10 Performance
1. Complete <b>85%</b> of agreed audits.	<b>100%</b>	100%	100%
2. Have <b>90%</b> of audit recommendations accepted.	<b>99%</b>	100%	100%
3. Spend <b>75%</b> of time on direct audit work.	<b>77%</b>	78%	76%
4. Issue <b>75%</b> of draft reports within 3 weeks of completion of fieldwork.	<b>82%</b>	88%	87%
5. Complete (to issue of final report) <b>75%</b> of main audits within budget.	<b>82%</b>	88%	74%

3.8 Internal Audit has again exceeded each of our 5 KPIs, although significant additional ad hoc work on purchasing undertaken as a matter of priority over the winter months has led to a slight drop in outcome against Indicators 4 and 5. Despite this additional work, I am pleased that our approach allowed us to be flexible while maintaining progress with completing planned work.

#### **4. INTERNAL AUDIT COMPLIANCE WITH CIPFA CODE**

- 4.1 All Local Authority Internal Audit Sections are required to operate in accordance with the CIPFA Code, which formalises standards to be achieved in relation to independence, staffing and training, audit strategy and planning, reporting and performance, and quality and effectiveness.
- 4.2 As part of their external audit work, Audit Scotland annually review Internal Audit's compliance with the CIPFA Code and, for 2011/12, Audit Scotland have again concluded that Internal Audit operates in accordance with the Code.
- 4.3 In addition, as part of joint working arrangements, an independent assessment of Internal Audit's compliance with the Code was undertaken by West Lothian Council's Audit and Risk Manager. In his report, the Audit and Risk Manager concluded that there was a high level of compliance.

#### **5. RECOMMENDATIONS**

##### **5.1 Members are invited to note that:**

- 5.1.1 sufficient Internal Audit activity was undertaken to allow a balanced assurance to be provided;
- 5.1.2 Internal Audit is able to provide SUBSTANTIAL assurance on Falkirk Council's arrangements for risk management, governance, and control for the year to 31 March 2012;
- 5.1.3 Audit Scotland will place formal reliance on the work of Internal Audit;
- 5.1.4 performance against Internal Audit Key Performance Indicators for the year to 31 March 2012 was as set out at paragraph 3.7;
- 5.1.5 Internal Audit operates in compliance with the CIPFA Code.

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**Internal Audit Manager**

**Date: 13 September 2012**

## DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

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



## SUMMARY OF 2011/12 INTERNAL AUDIT PROGRAMME

Planned 2011/12 Audits Completed During Year to 31 March 2012			
No.	Service/Status	Audit	Level of Assurance
1.	Development	Food Hygiene and Safety Inspection Arrangements	Comprehensive
2.	All Services	Payment Card Industry Data Security Standards	Limited
3.	Finance	Pension Fund – Governance Compliance Statement	Substantial
4.	Finance	Integra System Management and Security	Substantial
5.	All Services	Statutory Performance Indicators	Substantial
6.	All Services	Corporate Data Security and Transfer	Limited
7.	Corporate and Neighbourhood	IT Contract Management	Substantial
8.	Education	Carrongrange School (Administrative Procedures and Cash Count)	Substantial
9.	Social Work	Non-Residential Social Care Services Charging Policy – Post Implementation Review	N/A
10.	Education / Development	Commissioning and Monitoring of Major School Improvement Projects	Limited
11.	Corporate and Neighbourhood	Procon Security and Management	Substantial
12.	Development	Roads Maintenance	Substantial
13.	All Services	Severance Arrangements	Substantial / Limited
14.	Corporate and Neighbourhood	Integrated Housing Management System – Project Management	Limited
15.	West Lothian Council	Peer Review of Falkirk Council Internal Audit Section	Substantial
16.	West Lothian Council	Reciprocal Review – Workplace Transport, in conjunction with Falkirk Council Health, Safety, and Care Team	Substantial
17.	All Services	National Fraud Initiative	N/A
18.	All Services	Continuous Auditing: Duplicate Payments; Overtime and Travel Expenses; Roads Inspections; Car Park Income; Car Leases.	N/A
19.	Falkirk Community Trust	Service Level Agreements and Premises Visits	N/A <sup>1</sup>
20.	CSFRS	Property Maintenance and Business Continuity Management Arrangements	N/A <sup>2</sup>

<sup>1</sup> Reported separately to FCT Performance and Audit Sub-Group

<sup>2</sup> Reported separately to CSFRS Best Value and Scrutiny Committee

Additional 2011/12 Audits Completed During Year to 31 March 2012			
No.	Service/Status	Audit	Level of Assurance
21.	Finance	One Stop Shop Visits (Administrative Procedures and Cash Count)	N/A
22.	All Services	Validation of Performance Measures	Substantial

2011/12 Audits Deferred			
No.	Service/Status	Audit	Level of Assurance
23.	Development	Corporate Risk Management Arrangements <sup>3</sup>	N/A
24.	Development	Tax Incremental Finance Scheme <sup>3</sup>	N/A

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<sup>3</sup> Included in 2012/13 Internal Audit Plan.

