FALKIRK COUNCIL

MINUTE of the MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on MONDAY 24 MARCH 2014 at 9.30 a.m.

COUNCILLORS:
Allyson Black
Tom Coleman
Baillie Joan Paterson
Depute Provost John Patrick
Provost Pat Reid
Roseann Davidson (Convener)

OFFICERS:
Margaret Anderson, Director of Social Work Services
Fiona Campbell, Head of Policy, Technology and Improvement
John Flannigan, Depute Chief Finance Officer
Gary Greenhorn, Joint Acting Director of Education
Rhona Geisler, Director of Development Services
Gordon O'Connor, Internal Audit Manager
Brian Pirie, Democratic Services Manager
Mary Pitcaithly, Chief Executive
Antonia Sobieraj, Committee Services Officer

ALSO ATTENDING:
Lisa Duthie, Audit Scotland
Mark Laird, Audit Scotland
Neil Robb, Audit Scotland

AC25. APOLOGY

An apology for absence was intimated on behalf of Councillor Carleschi.

AC26. DECLARATIONS OF INTEREST

No declarations were made.

AC27. MINUTE

Decision

The minute of the meeting of the Audit Committee held on 16 December 2013 was approved.

AC28. CORPORATE GOVERNANCE ARRANGEMENTS - KEY FINANCIAL SYSTEMS CONTROLS

The Committee considered a report by the Chief Finance Officer providing progress on the implementation of actions identified by the external auditor's report on a review of key financial systems of internal control.

The Committee had considered a report in June 2013 (ref AC4) detailing an action plan arising from Audit Scotland's review of the Council's system of internal control. The planned management actions had been completed. However in the auditor's view some Services required to progress the verification of their monthly payroll reports more timeously.

Members stressed that measures should be put in place to ensure that all actions are completed.

Decision

The Committee noted the report and the progress to date on the implementation of the Action Plan.

Provost Reid entered the meeting during consideration of the following item.

AC29. SCOTLAND'S PUBLIC FINANCES - ADDRESSING THE CHALLENGES

The Committee considered a report by the Chief Finance Officer summarising Audit Scotland's follow up report detailing how Falkirk Council was responding to the challenges identified within its report "Scotland's Public Finances - Addressing the Challenges".

A number of areas of good practice had been highlighted by Audit Scotland including:-

:

- The Council's clear understanding of future financial pressures;
- The progress of work on strengthening the link between the budget and the Council's Corporate Plan;
- The officer participation in the SOLACE/Improvement Service benchmarking project;
- The participation by members of the Administration in a series of meetings with officers to discuss, consider and agree savings proposals, and
- The regular budget monitoring and reserve strategy updates.

The auditor's report had highlighted areas for improvement. An update was provided on each of the issues identified by the auditor.

The Committee discussed the budget process and the opportunities for members to engage early in the process and the importance of having reliable up to date information available to members.

Decision

The Committee noted the report.

AC30. INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report by the Internal Audit Manager which detailed the progress of the Internal Audit Plan for 2013/14 and provided an update on Internal Audit performance.

The report detailed the progress in completing the planned 2013/14 Internal Audit work including the key findings from completed review/assignments, the performance against the established key performance indicators, ad hoc consultancy work and the recommendations outstanding.

Members sought clarification on the system in place to monitor Falkirk Community Trust's completion of its assignments and the mechanisms for reporting the auditor's findings to the Trust. Information was also sought by members on the site control systems currently in place in relation to schools.

Decision

The Committee:-

(1)   noted:-

      (a)   the progress in relation to the planned Internal Audit Work;

      (b)   the performance against Key Performance Indicators (KPI's) as detailed in the report;

      (c)   the significant progress by Services in implementing the Internal Audit recommendations, and

(2)   agreed that an updated report on the Anti Fraud and Corruption Strategy be presented to the meeting of the Committee in September 2014.

AC31. INTERNAL AUDIT CHARTER AND EXTERNAL QUALITY ASSESSMENT

The Committee considered a report by the Internal Audit Manager on the Internal Audit Charter which had been produced in accordance with the Public Sector Internal Audit Standards (PSIAS) and developed jointly by CIPFA and the Chartered Institute of Internal Auditors (CIIA).

The PSIAS Standards required that the Charter should set out the role, authority, and responsibility of the Internal Audit Section and required approval by the Committee. The Charter focussed on the following high level principles relating to the functioning of the Internal Audit section:-

- The role of Internal Audit;
- The professionalism, authority and scope;
- The organisational arrangements;
- The independence and objectivity;
- The responsibility in terms of the reporting requirements and consultancy work and fraud/corruption, and
- The quality assurance arrangements.

The report referred to the requirement for periodic External Quality Assessments through the development of a quality assurance and improvement programme for evaluation of compliance with the Standards. This included an annual self assessment and a five yearly independent external assessment undertaken by a qualified independent assessor.

The report also sought approval of a proposal to participate in a peer review national External Quality Assessment scheme being developed by the Scottish Local Authorities Chief Internal Auditors' Group **(**SLACIAG).

Decision

The Committee agreed:-

(1) **the Internal Audit Charter attached as Appendix 1 to the report; and**

(2) **Internal Audit's participation in the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) External Quality Assessment scheme.**

AC32. INTERNAL AUDIT PLAN 2014/15

The Committee considered a report by the Internal Audit Manager presenting the Internal Audit Plan 2014/2015 for approval.

The Committee highlighted the significant work being undertaken to ensure effective systems were in place to address the challenges ahead and the importance of effective reporting on the Council's procurement arrangements.

The Committee:-

(1) **noted:-**

  (a) **the resources available to Internal Audit;**

  (b) **the progress against the Audit Plan and ongoing updated information being presented to future meetings of the Committee, and**

(2)   agreed the planned Internal Audit coverage for the financial year 2014/2015.

AC33. FALKIRK COUNCIL – ICT SERVICE REVIEW 2012/13 REPORT FROM AUDIT SCOTLAND

The Committee considered a report by the Director of Corporate and Neighbourhood Services on Audit Scotland's ICT Service Review 2012/13 Report.

The Audit Scotland review focussed on five areas:-

- Service delivery;
- Strategy;
- Access controls and compliance;
- Asset protection; and
- Business continuity.

The subsequent report set out an assessment of the Council's ICT functions and estate and identified the key risks, potential challenges and any mitigating actions required. These included the Council's technology strategy, service delivery, access controls and compliance, asset protection and business continuity.

The Committee discussed the significant challenges facing the Council including re-accreditation under the Government's PSN/GSX compliance regime and the development and progress of the implementation of a new technology strategy and the significant work being taken to refresh the Council's business continuity arrangements.