## DETAILS OF 2011/12 INTERNAL AUDIT PROGRAMME

Planned 2011/12 Audits Completed During Year to 31 March 2012		
No.	Audit Area and Service	Assurance and Key Findings
1.	Food Hygiene and Safety Inspection Arrangements  Development	<p><b>Comprehensive Assurance</b> Covered roles, responsibilities, policies, guidance, and training; systems for planning and undertaking inspections; enforcement arrangements; and the adequacy of management information.</p> <p>Sound systems of control in place, with staff clear about their roles and responsibilities. Robust inspection programme established, and regular audits undertaken by the Food Standards Agency. Some scope for improving food sampling arrangements.</p>
2.	Payment Card Industry Data Security Standards  All Services	<p><b>Limited Assurance</b> Visited a sample of sites where card payments are received and processed to determine local compliance with the PCI DSS.</p> <p>In all areas visited there was scope for improving arrangements, particularly in relation to the receipts produced by point of sale terminals. The implementation of the Corporate Payments Strategy will ensure that no cardholder data is held by the Council (and, therefore, compliance with the PCI DSS).</p>
3.	Pension Fund – Governance Compliance Statement  Finance	<p><b>Substantial Assurance</b> Reviewed and validated the information set out in the Compliance Statement to confirm whether the reported status was accurate and appropriate.</p> <p>We concluded that the Statement had been prepared in line with the relevant Scottish Public Pensions Agency guidance.</p> <p>We did, however, make recommendations relating to the content and structure of the Governance Framework Document, in particular relating to the documentation of pension fund risks and the inclusion of details relating to the roles and responsibilities of Pension Fund stakeholders.</p>
4.	Integra System Management and Security  Finance	<p><b>Substantial Assurance</b> Covered security roles and responsibilities; systems documentation; physical and environmental controls; access management at operating system, database, and application levels; and business continuity.</p> <p>In general, we found controls to be sound, with clarity around roles and responsibilities and close working between the relevant Officers in Accountancy and ICT.</p> <p>We did, however identify areas for improvement, particularly around the need for a System Security Statement and Access Control Policy. There was also scope for improving elements of operational system security and business continuity planning.</p>

Planned 2011/12 Audits Completed During Year to 31 March 2012		
No.	Audit Area and Service	Assurance and Key Findings
5.	Statutory Performance Indicators  All Services	<b>Substantial Assurance</b> Reported on Internal Audit's role in collecting and validating SPI returns prepared by Services. For each of the SPIs falling within our remit, we found that the information gathered for publication was accurate and complete.
6.	Corporate Data Security and Transfer  All Services	<b>Limited Assurance</b> Covered roles and responsibilities; compliance with the Council's Information Security Policy; arrangements for documenting the type and volume of data held; and for the identification and documentation of internal and external data flows and transfers.  There was scope for improving information management arrangements.  The exercise to create Data Handling Registers has yet to be completed, and governance and accountability arrangements relating to responsibilities for overseeing corporate information security management require clarification. In addition, further consideration needs to be given to information sharing protocols for each separate data sharing instance (building on the existing Forth Valley ISP).
7.	IT Contract Management  Corporate and Neighbourhood	<b>Substantial Assurance</b> Covered roles and responsibilities; documented contract management arrangements; financial control and risk management; and contingency arrangements.  In general, sound systems of control were in place, with the need to properly and actively manage IT contracts well understood. There was scope for improving consistency in the management of corporate systems, for example by ensuring that a System Security Statement, Access Control Policy, and Contract Monitoring Form is in place for each. There was also scope for further improving license monitoring and business continuity planning arrangements.
8.	Administrative Procedures and Cash Count – Carrongrange School  Education	<b>Substantial Assurance</b> We reviewed cash and general administration arrangements at Carrongrange School and made a number of recommendations relating to local arrangements. In general, however, we found controls to be reasonable and proportionate.

Planned 2011/12 Audits Completed During Year to 31 March 2012		
No.	Audit Area and Service	Assurance and Key Findings
9.	Non-Residential Social Care Services Charging Policy – Post Implementation Review  Social Work	<p><b>N/A – Post-Implementation Review</b></p> <p>Reviewed controls established to manage the risks relating to the efficiency and effectiveness of the Policy. Focussed on plans, policies, roles, and responsibilities; communication and client interaction; financial controls; and management information.</p> <p>Roles and responsibilities were clear, with appropriate recourse to guidance when developing the Policy and extensive interaction with users during development and implementation.</p> <p>There was some scope for improving systems for the identification of service user charges, and for assessing service user affordability (initially and on an on-going basis). There was also scope for improving operational guidance for staff, and for better performance monitoring and management.</p>
10.	Commissioning and Monitoring of Major School Improvement Projects  Education / Development	<p><b>Limited Assurance</b></p> <p>Reviewed roles, responsibilities, and accountabilities within, and between, Education and Development Services; the planning, commissioning, and monitoring of work; budgetary and financial control; and management information.</p> <p>There were a number of areas where improvements in the framework of control were required. In particular, the Service Level Agreement required updating to better reflect respective roles and responsibilities, and there was scope for improving financial monitoring systems. In addition, there was some scope for better change control and post-project evaluation.</p>
11.	Procon Security and Management  Corporate and Neighbourhood	<p><b>Substantial Assurance</b></p> <p>Covered roles and responsibilities; systems documentation; physical and environmental controls; access management at operating system, database, and application levels; and business continuity.</p> <p>In general, robust controls were in place. There was, however, some scope for improving the existing security framework via preparation of a System Security Statement and Access Control Policy. Business continuity and user administration management could also be improved.</p>

Planned 2011/12 Audits Completed During Year to 31 March 2012		
No.	Audit Area and Service	Assurance and Key Findings
12.	Roads Maintenance  Development	<p><b>Substantial Assurance</b></p> <p>Reviewed arrangements for preparing and approving the Roads Asset Management Plan; identifying, prioritising, and undertaking work; monitoring progress and quality; and budgetary and financial controls. We also followed up recommendations made by Audit Scotland in their 2011 'Maintaining Scotland's Roads' report.</p> <p>In general, sound controls were in place. Staff were clear about their roles and responsibilities, with work underway to refine the electronically held road network asset records, including area, value, and condition. We found that progress had been made with implementing 'Maintaining Scotland's Roads' recommendations.</p> <p>There was scope for improving various administrative controls, including the process for preparing the annual maintenance programme. In addition, there remains a need to apply robust performance measures.</p>
13.	Severance Arrangements  All Services	<p><b>Substantial / Limited Assurance</b></p> <p>Covered policies, procedures, roles, and responsibilities within HR, Payroll, and Pensions sections; application, assessment, and approval arrangements; the accuracy and consistency of entitlement calculations; payment of entitlements; and management information.</p> <p>In general, we found the policy to be clear, with adequate segregation in place between the calculation and offer stages. The severance lump sum calculations tested had been properly checked, with offers properly authorised.</p> <p>There was, however, scope for Services to better record the operational and financial reasons for offering severance, and for better monitoring of actual savings realised.</p>
14.	Integrated Housing Management System – Project Management  Corporate and Neighbourhood	<p><b>Limited Assurance</b></p> <p>We reviewed high level project management arrangements, and concluded that there were significant weaknesses that could leave the project vulnerable to unacceptable levels of risk.</p> <p>Our recommendations are relevant to all future corporate ICT projects.</p> <p>These focussed on the need for a detailed business case, formal consideration of risk over the project lifecycle, and the production of project status reports. While a Project Board is in place, it has no formal terms of reference, minutes / action points are not formally recorded, and there was no evidence of the Board receiving updates on risks and issues, milestones and status, or spend against budget.</p>

Planned 2011/12 Audits Completed During Year to 31 March 2012		
No.	Audit Area and Service	Assurance and Key Findings
15.	Peer Review of Falkirk Council Internal Audit Section  (undertaken by West Lothian Council Audit and Risk Management Unit)  Finance	<p><b>Substantial Assurance</b></p> <p>West Lothian Council's Audit and Risk Manager undertook a review of Falkirk Council Internal Audit Section's compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The Code consists of eleven standards made up of a total of 192 requirements, covering areas such as independence; audit planning, fieldwork, and reporting; performance, quality, and effectiveness.</p> <p>The Audit and Risk Manager concluded that Falkirk Council Internal Audit Section demonstrate a high level of compliance with the Code.</p>
16.	Workplace Transport  (undertaken by West Lothian Council Audit and Risk Management Unit)  All Services	<p><b>Substantial Assurance</b></p> <p>Falkirk Council's Health, Safety, and Care Team worked jointly with West Lothian Council's Audit and Risk Management Unit. The review covered compliance with corporate policies and statutory requirements.</p> <p>Improved management procedures were in place, although there remained some variability across Services in areas such as gate checks, Premises / Depot Manager checks, and the issue of policies to staff.</p>
17.	National Fraud Initiative  All Services	<p><b>N/A</b></p> <p>The purpose of the NFI exercise is to review and investigate the outcomes of data matching undertaken by Audit Scotland on behalf of the Audit Commission. Matches cover areas such as Payroll, Pensions, Housing and Council Tax Benefit, and Creditors. Internal Audit are responsible for co-ordinating the process of ensuring that all relevant matches are followed-up.</p> <p>Good progress has been made with investigating matches, with positive outcomes and recovery (where appropriate) across Housing Benefit, Payroll, and Pensions matches.</p> <p>The Council will participate in the 2012/13 NFI exercise, with data to be submitted in October 2012 and matches available for investigation in January 2013.</p>

Planned 2011/12 Audits Completed During Year to 31 March 2012		
No.	Audit Area and Service	Assurance and Key Findings
18.	Continuous Auditing  All Services	<p><b>N/A – Ongoing Reporting and Assurance</b></p> <p>Work focussed on:</p> <ul style="list-style-type: none"> <li>• duplicate payments;</li> <li>• urgent and weekly payments;</li> <li>• car leases;</li> <li>• roads inspections;</li> <li>• overtime and travel expenses;</li> <li>• car park income.</li> </ul> <p>We identified a limited number of duplicate payments, with subsequent recovery action taken in every case. In addition, there remains a need to ensure the rigorous checking and authorisation of overtime and travel claims (by the authorising officer), with some evidence of erroneous payments.</p> <p>We were able to provide reasonable assurance that:</p> <ul style="list-style-type: none"> <li>• the Council's car lease scheme is being properly controlled and applied;</li> <li>• security and administrative arrangements around the collection of car park income are robust;</li> <li>• urgent / weekly payments are approved by an authorised signatory (in compliance with delegated limits), with payments matched to supporting documentation.</li> </ul> <p>There was some scope for improving the extent to which roads inspections are undertaken in line with the agreed schedule.</p>
19.	Service Level Agreements and Premises Visits  Falkirk Community Trust	As discussed and agreed with Trust management and presented to Performance and Audit Sub Group.
20.	Property Maintenance and Business Continuity Management Arrangements  Central Scotland Fire and Rescue Service	As discussed and agreed with CSFRS management and presented to CSFRS Best Value and Scrutiny Committee.