Members sought clarification on the range of measures being put in place for mobile devices and the associated security arrangements.

Decision

The Committee noted the report and the key actions being taken to address the risks as detailed in Appendix 4 to the report.

AC34. EXTERNAL AUDIT PROGRESS UPDATE REPORT

The Committee considered Audit Scotland's External Audit Progress Update Report.

The report summarised:-

- Audit Scotland's reviews of governance arrangements including the review of internal audit, internal controls and the national fraud initiative;
- the outcomes of national performance studies including charging for services and housing in Scotland and managing early departures from the Scottish public sector and managing Scotland's Roads;

- the local performance audit work to be carried out including major capital investment in councils arms length external organisations (ALEO's);
- the assurance and improvement plan, and
- progress against the 2013/14 Audit Plan.

Decision

The Committee noted the report.

AC35. ANNUAL AUDIT PLAN 2013/14

The Committee considered Audit Scotland's Annual Audit Plan 2013/14.

The Plan summarised the assessment of the key challenges and risks facing the Council and reflected:-

- the risks and priorities facing the Council;
- the current national risks relevant to local circumstances;
- the impact of changing international auditing and accounting standards;
- the responsibilities under the Code of Audit practice as approved by the Auditor General for Scotland, and
- the issues brought forward from previous audit reports.

The planned work in 2013/14 included:-

- an audit of the financial statements and provision of an opinion on whether (i) they give a true and fair view of the financial position of the Council as at 31 March 2014 and its income and expenditure for the year then ended, and (ii) the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2013 Code of Practice on Local Authority Accounting in the UK;
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan update. This would provide detail on the Local Area Network's (LANs) risk assessment of the Council including updated scrutiny plans for 2014/15 to 2016/17;
- a review and assessment of the Council's governance and performance arrangements in key areas including selected systems of internal control, the adequacy of internal audit, targeted follow-up of national studies, ICT follow-up and statutory performance indicators;
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts;
- a review of the National Fraud Initiative arrangements; and
- regular attendance at the Audit Committee.

Decision

The Committee noted the report.

AC36. FALKIRK COUNCIL - REVIEW OF INTERNAL AUDIT 2013/14

The Committee considered the findings of Audit Scotland on the organisation's Code of Practice and the requirement for an external auditor to undertake an annual assessment of the adequacy of the internal audit function.

Internal Audit had from 1 April 2013 been required to adopt the Public Sector Internal Audit Standards (PSIAS) which replaced the 2006 CIPFA Code of Practice for internal Audit in Local Government. A number of areas had been identified where Internal Audit was still working to achieve full compliance with the new standards. This included the production of an internal audit charter and a quality assurance and improvement programme, including external validation arrangements. Audit Scotland was satisfied with assurances that action was being taken to ensure full compliance with PSIAS in future.

The overall conclusion was that the areas of non compliance with the PSIAS did not impact on the range and quality of work carried out by Internal Audit and that the existing quality assurance framework which operated was soundly based.

In terms of Audit Scotland's financial statements, formal reliance would be placed on Internal Audit's work on the General services capital programme and debtors (reviewed in 2012/13) and in terms of the wider dimension responsibilities, this would include welfare reform and strategic projects such as the Tax Incremental Financing Scheme (TIF).

Decision

The Committee noted the Audit Scotland findings.

FALKIRK COUNCIL

Subject:	**INTERNAL AUDIT: ANNUAL ASSURANCE REPORT 2013/14**
Meeting:	**AUDIT COMMITTEE**
Date:	**23 June 2014**
Author:	**INTERNAL AUDIT MANAGER**

1.   INTRODUCTION

1.1   This paper reports on 2013/14 Internal Audit work, and provides an overall assurance on the Council's control framework based on that work.

1.2   As Members are aware, it is Senior Managers' responsibility to establish and maintain effective and proportionate risk management, governance, and control arrangements. Internal Audit is not an extension of, or substitute for, operational management, and Auditors have no direct responsibility or authority over any operational activities. Internal Audit is, therefore, organisationally independent, and able to provide an objective opinion to Members.

1.3   The Public Sector Internal Audit Standards 2013 (the Standards) require the Internal Audit Manager to provide an Annual Assurance Report that includes:

- a statement on the overall adequacy of the Council's control environment;
- a summary of Internal Audit work undertaken during the year; and
- a statement on conformance with the Standards.

1.4   This report has been prepared to meet those requirements.

2.   OVERALL OPINION

2.1   Internal Audit completed 25 main assignments during 2013/14. These comprised a mix of assurance reports, continuous auditing, position statements, and involvement in on-going workstreams. This mix of outputs reflects the Council's ever changing operating environment and risk profile.

2.2   I am, therefore, content that the breadth and depth of coverage was sufficient to allow me to provide a balanced opinion on the overall adequacy of the Council's control environment.

2.3   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**.

2.4   On this basis, Internal Audit can provide **SUBSTANTIAL** assurance in relation to the Council's overall framework of controls for the year to 31 March 2014.

3. OPERATIONAL ACTIVITY DURING 2013/14

3.1 Internal Audit's Annual Plan for 2013/14 consisted of 25 main reviews. Details of these are set out at **Appendix 2** [1], with a summary of the scope of, and findings arising from, each set out at **Appendix 3**.

3.2 Internal Audit provided a formal assurance in relation to 12 planned reviews. For most of these, we provided Substantial Assurance. There were, however, 3 areas where we provided only Limited Assurance, namely:

- Clients' Funds / Intermediary Accounts;
- Site Key Control Testing (Head of Muir Primary School); and
- Carbon Management Arrangements[2].

3.3 As per paragraph 2.1, there were a number of areas where we did not provide an overall assurance (eg, because the area under review remained in development, or where our involvement was on an on-going basis). That said, several of these assignments resulted in recommendations to management, and we will continue to update Members throughout the year on progress with the implementation of all Internal Audit recommendations.

3.4 Internal Audit is considered by Audit Scotland to be a key element of the Council's governance framework. Members should note that Audit Scotland, in their 'Review of Internal Audit 2013/14' considered at the March meeting of Audit Committee, confirmed that they will place formal reliance on work undertaken by Internal Audit in the following areas:

- General Services Capital Programme;
- Debtors;
- Welfare Reform; and
- Strategic Projects.

3.5 Audit Scotland also commented on Internal Audit's existing quality assurance framework, concluding that this is soundly based. One element of this framework continues to be the five Key Performance Indicators set out below.