Additional 2011/12 Audits Completed During Year to 31 March 2012		
No	Audit Area and Service	Assurance and Key Findings
21.	Administrative Procedures and Cash Count – One Stop Shops  Finance	<p>We reviewed cash and general administration arrangements at Bo'ness, Bonnybridge, Callendar Square, Camelon, Denny, Grangemouth, and Stenhousemuir One Stop Shops, and the Dawson Centre Cash Office.</p> <p>While arrangements were generally sound, there was scope for improving controls across all One Stop Shops, particularly in relation to security and record keeping.</p>
22.	Validation of Service Performance Measures  All Services	<p><b>Substantial Assurance</b></p> <p>We reviewed a sample of performance information reported by Services to ensure this was consistent with source data. The sample included data reported via the Performance Zone of the Council's website and Service reports to Best Value Forum.</p> <p>Internal Audit were able to validate all performance information falling within our sample.</p>

**FALKIRK COUNCIL**

**Subject: ANNUAL GOVERNANCE STATEMENT 2011/12**  
**Meeting: SPECIAL AUDIT COMMITTEE**  
**Date: 24 September 2012**  
**Author: CHIEF EXECUTIVE**

**1. INTRODUCTION**

1.1 The purpose of this paper is to:

- advise Members of arrangements for reporting on the Council's governance framework for the year ended 31 March 2012; and
- to seek approval of a draft Annual Governance Statement for inclusion in the Council's 2011/12 Annual Accounts.

**2. GOVERNANCE ARRANGEMENTS AND GUIDANCE**

2.1 In 2007 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) jointly issued guidance entitled 'Delivering Good Governance in Local Government'. This defined the six principles that should underpin the governance of each local government body, namely:

- focussing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area;
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
- promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- developing the capacity and capability of Officers and Members to be effective; and
- engaging with local people and other stakeholders to ensure robust public accountability.

- 2.2 The guidance recommends that Authorities review their own arrangements and prepare an Annual Governance Statement (the Statement) to report on the adequacy of those arrangements. While it is not mandatory in Scotland, publication of a Statement is viewed as good practice and satisfies the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.
- 2.3 An Annual Governance Statement has been included in the Council's Annual Accounts since 2008/09 and I attach, at **Appendix 1**, a draft Statement for the year to 31 March 2012. The Statement is structured around the above six principles, and includes a separate section on the Council's system of internal financial control, as well as a number of areas for improvement over the coming year.
- 2.4 Following consideration by Committee, the Statement requires to be signed by the Leader of the Council and Chief Executive, and will be published with the Council's 2011/12 Annual Accounts.

### **3. RECOMMENDATIONS**

#### **3.1 Members are invited to:**

- 3.1.1 note the report on the Council's governance arrangements;
- 3.1.2 review and approve the draft Annual Governance Statement;  
and
- 3.1.3 note that the Annual Governance Statement will form part of the Council's 2011/12 Annual Accounts.

.....

**Chief Executive**

**Date: 13 September 2012**

## FALKIRK COUNCIL

### ANNUAL GOVERNANCE STATEMENT 2011/12

#### Introduction

1. Falkirk Council has a duty under the Local Government in Scotland Act 2003 to secure best value and ensure continuous improvement in the Services it delivers. The Council must ensure that public money is used economically, efficiently, and effectively, with due regard to the achievement of sustainability. To help ensure that these responsibilities are met, the Council must put in place robust governance arrangements, ensuring that these are properly applied.
2. Responsibility for ensuring good governance is shared by all Council employees and elected Members. To demonstrate Falkirk Council's commitment to ensuring good governance, this Annual Governance Statement (the Statement) has been prepared on the basis of the principles set out in the CIPFA / SOLACE Framework '*Delivering Good Governance in Local Government*'. It should be noted that any review of governance arrangements can provide reasonable (not absolute) assurance that policies, aims, and objectives are being applied and implemented as intended.
3. The CIPFA / SOLACE Framework defines governance as being the arrangements that ensure Authorities are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner. In practice, this comprises the systems, processes, cultures, and values by which the Council is directed and controlled, and through which it engages with the community.
4. Preparation of this Statement meets the requirements of Section 3.7 of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

#### Falkirk Council's Governance Framework

5. As well as the clear budgetary and expenditure pressures brought to bear by the global financial climate, 2011/12 has been a year of change and challenge for Falkirk Council with the finalisation of the senior management structure review, the formation of Falkirk Community Trust, preparation for Welfare Reform, and changes to the way in which Fire and Police services are to be delivered. In addition, the need to move towards a more partnership focussed approach to service delivery, as recommended in the report on the Future Delivery of Public Services by the Commission chaired by the late Dr Campbell Christie, requires that Falkirk, like all Councils, demonstrably focuses on clear, preventative approaches to delivering outcomes, priorities, and targets.
6. Against this backcloth of change and uncertainty, robust and transparent governance arrangements take on a heightened profile and priority. The following sections summarise the key elements of Falkirk Council's governance framework, set out within the context of the CIPFA / SOLACE Principles.