Key Performance Indicator	2013/14 Performance	2012/13 Performance	2011/12 Performance
1. Complete **85%** of agreed audits.	**100%**	100%	100%
2. Have **90%** of recommendations accepted.	**100%**	99%	99%
3. Spend **75%** of time on direct audit work.	**76%**	78%	77%
4. Issue **75%** of draft reports within 3 weeks of completion of fieldwork.	**96%**	96%	82%
5. Complete (to issue of final report) **75%** of main audits within budget.	**88%**	87%	82%

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[1] **NOTE:** As per Appendix 2, four planned reviews were substituted over the course of the year, in agreement with senior management.

[2] **NOTE:** this review was undertaken by West Lothian Council's Internal Audit and Risk Section

3.6 Internal Audit's performance against each indicator has been stable for some years, and this continues to be the case for 2013/14. This reflects the experience, professionalism, and pragmatism of the team.

4. COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

4.1 Internal Audit seeks to undertake all work in conformance with the Public Sector Internal Audit Standards. The Standards, which have applied since April 2013, have 4 objectives, namely:

- to define the nature of Internal Auditing within the UK public sector;
- to set basic principles for carrying out Internal Audit in the UK public sector;
- to establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- to establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.

4.2 Fundamentally, the Standards seek to ensure that Internal Audit is a value adding activity and compliance, for us, is mandatory.

4.3 One of the requirements of the Standards is that the Internal Audit Manager establishes a Quality Assurance and Improvement Programme (QAIP). The aim of the QAIP is to enable evaluation of compliance with the Standards. This comprises an annual self assessment, and five yearly external assessment.

4.4 Members will recall my report to the previous meeting of the Committee seeking approval to participate in a 'peer review' External Quality Assessment scheme to be established by the Scottish Local Authorities Chief Internal Auditors' Group. A detailed framework for this is being developed, and we will schedule our external assessment at an appropriate time.

4.5 Internal Audit have also, now, completed our first annual self assessment. This proved to be a fairly challenging process but has provided re-assurance that our existing arrangements are broadly in line with the Standards. An Action Plan has been developed to capture all areas of (minor) non-conformance, and I will ensure that these are appropriately addressed.

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 can provide SUBSTANTIAL assurance on the Council's control framework for the year to 31 March 2014;

5.1.3 **Audit Scotland will place formal reliance on the work of Internal Audit;**

5.1.4 **performance against Key Performance Indicators for the year to 31 March 2014 was as set out at paragraph 3.5; and**

5.1.5 **Quality Assurance and Improvement Programme outputs confirm no material non-conformance with the Public Sector Internal Audit Standards.**

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Internal Audit Manager

Date: 06 June 2014

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Substantial assurance	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.
Limited assurance	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.
No assurance	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 2013-14 INTERNAL AUDIT PROGRAMME

No.	Service/Status	Review / Assignment	Level of Assurance
	Reviews / Assignments Complete		
1.	Corporate and Neighbourhood	Fleet Management – Operator's Licence Requirements	**Substantial**
2.	Finance	Debtors	**Substantial**
3.	Governance	Records Management	**Substantial**
4.	Social Work	Clients' Funds / Intermediary Accounts	**Limited**
5.	All Services	Statutory Performance Indicator Verification	**Substantial**
6.	Social Work	Cash Spot Checks	**Substantial**
7.	All Services	Corporate Purchasing	**Substantial**
8.	Development / Finance	Strategic Projects – Position Statement	N/A [3]
9.	All Services	Continuous Auditing	N/A
10.	All Services	Welfare Reform – Position Statement	N/A
11.	Finance	General Services Capital Programme	**Substantial**
12.	Corporate and Neighbourhood / Finance	Chip and Pin and Paye.Net	**Substantial**
13.	Education	Site Key Control Testing (Head of Muir Primary School)	**Limited**
14.	All Services	Premises Managers' Handbook Compliance – Follow Up to Previous Work	N/A
15.	All Services	Business Continuity Planning	**Substantial**
16.	Finance	Corporate Fraud – Ongoing Workstream	N/A
17.	All Services	Serious Organised Crime – Ongoing Workstream	N/A
18.	Social Work	Self Directed Support – Ongoing Workstream	N/A
19.	All Services	National Fraud Initiative	N/A
20.	Development	Reciprocal Review with West Lothian Council – Falkirk Council Carbon Management Arrangements	**Limited**
21.	Falkirk Community Trust	Repairs and Maintenance / Library Acquisitions / Payroll	As reported to Trust Board

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[3] **NOTE:** N/A = Not Applicable

		Additional Reviews / Assignments Completed During 2013-14	
22.	Social Work	Deferred Payments	N/A – undertaken as consultancy assignments with recommendations made to managers
23.	Education	Premises Management Arrangements at Larbert High School	
24.	All Services	Agency Worker Arrangements	
25.	Social Work	Joint Loan Equipment Store Purchasing	

		2013-14 Reviews / Assignments Not Completed
1.	Development	Falkirk Townscape Heritage Initiative
2.	Internal Audit	Income Generation
3.	All Services	Data and Information Security – Governance and Practice
4.	Education	Financial Governance and Management

DETAILS OF 2013-14 INTERNAL AUDIT PROGRAMME

No.	Audit Area and Service	Assurance and Key Findings
	Planned Audits Completed During 2013-14	
1.	Fleet Management – Operator's Licence Requirements Corporate and Neighbourhood Services	**Substantial Assurance** Covered arrangements for ensuring compliance with the conditions attached to the Standard National Goods Vehicle Operator's Licence granted to Falkirk Council in August 1995. In general, adequate arrangements were in place. A robust vehicle servicing and maintenance programme has been developed, with all vehicles covered by the Licence subject to regular inspection. We did, however, note scope for improving: training for drivers, Service Transport Officers, and line managers; risk management; first use vehicle checks; line manager sample checking; driver infringement reports; and management information.
2.	Debtors Finance Services	**Substantial Assurance** Covered controls over the identification, input, and authorisation of debtor information on Integra; arrangements for recording payments; debt management, arrears, and write-offs; reconciliations; and management information. Sound systems of control were in place, with clear roles, responsibilities, and guidance. There was some scope for further improving system access and administration; authorised signatory lists; debt-write off and recovery arrangements; and performance information.
3.	Records Management Governance	**Substantial Assurance** Covered arrangements for ensuring an effective records management function, focussing on compliance with the Public Records (Scotland) Act 2011. We found that work in relation to the six compulsory elements of the Act was substantively complete, with work planned to address any remaining outstanding areas. Of the remaining eight, non-compulsory, elements, we noted that there were several where improvements are planned or in progress. In overall terms, however, we found that the Records Management Plan submitted to the Keeper of the Records of Scotland complied, in general terms, with the requirements of the Act.