#### **Principle 1 - Focusing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area.**

7. The Council must communicate its vision, purpose, and intended outcomes for citizens and service users. It does this via its Corporate Plan and the wider Strategic Community Plan, which are underpinned by the well established Strategic Planning and Management Framework (SPMF). The SPMF is fundamental to ensuring that the Council undertakes its business in a focussed, efficient, and effective way.
8. Related to that, the need to ensure continued improvement and efficiency in the way the Authority delivers its services has prompted a review of the linkages between the Council's financial and business planning processes with a view to building a robust and reliable Medium Term Financial Strategy with clear reference to strategic service delivery aims and objectives.
9. Financial performance continues to be reported via Annual Report and Accounts, which were again prepared within the required timescales and are available on the Council's website ([www.falkirk.gov.uk](http://www.falkirk.gov.uk)). The website also includes a 'Performance Zone' bringing together the various outputs from the Council's public performance reporting systems, including statutory and non-statutory performance indicators.

**Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles.**

10. This principle focuses on ensuring effective leadership and on the clarity and consistency of roles and responsibilities.
11. The Council's Standing Orders are a key component of how the Council conducts its business at elected Member and Officer level. These comprise procedures for Committee meetings, a Scheme of Delegation to Committees and Officers, Contract Standing Orders, and Financial Regulations.
12. These documents are periodically reviewed to ensure that they remain current. For example, Contract Standing Orders and Financial Regulations have recently been reviewed, updated, and approved by Council, to reflect procurement legislation and best practice.
13. In February 2010 a revised Service Structure was agreed by Council. Since this was agreed, work has been ongoing to make appointments to Chief Officer posts and, over the course of 2011/12, this process has been completed. Work towards finalising the Council's middle management structure is also underway.

**Principle 3 - Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.**

14. The Council has a Code of Conduct for Members and Officers and all elected Members are expected to abide by the Standards Commission Scotland's Councillors' Code of Conduct. In addition, Protocols are in place setting out arrangements for governing Member / Officer Relations and Officer / Convener Relationships. Taken together, these help ensure that all Officers and Members demonstrate and maintain the appropriate levels of leadership and good governance.
15. The Council collects and processes significant volumes of information and data, and has an Information Security Policy (updated in May 2011) that sets the framework for ensuring the confidentiality, security, and integrity of information held. This is supported by Data Protection Guidelines, an Acceptable Use Policy, and guidance for Officers and Members on the risks associated with the use of Social Media. In addition, work is underway to establish Data Handling registers as an up to date record of data held and of all internal and external information and data transfers.
16. Arrangements are in place to document and record extra-mural employment, and registers of gifts and hospitality are maintained. The Council has a Confidential Reporting Policy and Procedure and an Anti-Fraud and Corruption Strategy. In addition, an Anti-Fraud and Prosecution Policy is in place within the Revenues and Benefits Division of Finance Services. These policies and guidance help foster a corporate culture of fraud awareness, prevention, and detection, and sit alongside the Authority's participation in wider anti-fraud programmes such as the National Fraud Initiative.

**Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.**

17. The Audit Committee is now well embedded, and is a key element of the Council's governance and accountability structures. Since March 2011 the Committee has been chaired by an external lay member and, in line with good practice, the Committee has held a formal roundtable discussion to consider its own effectiveness, role, and remit.
18. As well as inspection and scrutiny via Internal and External Audit, Council activities are subject to review from various other external agencies. For example, during 2011/12, reports have been received from the Scottish Housing Regulator on the effectiveness of housing service delivery, and from Social Care and Social Work Improvement Scotland on services to protect children and young people. Action to address matters arising from internal and external scrutiny and inspection is reported to, and considered by, Members on an ongoing basis, as part of the Council's continuous improvement agenda.
19. Efforts continue to be made to equip Officers and Members to make the right decisions in an efficient and considered way. For example, in relation to the procurement of goods and services, training has been delivered to all Services on their requirement to comply with Contract Standing Orders and Financial Regulations. Both documents have, themselves, also been reviewed and refreshed during 2011/12.

20. Related to that, self assessment assurance in areas such as gas safety and premises management, linking into the Council's Corporate Risk Management Group, supplements the internal and external scrutiny referred to above. There does, however, remain work to be done on fully embedding risk management and on linking this into the financial and business planning process. Work in relation to the development of a Medium Term Financial Strategy (see paragraph 8), offers the opportunity to do this, and the Audit Committee has a key role in scrutinising and reviewing risk management arrangements.

### **Principle 5 - Developing the capacity and capability of Officers and Members to be effective.**

21. To effectively fulfil their roles and responsibilities Officers and Members must have the appropriate knowledge and skill and be provided with the right support. This is particularly important in an election year, which has seen changes to the elected Member group and in Committee roles and remits.
22. A programme of elected Member induction training will be delivered following the election, and Members will continue to be encouraged to undertake Continuing Professional Development to ensure their skills remain commensurate with their role. As the Council moves through a period of change and budgetary pressure, with financial and investment (including infrastructure investment) arrangements taking on heightened complexity and priority, it is important that Officers and Members continue to be supported.
23. The Achievement and Professional Development scheme has been widely adopted. In addition, business areas are encouraged to work towards Investors in People standards and accreditation, to help ensure that the necessary staff development framework is in place across the organisation.
24. Falkirk Council has always been committed to developing and supporting Officers and Members, and continues to provide robust induction programmes for new staff and a corporate 'Learning Zone' for existing staff, as well as structured training programmes (in areas such as leadership and coaching) for those moving into management roles across the Council.