No.	Audit Area and Service	Assurance and Key Findings
		Planned Audits Completed During 2013-14
4.	Clients' Funds / Intermediary Accounts Social Work Services	**Limited Assurance** Covered policies, procedures, and guidance; financial and operational controls; the security and retention of clients' funds records; and the production of management information. Internal Audit visited Brockville, Camelon, and Grangemouth Area Offices to review local arrangements. While we noted that operational guidance had recently been updated and that training had taken place, there remained a number of weaknesses. In particular, we made recommendations in relation to criteria for appointeeship; the application of segregation of duties; management checks; reconciliations and record keeping; reviewing account balances; and management information.
5.	Statutory Performance Indicator Verification All Services	**Substantial Assurance** 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.	Cash Spot Checks Social Work Services	**Substantial Assurance** We reviewed procedures for the receipt, recording, and reconciliation of cash (imprest, donations, and client funds) at Torwoodhall and Grahamston House Care Homes, and at Caledonia Clubhouse. While arrangements were generally sound, we made a number of recommendations relating to security and record keeping.
7.	Corporate Purchasing All Services	**Substantial Assurance** On a weekly basis Internal Audit reviews a sample of payments to suppliers who have received more than £10,000 in the previous week, to assess compliance with Financial Regulations and Contract Standing Orders. All sampled payments are checked to ensure that a contracted supplier has been used. Where this is not the case, Internal Audit contact the 'authorising officer' to confirm whether the appropriate quotation / tendering exercise was undertaken. Over the course of 2013/14, we found there to be broad compliance with Financial Regulations and Contract Standing Orders when procuring goods and services.

	Planned Audits Completed During 2013-14	
No.	**Audit Area and Service**	**Assurance and Key Findings**
8.	Strategic Projects – Position Statement Development / Finance Services	**Not Applicable – Position Statement** Internal Audit maintained an oversight role in relation to strategic projects, focussing on the Tax Incremental Finance project. We noted that significant work had been undertaken to satisfy the requirements of the Scottish Government's terms and conditions of approval, and to put in place governance and management structures. In the short term, the TIF Delivery Team need to ensure that a full risk register is maintained to allow robust risk reporting to the TIF Steering Group and TIF Executive. In addition, it is important that the programme of meetings with the Scottish Futures Trust and Scottish Government is maintained. Internal Audit will continue to monitor progress, and will include review of ongoing arrangements for monitoring, measuring, governance, and reporting in future Internal Audit Plans.
9.	Continuous Auditing All Services	**Not Applicable – Ongoing Reporting and Assurance** Work focussed on: • creditors duplicate payments; • supplier database – data cleansing; • overtime payments; • finance system access control; • debtor analysis (feeding into Review of Debtors); • VAT registration number / post code validity; • Scottish Welfare Fund; and • taxi operator licences. Various reports were issued and, in the main, these provided positive assurance on transactional processes. As with previous years, a number of duplicate creditors payments were identified (totalling c£43k for 2013/14) – action has been taken (or is being taken) to recover these amounts (either by credit note or refund).
10.	Welfare Reform – Position Statement Corporate and Neighbourhood / Finance Services	**Not Applicable – Position Statement** Internal Audit maintained an oversight role in relation to Welfare Reform planning and change management. This included governance arrangements (via the Welfare Reform Governance Group), risk management, and the associated operational work programme. A Welfare Reform Project Manager (PM) has been appointed. The PM will further develop and improve monitoring and reporting, project risk management, and project planning arrangements. Much work has been undertaken to satisfy the requirements of the Welfare Reform Change Programme set by the Department for Work and Pensions. The implementation of welfare reforms is, however, an ongoing process, and Internal Audit will continue to allocate resource to the project in future Internal Audit Plans.

		Planned Audits Completed During 2013-14
No.	**Audit Area and Service**	**Assurance and Key Findings**
11.	General Services Capital Programme

Finance Services | **Substantial Assurance**
Focussed on roles, responsibilities, policies, and procedures; the efficiency and effectiveness of the capital bid and decision making process; budget monitoring and payment arrangements; and management information.

In general, we found that sound systems of control were in place. Capital Section were involved at all stages of the management and co-ordination of the programme, with guidance and a programme timetable in place.

There was some scope for improvement in relation to bid sheet completion and submission, agreement of the bid scoring matrix, and the recording and monitoring of expenditure information. |
| 12. | Corporate Payment System – Chip and Pin / Paye.Net

Corporate and Neighbourhood / Finance Services | **Substantial Assurance**
Internal Audit reviewed system documentation, training, and guidance; roles and responsibilities; physical and environmental controls; data and information management and security; and business continuity arrangements, in relation to the Chip and Pin / Paye.Net system.

Visits were made to seven sites using the Paye.Net system and, at each, good controls were in place. The Paye.Net system replaces the previous 'Streamline' system – we recommended that the exercise to replace all Streamline devices with Paye.Net is completed as soon as possible. We also recommended that a formal and comprehensive business continuity (and recovery) plan is prepared for Paye.Net. |
| 13. | Site Key Control Testing – Head of Muir Primary School

Education Services | **Limited Assurance**
Internal Audit visited Head of Muir Primary School to review Premises Management and financial arrangements. This included visitor arrangements, security, fire safety, health and safety, maintenance, inventory, first aid provision, risk management, business continuity, budget monitoring, ordering of and payment for goods and services, and income collection and recording.

While we found there to be a number of areas of good practice, we did identify scope for improvement in relation to: visitors; fire alarm arrangements; CCTV; the opening, closing, and inspection of premises; business continuity plan testing; income handling; segregation of duties; and school meals income. |

No.	Audit Area and Service	Assurance and Key Findings
		Planned Audits Completed During 2013-14
14.	Premises Managers' Handbook Compliance All Services	**Not Applicable – Undertaken as Follow Up to Previous Work** This review followed on from an initial audit undertaken in August 2012. Our 2014 work focussed on visits to a sample of seven premises, to assess the extent to which Annual Statement of Assurance (SoA) returns reconciled to actual supporting documentation. In summary, we found there to be discrepancies between the SoA return and actual supporting documentation at six of the seven premises visited.
15.	Business Continuity Planning Development / All Services	**Substantial Assurance** Focussed on overarching corporate arrangements for establishing business continuity and recovery plans; the adequacy of guidance and training for staff; and arrangements for testing the adequacy and robustness of documented plans. The Council's Business Continuity Management Policy is in the process of being approved. In addition, significant work is ongoing to update Service business continuity plans and to put in place guidance and training for staff. While no testing of updated plans has yet been undertaken, this has been programmed in and will be a key element of the rolling business continuity plan review and update process.
16.	Corporate Fraud Finance Services	**Not Applicable – Ongoing Workstream** Internal Audit continues to work with colleagues in Finance – Revenues and Benefits to consider and scope out the potential for the establishment of a Corporate Fraud Team. This will, to some extent, depend on the roll out of the DWP Single Fraud Investigation Service, as well as issues arising via other national initiatives such as the formation of the Scottish Government Cross-Sector Counter Fraud Group, guidance from the Police Scotland Public Sector Counter Corruption Unit, and the CIPFA Code of Practice on Managing Fraud and Corruption. This workstream will be rolled forward into the 2014/15 Internal Audit Plan.