### **Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability.**

25. The Council adopts an open and inclusive approach to engaging with stakeholders. A revised and updated Community Participation Strategy was approved by the Leisure, Tourism, and Community Committee in April 2011, with a Community Participation database maintained as a record of all consultation and community engagement undertaken.
26. Agendas and minutes of all Council meetings are available on-line, with meetings held in public. The Council's website complies with relevant web accessibility guidelines, and allows users to interact and transact with the Council via the 'On-Line services' section.
27. The 'Citizens Panel' continues to play an important role in gathering information from stakeholders to help ensure that services are continuously improving and that they meet the needs of citizens. Recent panel activity has focussed on areas such as the Council's Waste Strategy, the Antonine Wall, Community Participation, and Roads and Footways.
28. A revised and updated Scheme of Decentralisation was approved by Council in June 2011. This sets out arrangements for localised decision making, and fits with the wider Community Participation Strategy (as per paragraph 25 above).

### **Monitoring and Review of Governance Arrangements**

29. Falkirk Council's governance arrangements are formally monitored via:
  - the Committee framework, including the Audit Committee;
  - Best Value Forum;
  - Corporate and Departmental Management Teams;
  - Internal and External Audit work; and
  - the work of Falkirk Council's Best Value 2 Local Area Network.
30. This monitoring is done within the context of the Delivering Good Governance guidance, the Council's Corporate Plan, Strategic Community Plan, agreed Single Outcome Agreement, and the fundamental statutory requirement to demonstrate and achieve best value.

## System of Internal Financial Control

31. This section of the Statement relates to the systems of internal financial control of Falkirk Council and of the consolidated entries in the Council's group accounts for the year to 31 March 2012.
32. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control. It should, however, be noted that the system of internal financial control can provide only reasonable (not absolute) assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or detected.
33. The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations, and associated guidance; proper delegation and accountability; comprehensive budgeting systems; clear financial targets; and robust management information.
34. The Council's Internal Audit Section provides an independent assessment of arrangements for risk management, governance, and control. The Section undertakes an annual programme of work approved by the Chief Executive, Chief Finance Officer, and Audit Committee. This work is planned taking account of the outcomes of the Council's risk management arrangements and Internal Audit's own assessment of risk.
35. The Council's appointed External Auditors have concluded that the Internal Audit Section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code), and formally place reliance on work undertaken by the Section. In addition, an independent assessment has been undertaken by West Lothian Council's Audit and Risk Manager, who confirmed the Section's compliance with the Code.
36. All Internal Audit reports are brought to the attention of management and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising are reported to the Council's Audit Committee.
37. The Audit Committee, which was set up on the basis of a decision by Council in June 2008, operates in accordance with relevant CIPFA guidance. The Committee is chaired by an external lay member, and has a remit to provide:
  - independent scrutiny on the adequacy of the risk management framework and associated control environment;
  - independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects risk exposure and weakens the control environment; and
  - assurance that any issues arising from the process of drawing up, auditing, and certifying the Authority's annual accounts are properly dealt with.
38. Part of the role of the Committee is to consider the Internal Audit Manager's Annual Assurance Report. This report provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance, and control, and is based on work undertaken during the year. In his 2011/12 Report the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2012.
39. The Chief Finance Officer is required to review the effectiveness of the Council's systems of internal financial control, taking account of the work of managers within the Council, the work of Internal Audit (as described above), and the work of External Audit. Based on consideration of this work, the Chief Finance Officer has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal financial control systems for the year to 31 March 2012.
40. In respect of other entities that fall within the Council's group boundary, the Chief Finance Officer's review of their internal control systems is informed by the:
  - Annual Governance Statement included within the Annual Accounts of Central Scotland Joint Fire and Rescue Board;
  - Statements on the System of Internal Financial Control included within the Annual Accounts of Central Scotland Joint Police Board and Central Scotland Valuation Joint Board; and
  - work of these bodies' respective External Auditors (and, where relevant, Internal Auditors) and other interim reports.

41. Based on consideration of the above, the Chief Finance Officer has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems (and, where available, governance arrangements) of other bodies falling within the Council's group boundary.
42. As part of the 2010/11 Annual Governance Statement, a commitment was made to undertake assessments of compliance with the principles set out in the 2010 CIPFA Statements on 'the Role of the Chief Financial Officer (CFO) in Local Government' and 'the Role of the Head of Internal Audit in Public Service Organisations'. Assessments against these Statements have now been undertaken, confirming broad compliance with both.

**Governance Arrangements – Areas for Improvement**

43. Falkirk Council continues to be committed to ensuring that governance and internal financial control arrangements are robust, proportionate, and in line with best practice. The process of preparing this Statement has, however, highlighted areas where further work is required, and these will be addressed within the context of the Council's continuous improvement agenda:
  - continue to work towards building a robust Medium Term Financial Strategy;
  - establish Data Handling Registers across all Council Services;
  - further embed corporate risk management arrangements;
  - continue to provide support and development opportunities to Officers and elected Members, particularly in the period following the Local Government elections.