	Planned Audits Completed During 2013-14	
No.	**Audit Area and Service**	**Assurance and Key Findings**
17.	Serious Organised Crime All Services	**Not Applicable – Ongoing Workstream** The Internal Audit Manager acts as Falkirk Council's Single Point of Contact with Police Scotland in relation to Serious Organised Crime (SOC). Actions undertaken over the course of 2013/14 include: • continued involvement with the Divert / Deter sub-Group of the Scottish Government's SOC Taskforce; • co-ordinating the Council's response to Divert / Deter actions delegated to SOLACE within the SOC Taskforce Implementation Plan; • running a SOC related desktop business continuity planning exercise with CMT, in conjunction with Police Scotland; and • delivering a presentation at the national launch of the Police Scotland Public Sector Counter Corruption Unit on our approach to auditing SOC readiness. In addition, the approach developed by Falkirk Council Internal Audit in relation to the risks associated with SOC has been adopted by the SOC Taskforce for roll out across all other Scottish Local Authorities.
18.	Self Directed Support Social Work Services	**Not Applicable – Ongoing Workstream** Internal Audit maintained an oversight role in relation to the Self Directed Support (SDS) project within Falkirk Council, focussing on arrangements for the planning and implementation of SDS and compliance with the Social Care (Self Directed Support) (Scotland) Act 2013. We found that work towards satisfying the legislative changes was progressing well, with a Project Board, Project Team, Steering Group, and Development Manager in place, supported by various workstreams each with a lead officer and action plan. Monthly Workstream Reports include risk information, although work is required to ensure that risks are considered and mitigated in practice. While there remains a need for significant operational change to deliver SDS outcomes, arrangements established to date appear proportionate and robust. Internal Audit will include ongoing review within our 2014/15 Plan.

No.	Audit Area and Service	Assurance and Key Findings
Planned Audits Completed During 2013-14		
19.	National Fraud Initiative All Services	**Not Applicable** The 2012/13 NFI exercise is now drawing to a close. The exercise is co-ordinated by Internal Audit, with investigations arising from data matching undertaken by Services. A total of 3,355 matches have now been investigated and closed, with c£22k returned (or in the process of being recovered and returned) to the public purse as a result of those investigations. A number of further investigations are ongoing. In addition, two additional sets of data matches relating to Council Tax have recently been released, with arrangements established to follow up and investigate these. The NFI exercise is cyclical, and the Council will again be required to submit data during 2014/15 generating a further release of matches in early 2015. Provision has been made within the 2014/15 Internal Audit Plan for the co-ordination of this exercise.
20.	Reciprocal Review with West Lothian Council – Falkirk Council's Carbon Management Arrangements Development Services	**Limited Assurance** This review was undertaken as part of a reciprocal agreement with West Lothian Council's Internal Audit and Risk Section. Work focussed on roles, responsibilities, policies, and procedures; progress with completing and monitoring strategic initiatives, objectives, and actions; and the adequacy of management information. Several areas of concern were identified, as follows: • need to review, and to fully and effectively implement and monitor, the Carbon Management Plan; • need to ensure carbon reduction targets are embedded corporately and across all Services; • need to better monitor and report on achievement (or otherwise) of targets.
21.	Repairs and Maintenance / Library Acquisitions / Payroll Falkirk Community Trust	**Not Applicable** As reported to Falkirk Community Trust Audit and Performance Sub-Group.

Additional Audits Completed During 2013-14		
No.	**Audit Area and Service**	**Assurance and Key Findings**
22.	Deferred Payments Social Work Services	**Not Applicable – Undertaken as Consultancy with Recommendations to Managers** We reviewed Deferred Payment Arrangements, which allow residents to delay the need to sell their own home to meet care home fees. Work focussed on policies and procedures, roles and responsibilities, set up and review arrangements, management information, and recovery of debt due. We found there to be a need for a clear Deferred Payments Policy. In addition, supporting procedural guidance setting out eligibility criteria and responsibilities for recording, monitoring, and recovery of deferred amounts is required. Better management information would help with on-going monitoring.
23.	Premises Management Arrangements at Larbert High School Education Services	**Not Applicable – Undertaken as Consultancy with Recommendations to Managers** Focussed on compliance with Premises Manager Handbook requirements, and the respective responsibilities of school management, external contracted facilities management staff, and Falkirk Community Trust staff during school lets. Our work highlighted areas where there is scope for improvement. In particular, there is a need to clarify and formalise roles and responsibilities, and to ensure that all individuals with premises management responsibilities have access to all relevant information and provide input to the annual Statement of Assurance process. We noted various instances of operational non or partial compliance with the requirements of the Handbook.
24.	Agency Worker Arrangements All Services	**Not Applicable – Undertaken as Consultancy with Recommendations to Managers** Focussed on compliance with guidance on the engagement and use of agency workers and, in particular, arrangements for approval, monitoring, record keeping, notification, and procurement. We found there to be scope for improving the framework of control across all Services, particularly around approval; monitoring of engagement periods and notification to HR; and maintenance of an audit trail. There is also a need to ensure that, wherever possible, national framework suppliers are used when sourcing agency staff.
25.	Joint Loan Equipment Store Purchasing Social Work Services	**Not Applicable – Undertaken as Consultancy with Recommendations to Managers** We reviewed ordering and purchasing arrangements at JLES to assess compliance with Financial Regulations. Based on review of a sample of transactions, we found there to be scope for improving the framework of control. In particular, there was a need to ensure segregation of duties and to develop clear procedural instructions.

FALKIRK COUNCIL

Subject: **CORPORATE GOVERNANCE ARRANGEMENTS – KEY FINANCIAL SYSTEMS CONTROLS**
Meeting: **AUDIT COMMITTEE**
Date: **23 June 2014**
Author: **CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 I attach a report from the Council's Auditor following his 2013/14 review of the Systems of Internal Control.

2. FINDINGS

2.1 The External Auditor has commented that the key controls within the Council's main financial systems are operating satisfactorily and that based on the audit work they have carried out, they did not identify any areas which were exposed to significant risk. Indeed, in some systems, no specific risks have been identified. There is however some scope for improvement and the report includes an Action Plan which contains 13 points which are being followed-up by senior management.