**Conclusion**

44. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for ensuring good governance and appropriate arrangements for internal financial control for 2011/12 and the period to date. It highlights areas of improvement that have been identified to enhance existing governance arrangements, and is consistent with the Council's established improvement agenda.

**Councillor Craig Martin**  
**Leader of Falkirk Council**  
**29 June 2012**

**Mary Pitcaithly**  
**Chief Executive**  
**29 June 2012**



**FALKIRK COUNCIL**

**Subject: REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE  
2011/12 AUDIT**  
**Meeting: AUDIT COMMITTEE**  
**Date: 24 September 2012**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 International Standard on Auditing 260 (ISA 260) “Communication of audit matters to those charged with governance” requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body, in sufficient time to enable action. Audit Scotland’s report for 2011/12 is attached for information.

**2. FINDINGS**

- 2.1 The External Auditor’s anticipated report is unqualified. Whilst the accounts have been adjusted for misstatements and other minor presentational and typographical changes 3 items have not been amended and the financial consequences are outlined at Appendix B. These amounts are immaterial to the accounts as a whole and I proposed that no adjustment is made to the accounts. This view is supported by the External Auditor.
- 2.2 The External Auditor states that no material weaknesses were identified in the accounting and internal control systems.

**3. RECOMMENDATION**

- 3.1 Members are invited to note the External Auditor’s report.

**Chief Finance Officer**

**Date: 23 August 2012**

**Contact Officer: John Flannigan**

**LIST OF BACKGROUND PAPERS**

NIL

# Falkirk Council

## Report to those charged with governance on the 2011/12 audit



Prepared for Falkirk Council  
September 2012

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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# Summary

## Introduction

1. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. ISA 260 requires us to highlight:
  - relationships that may bear on our independence and the integrity and objectivity of the appointed auditor and audit staff
  - the overall scope and approach to the audit, including any expected limitations, or additional requirements
  - expected modifications to the audit report
  - management representations requested by us
  - unadjusted misstatements, other than those that are clearly trivial
  - material weaknesses in internal control identified during the audit
  - qualitative aspects of accounting practice and financial reporting, including accounting policies
  - matters specifically required by other auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.
3. This report sets out for the council's consideration the matters arising from the audit of the financial statements for 2011/12 that require reporting under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. This report has been prepared for the use of Falkirk Council and no responsibility to any third party is accepted.

## Status of the Audit

4. Our work on the financial statements is now substantially complete and all matters arising during the audit have been discussed with the Chief Finance Officer's staff with responsibility for the preparation of the financial statements. Should any further matters arise in concluding our work that require to be reported under ISA 260, we will raise them with the Chief Finance Officer.

## Matters to be reported to those charged with governance

### Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Audit Plan presented to the Audit Committee on 12 March 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

### Audit opinion & representations

6. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of accounts for final review, we anticipate being able to issue an unqualified auditor's report on 25 September 2012 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.
7. The accounts have been adjusted to correct a number of identified financial misstatements and other typographical or presentational changes. The significant errors which required amendment are as follows :
  - a prior year adjustment was made to correctly reflect the timing of a significant payment of £14.4 million, made on 1 April 2011 to Falkirk Schools Gateway. Corresponding corrections were also required to the Cash Flow Statement
  - In the 2011/12 Cash Flow Statement £20.611 million of debt transferred from long-term borrowing to short-term borrowing has been incorrectly treated as redeemed in year. Cash receipts of short and long-term borrowing (£20.726 million) and Repayments of short and long-term borrowing (£31.646 million) were overstated by £20.611 million. Corrections have now been made.
8. Three other errors identified have not been corrected. If adjustment were made for these items, the comprehensive income and expenditure account would disclose an increase in expenditure of £2.231 million. The net effect on the balance sheet would be a decrease in the net worth of the council of £0.549 million. These items are summarised at Appendix B and are not material to the accounts as a whole. The Chief Finance Officer proposes not to adjust the accounts for these items and we concur on this.
9. As part of the completion of our audit we seek written assurances from the Chief Finance Officer on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 has been provided to the Chief Finance Officer. This should be signed and returned by the Chief Finance Officer with the signed accounts prior to the independent auditor's opinion being certified.

## Accounting and internal control systems

10. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

## Matters arising

11. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
12. **Going Concern** - the Group balance sheet as at 31 March 2012 discloses an excess of liabilities over assets of £119 million (2010/11 £55 million) due to the accrual of pension liabilities in accordance with International Accounting Standard 19 (Employee Benefits). The Group net worth reflects both the IAS 19 liability for the council and for the unfunded pension schemes in its associate bodies, Central Scotland Joint Police Board, Central Scotland Fire & Rescue Joint Board. The council and its group have adopted a 'going concern' basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's rate to meet the funds' commitments. We have asked the Chief Finance Officer for formal assurance, in the letter of representation, as to the council's ability to continue as a going concern.

***Resolution: We are satisfied that the process which the council and its group has undertaken to consider the group's ability to continue as a going concern is reasonable.***

13. **Movement in pension liability** - the pension liability has increased by £43 million as at 31 March 2012 due to the annual review of the financial assumptions used by the actuary to value the accrual of pension liabilities in accordance with International Accounting Standard 19 (Employee Benefits).

***Resolution: The actuary provides appropriate evidence in relation to amounts relating to the retirement benefits recognised in the accounts of Falkirk Council. The liability is reviewed on an annual basis.***

14. **Council house valuations** - the accounting code for local authorities requires council dwellings to be measured using the existing use value-social housing (EUV-SH) method of valuation. At present the council uses a discounted cash flow approach to the valuation of its housing stock, totalling £54.381 million, which results in a lower valuation.

15. ***Resolution: The council will revise its method of housing stock valuation to align with the Code at the next valuation which is due in 2015/16.***

16. **Non-depreciation of council house dwellings** - the council has not charged depreciation on its council housing stock on the grounds that the amount involved would not be material. We have requested a specific representation from the Chief Finance Officer that in his view this treatment is appropriate on the grounds that the impact of depreciation would not be material. Subject to receipt of this representation, we are satisfied that the approach adopted does not have a material impact on the accounts.

**Resolution: No depreciation has been charged on council dwellings and we have accepted the Chief Finance Officer's representation that depreciation of these assets is not material in 2011/12.**

17. **Equal pay provision:** the Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay and are dissatisfied with the council's proposed resolution or compensation can elect to have a case heard before an employment tribunal. Falkirk Council has received a significant number of claims for compensation and the council currently has a provision of £5.216 million included in its accounts to cover these costs. The ultimate cost to the council remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer.

**Resolution: the equal pay provision will be reviewed on an annual basis.**

18. **Heritage assets** - the Code of practice on local authority accounting (the Code) requires local authorities to account for tangible heritage assets under FRS 30 *Heritable assets*. Heritage assets include historical buildings, archaeological sites, scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art.
19. The council has identified that it holds six different categories of heritage assets: the museums collection, the arts collection, the archives collection, the libraries local history collection, war memorials and town clocks and civic regalia. With the exception of civic regalia these are assets are not recognised in the council's Balance Sheet either because the council does not consider that reliable cost or valuation information can be obtained or because it considers that the cost of obtaining valuations for these is disproportionate in terms of the benefits to the users of the accounts. Civic regalia is carried in the balance sheet at insurance valuation based on market values.
20. **Resolution: the valuation and disclosure of heritage assets will be kept under review.** **Other unrealised gains and losses** - the council has included 'other unrealised gains' of £1.592 million (2010/11 £2.148 million) in its Comprehensive Income and Expenditure Statement. These mainly relate to transactions on sales of assets which are not 'other unrealised gains', These transactions have also been incorrectly presented in the Movement in Reserves Statement, therefore there is no impact on the General Fund balance.

**Resolution: The financial statements have not been amended, but this is not considered material for our audit opinion.**

## Outstanding Information

21. **Letter of Representation:** The formal Letter of Representation is required prior to the auditor's certification of the financial statements.



22. Revised draft accounts: We require revised draft accounts to ensure that all of the presentational and disclosure matters arising and communicated to the finance function have been actioned in line with our expectations.

## Acknowledgements

23. We would like to express our thanks to the staff of Falkirk Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# APPENDIX A

## Proposed Independent Auditor's Report

### **Independent auditor's report to the members of Falkirk Council and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of Falkirk Council and its group for the year ended 31 March 2012 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and the authority Comprehensive Income and Expenditure Statements, Balance Sheets, Cash-Flow Statements and Movement in Reserves Statements, the Trust and Third Party Funds, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Statement, the Council Tax Income Account, the Non-Domestic Rates Account, the Common Good Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of; whether the accounting policies are appropriate to the group and Falkirk Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer, and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements. If I become

aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2011/12 Code of the state of the affairs of the group and Falkirk Council as at 31 March 2012 and of the income and expenditure of the group and Falkirk Council 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 2011/12 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

**Fiona Mitchell Knight, FCA**  
**Assistant Director, Audit Services**  
**7th Floor**  
**Plaza Tower**  
**East Kilbride**  
**G74 1LW**

25 September 2012



# Appendix B

## Non-Adjusted Errors within the 2011/12 Annual Accounts

Below is a summary of the non-adjusted errors which have not been processed in the accounts, with an explanation.

Narrative	DR £000	CR £000
<b>Income &amp; Expenditure Account</b>		
Expenditure	1,567	
General Fund		1,567
<b>Difference between actuarial estimate and actual pension contributions reversed out of General fund for financing purposes.</b>		
General fund	549	
<b>Under accrual in respect of 2011/12 payroll costs</b>		
General Fund	115	115
<b>Under accrual of flexi leave and time off in lieu reversed out of General fund for financing purposes.</b>		
<b>Totals</b>	<b>2,231</b>	<b>1,682</b>
<b>Net total</b>	<b>549</b>	
<b>Balance Sheet</b>		
Defined Benefit pension Scheme Liability		1,567
Pensions reserve	1,567	
<b>Difference between actuarial estimate and actual pension contributions reversed out of General fund for financing purposes.</b>		
Short Term Creditors		549
Short Term Creditors		115
Accumulated Absences Account	115	
<b>Under accrual of flexi leave and time off in lieu reversed out of General fund for financing purposes.</b>		
<b>Totals</b>	<b>1,682</b>	<b>2,231</b>
<b>Net Totals</b>		<b>549</b>