3. RECOMMENDATION

3.1 The Committee is invited to note the External Auditor's report and the proposed management actions.

Chief Finance Officer

Date: 3 June 2014

Contact Officer: Amanda Templeman

LIST OF BACKGROUND PAPERS

NIL

Falkirk Council 2013/14
Review of Systems of Internal Control

Appendix 1
Action Plan - Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
Payroll			
1	Our testing confirmed that payroll output was reconciled to the financial ledger on a quarterly basis throughout the year in accordance with established procedures. However, we noted that reconciliations are still not being independently checked and authorised by a more senior officer. *Risk: there is a risk that any discrepancies between payroll output and amounts posted to the ledger are not identified promptly and become difficult to clear.* *Also reported in 2012/13.*	The reconciliations are already undertaken at quite a senior level typically by a Payroll Team Leader or Payroll Officer. Since no further checking is undertaken, it is questionable what value is added to the control by the additional check and countersignature. The current procedure will be reviewed together with Internal Audit.	Payroll Manager (30 Sep 2014)
2	Manual forms are used to process new starts and leavers in some services. These forms are also used to process overtime and staff expenses. Our testing highlighted that payroll staff cannot always identify the authorising officer from their signature before they are processed. Manual forms do not always request the authoriser's name to be printed while the authorised signatory list maintained by the payroll section is incomplete. *Risk: there is a risk that manual forms are processed by payroll without the appropriate authorisation leading to an increased risk of fraud or error.*	This relates to a small group of individuals i.e. Modern Apprentices and Skill Seekers who are not part of the Falkirk Council establishment and who cannot, therefore, be processed through the electronic HR Forms Online system. Arrangements will be made to bring the Authorised Signatory lists up to date for this group of individuals and to undertake a 100% check of the paper new start forms.	Payroll Officer (Operations) (30 June 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
3	Monthly payroll reports are sent to departments for employee details to be verified. Services are required to notify the payroll section of the outcome of these checks to provide assurance on the accuracy of payroll data. At the time of our review several services had not notified payroll staff for a number of months. ***Risk: there is a risk of inaccurate or fraudulent payments being processed***. *Also reported in 2012/13.*	This position has improved considerably since the audit was carried out with most Services being no more than two months outstanding. A new technology based solution is being developed so that the reports are distributed more readily and so that Managers can view the reports online. This should allow earlier confirmation that the reports have been checked. The Payroll Manager will meet with the Internal Audit Manager and Depute Chief Finance Officer to discuss how the current arrangements can be streamlined without compromising the control and to agree an escalation process where verification is not received timeously.	Payroll Manager (30 Nov 2014)

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Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
		.	
4	Payroll exception reports (e.g. percentage differential between actual and expected pay, high overtime, errors and warning) are produced for internal control purposes. It is important that these reports are reviewed and corrective action taken where necessary. Our testing highlighted that exception reports are not always signed and dated as evidence of review and confirmation that appropriate follow-up action has been taken. *Risk: there is a risk that payroll errors are not detected and corrected promptly.* *Also reported in 2012/13.*	An additional Item will be added to the Pay run Checklist to require Payroll Team Leaders to confirm that all pages of the reports have been checked, signed and dated. Payroll Team Leaders will be reminded of the need for this confirmation with the Payroll Officer (Operations) carrying out regular spot checks to ensure completion.	Payroll Officer (Operations) (1 June 2014)
5	Weekly audit reports are produced for all new starts, leavers and bank detail changes. The details in these reports are checked by a member of payroll staff. The audit reports can run to a number of pages in length and consist of a number of separate reports for different pay runs. As a result the reports are distributed amongst the payroll team for checking. We identified a number of instances where the reports had not been signed and dated as evidence of checking. *Risk: there is a risk that inaccuracies in the audit reports are not identified promptly and investigated.*	There is already an Item on the Pay run Checklist that prompts Payroll Team Leaders to confirm that Audit reports have been run and checked. The wording will be amended and Payroll Team Leaders reminded of the need for this confirmation with the Payroll Officer (Operations) carrying out regular spot checks to ensure this.	Payroll Officer (Operations) (1 June 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
6	We tested a sample of 15 changes to employee bank details. In one instance officers were unable to locate the authorised form to support the change made although there was evidence that the change had been checked on the monthly audit report. It is essential that all documents containing personal details are stored securely. *Risk: personal details of an employee could be accessed by an unauthorised person.*	Whilst the form could not be located, there is evidence on the Audit report that it was checked. It is considered that the instance identified was an exception and not indicative of a general weakness. Nevertheless, a reminder will be issued to staff regarding the need to ensure that documents are filed accurately.	Payroll Manager (1 June 2014)
Council tax			
7	It is the council's policy to carry out monthly sample checks on council tax input (e.g. discounts/exemptions applied) to ensure the accuracy of processing. At the time of our review these checks were not taking place. *Risk: erroneous input may not be identified and corrected promptly.*	Sample checking was carried out for both Council Tax Reduction (as part of housing benefit checks) and for new employees but it is accepted that resources were not allocated to any further sample checks during period of material backlogs. Sample checking will now take place at each billing run (currently daily) to ensure accuracy of sample of awards prior to issue of demand notices (demand notices are automatically generated when any relief is added or removed). This will ensure that all processed changes are adequately sampled and any errors corrected prior to	Revenues Manager (from May 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
		customer receiving notification.	
8	Our review found that there are some differences in the weekly reconciliation between the properties on the council tax listing and those on the assessor's records. On investigation we found that a number of these were not valid differences and occurred due to problems with the system's ability to recognise certain characters. **_Risk: there is a risk that the reconciliations are ineffective if officers cannot establish where real differences exist._**	Paul Ferguson, Revenues Manager, has made contact with the Assessor to try and have these errors fixed. All errors bar one have been fixed as at 25/4/14. It should be noted that throughout the period these differences were displayed on the report we were able to evidence that there was no error on council tax system and the delay in resolving was due to the fact that this was not a material issue. This did not prevent appropriate identification and resolution of genuine errors.	Revenues Manager (30 June 2014)
9	We reviewed a sample of five weekly assessor compare reports and noted that there was no clear evidence that reconciling differences had been investigated and cleared. **_Risk: there is a risk that differences between the council tax listing and the assessor's records are not fully investigated._**	A process is now in place to run a report the day after corrections are made to demonstrate that the reconciling differences have been cleared.	Revenues Manager (from March 2014)

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Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
10	We tested a sample of 30 council tax arrears cases to ensure that the debt was pursued in accordance with the council's prescribed timetable. Our testing highlighted one case where arrears had not been followed up within the prescribed timetable. In this case special arrangements for payment were agreed, however, this was later amended and the customer did not pay. A second reminder was not sent to the customer until later in the year due to the fact that the council tax system does not automatically identify changes made in relation to special payment arrangements. *Risk: there is a risk that similar arrears balances are not being identified and investigated.*	The process for recovery in relation to failed special arrangements was not as slick as we would have liked during 2013/14 but that has been improved and failed arrangements are captured timeously and recovery progressed. This was due to some inexperience with the new system.	Revenues Manager (from 1st April 2014)
Non-domestic rates			
11	Revenues staff to carry out monthly sample checks on non-domestic rate input (e.g. new reliefs applied, rateable value changes) to ensure that data has been processed accurately. At the time of our audit there had been a significant delay in completing these sample checks. *Risk: erroneous input may not be identified and corrected promptly.*	Delays exacerbated by system conversion but 'real-time' sample to be introduced at billing stage (similar to Council Tax) to avoid recurrence.	Revenues Manager (from May 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
12	Our review of the annual billing reconciliation between the value and number of bills on Civica Open and the assessment roll identified that although there was evidence that the reconciliations had been performed, there was no evidence to indicate who had prepared and reviewed the reconciliations and when. **Risk: there is a risk that the reconciliations are not completed timeously and reconciling differences go undetected.** *Also reported in 2012/13.*	The relevant files and paperwork were checked and fully reconciled but we accept that the reconciliation is unsigned. It is assumed because of our partial rebill (due to impact of Large Business Supplement) we have not re-performed the authorisation element of this reconciliation. This was an oversight on our part and we will ensure that the reconciliation is signed in 2014/15.	Revenues Manager (from April 2014)
13	The original documentation held in support of charity relief applications has not been retained in all cases. In addition, there is no evidence that a formal review of charity relief cases has been undertaken since the receipt of original applications. **Risk: The absence of a formal review increases the risk that relief is granted in error or to recipients who are no longer eligible to receive relief.** *Also reported in 2012/13.*	Due to time constraints following the system conversion in 2013/14 we were unable to review all reliefs as intended but any outstanding cases will be reviewed in 2014/15.	Revenues Manager (by 31st March 2015)

FALKIRK COUNCIL

Subject: **ANNUAL GOVERNANCE STATEMENT 2013/14**
Meeting: **AUDIT COMMITTEE**
Date: **23 June 2014**
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 2014 and to seek approval of a draft Annual Governance Statement for inclusion in the Council's 2013/14 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 prepare an Annual Governance Statement (the Statement) based on a review of their own arrangements.

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 2014. 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 2013/14 Annual Accounts.

3.   RECOMMENDATIONS

3.1   **Members are invited to:**

    3.1.1   note this 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 2013/14 Annual Accounts.

…...

Chief Executive

Date: 13 June 2014

Falkirk Council

Annual Governance Statement – 2013/2014

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. Public money must be used economically, efficiently, and effectively, and with due regard to the achievement of sustainability. To help ensure that these responsibilities are met, the Council must put in place, and apply, robust governance arrangements.

2.   Responsibility for ensuring good governance is shared by all Council employees and elected Members. To demonstrate the Council's commitment to 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*'. This defines governance as doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner. Fundamentally, this relates to the way the Council is directed and controlled, and through which it engages with the community[1]

3.   Preparation of this Statement meets the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Falkirk Council's Governance Framework

4.   The following sections summarise the key elements of Falkirk Council's governance framework, set out within the context of each 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

5.   The Falkirk Council area continues to change for the better. Over the course of 2013/14 the commencement of work on the innovative Tax Incremental Finance scheme, which will improve our infrastructure and attract business to the area, and the successful global launch of the Kelpies, are two very visible examples of the area's commitment to self improvement despite the continuing, difficult, financial climate.

6.   To give structure to that improvement, the Corporate Plan 2012-17, 'One Council One Plan', sets out the Council's vision and ambition; goals, outcomes, and priorities; and operational focus. The Corporate Plan is available on the Council's website (www.falkirk.gov.uk), and all Services have developed their own Plans building on these high level goals. The Corporate Plan continues to be underpinned by the 'Falkirk Area Strategic Community Plan 2010-15' and related 'Single Outcome Agreement 2013-15'.

7.   There are, of course, risks and barriers to achieving the ambitious goals the Council has set itself. This is well understood, and the October 2013 approval by the Council's Executive Committee of a revised and updated Risk Management Policy and Framework facilitated a subsequent review of operational risk management arrangements. This has allowed managers to build a more comprehensive and prioritised picture of the risks faced by the Council, allowing these to be carefully managed in a pragmatic and proportionate way. Allied to that, the Corporate Risk Management Group has undertaken a detailed review of the Council's working group structure, rationalising this to ensure clarity of purpose and clear linkage to our Corporate Plan.

8.   The Council continues to operate within a climate of financial constraint, and significant savings will be required in the coming years. Robust financial stewardship and managed use of reserves will be necessary to ensure that the impact on communities is minimised, and the need to allocate and use resources

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[1] **NOTE**: any review of governance can provide only reasonable (not absolute) assurance that policies, aims, and objectives are being applied and implemented as intended.

in a way that maximises their value is self evident. The Council has established a business transformation team to examine ways of improving service delivery, and the annual budget process continues to be developed and adapted to ensure that options are considered in an open, transparent, and inclusive way.

9.   As in previous years, financial performance is reported publically via the Annual Report and Accounts (which are available on the Council's website).

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

10.   Falkirk Council has a history of effective engagement between Officers and elected Members, based on clear Standing Orders comprising procedures for Committee meetings, a Scheme of Delegation to Committees and Officers, Contract Standing Orders, and Financial Regulations. All elements of Standing Orders have been reviewed and updated to take account of the revised decision making structure.

11.   This structure has now been in place for around a year. There has been much debate over the course of that year in relation to the revised structure, and participation has not been universal. Clearly, participation across all political groups is desirable and, with that in mind, a reflective review of the revised structure is to be undertaken. Allied to that, the Council's appointed External Auditors, Audit Scotland, have raised their concerns around the sustainability of the current position and will continue to maintain a keen interest. Officers and Members will, in the coming months, require to work very closely and collaboratively to ensure that the outcomes of the review result in a stable and sustainable structure.

12.   This is particularly important when considered in the wider context of the significantly changing environment within which the Council will operate over the course of 2014/15. The implications of Health and Social Care integration will be far reaching, both strategically and operationally, and will require effective and streamlined decision making. Similarly, the impacts of Welfare Reform continue to be felt by Council Members and Officers involved in implementing the changes and, more importantly, by the people of the Falkirk Council area. The need for Members and Officers to work effectively together, then, goes without saying.

13.   The Council's Corporate Management Team (CMT), comprising Directors and Chief Officers, meets regularly throughout the year. CMT, and associated Departmental Management Teams, remain key to ensuring that resources are effectively directed towards delivering Council priorities and for helping the Council make informed, evidence based decisions. CMT recognises the need to streamline operational processes and practices, balancing service delivery and good internal control, while taking cognisance of the outputs of the Council's risk management framework.

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 Members are expected to abide by the Standards Commission Scotland's Councillors' Code of Conduct. Protocols are in place setting out arrangements for governing Member / Officer Relations and all staff are required to comply with the ethical requirements of any professional bodies of which they are members. Fundamentally, all Officers and Members are required to demonstrate and maintain the appropriate levels of leadership and governance.

15.   Registers of gifts and hospitality are in place, and staff are required to notify and record any extramural employment. A Confidential Reporting Policy / Procedure and an Anti-Fraud and Corruption Strategy are in place, and this Strategy will be updated during 2014/15. This will allow the requirements of the Bribery Act 2010, guidance from the Police Scotland Public Sector Counter Corruption Unit, and findings emerging from the Scottish Government's Cross Sector Counter Fraud Forum to be fully considered and reflected. The Council participates in the National Fraud Initiative, and Officers work closely with Police Scotland on the risks posed by Serious Organised Crime.

16.   The Corporate Management Team continues to foster a culture of fraud awareness, prevention and detection, and relevant policies and procedures are clear on the disciplinary consequences arising from non-compliance. Over the course of 2014/15 detailed consideration will be given to the establishment of a team tasked with identifying and investigating non-benefit related fraud. The timing of this will dovetail with the

formation of the Department for Work and Pensions Single Fraud Investigation Service, and will add to the Council's level of fraud resilience.

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

17.   As mentioned at paragraph 7 above, much work was undertaken during 2013/14 to further develop the Council's risk management arrangements, building on training provided to all Service Unit Managers. The new Policy and Strategy provides a framework for managers and risks are considered as a matter of course as part of all strategic and operational decision making and Strategy / Policy development.

18.   The risks associated with the emerging Health and Social Care integration picture will, for example, require to be carefully managed with partners, to ensure that the transition happens smoothly and in line with the required timescales. Similarly, the ongoing roll-out of Self Directed Support across the Social Work Service has required the application of sound risk and project management skills.

19.   The Cabinet Office's requirement that all Local Authorities comply with the Public Services Network Code of Connectivity also necessitated careful management of risk. The Council successfully attained the required standard towards the end of 2013, with a further series of actions to be completed ahead of re-accreditation during 2014/15. The risks associated with non-compliance are serious, impacting on all Council Services, and it is crucial that appropriate resource and priority is allocated to the on-going re-accreditation process (building on the Technology Strategy approved by Executive Committee in March 2014).

20.   Management of risk is also a key element of the Council's premises management arrangements, which aim to make our buildings a healthy and safe place for staff and visitors. These arrangements are now well understood, with annual statements of assurance considered by Corporate Risk Management Group.

21.   Overarching responsibility for monitoring the adequacy of risk management arrangements (along with those for governance and control) rests with the Council's Audit Committee. The Committee is chaired by an external lay member and met four times during 2013/14. The Committee is now a well embedded element of the Council's governance structures and is effective in monitoring risk management, Internal and External Audit activity.

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

22.   The Council's Achievement and Professional Development Scheme allows staff to identify and work towards aims and objectives consistent with wider organisational goals. Professional staff are bound by the Continuing Professional Development requirements of their professional Institute and various Council Services have achieved accreditation with Investors in People. The Council is committed to the development of its staff, particularly at a time when the risk profile is changing and staff are undertaking different and more varied tasks.

23.   Elected Members are able to access a 'Development Area' on the Council's Intranet. This includes various induction materials and links to online training designed to support Members throughout their term.

24.   Staff are also able to access on-line training modules on various management and operational processes. Completion of training modules can be monitored and the on-line platform ensures that access to good quality training is far more widely available than via traditional face to face training (which is still provided where relevant).

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

25.   Community participation and consultation is well embedded within Falkirk Council. Over the course of 2013/14 the Council has, for example, sought to engage on issues such as the Allocation of Council Housing, Welfare Reform and school transport, as well as undertaking a survey with young people in Bonnybridge. This complements feedback received via the existing Citizen's Panel, which has had another busy and productive year.

26.   All consultation activity is available via the Council's website. The website also allows stakeholders to access Council Strategies and Policies, download Committee agendas and papers, and interact with the Council on-line (for example to pay Council Tax or Non-Domestic Rates, make a planning application, request a special uplift, etc). Over the course of 2013/14, Officers have been working on the development of a new website, using more modern technology to allow access across a wide range of devices. The new website will also be more intuitive and user friendly and will again increase the level of information and functionality available to stakeholders. The site will be launched during the summer of 2014 and will be updated and refreshed on an ongoing basis thereafter.

27.   The Council has an active Twitter account, supporting the main website and acting as a source of 'live' information on, for example, travel, new initiatives and events to be held in the Falkirk area. Several schools also have their own Twitter accounts as a means of communicating with parents and carers.

Monitoring and Review of Governance Arrangements

28.   Falkirk Council's governance arrangements are formally monitored via:
- the Committee framework, including the Audit Committee;
- Corporate and Departmental Management Teams;
- Corporate Risk Management Group and other Corporate Working Groups;
- Internal and External Audit work; and
- the work of Falkirk Council's Local Area Network.

29.   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

30.   This section 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 2014. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control. That said, it should be noted that the system of internal financial control can provide only reasonable (not absolute) assurance that: assets are safeguarded; transactions are authorised and properly recorded; and material errors or irregularities are either prevented or detected.

31.   The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations and associated guidance; delegation and accountability; budgeting systems; clear financial targets; and robust management information.

32.   The Council's Internal Audit Section provides an independent assessment of arrangements for risk management, governance and control. The Section undertakes an annual, risk based, programme of work approved by the Chief Executive, Chief Finance Officer and Audit Committee.

33.   The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Section, including annual self assessment and periodic external assessment of compliance with the Public Sector Internal Audit Standards. An initial self assessment has been undertaken, demonstrating broad compliance with the Standards. In addition, the Council's appointed External Auditors, Audit Scotland, have undertaken an assessment of the adequacy of the Internal Audit function and concluded that they are able to place reliance on Internal Audit work.

34.   All Internal Audit reports are issued to the relevant managers 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, and recommendations which remain outstanding beyond their agreed implementation date, are brought to the attention of Audit Committee.

35.   The Audit Committee operates in accordance with relevant CIPFA guidance. The Committee is chaired by an external lay member and has a remit to provide:

- independent assurance 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 Annual Accounts are properly dealt with.

36. The Committee considers the Internal Audit Manager's Annual Assurance Report, which provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance and control. In his 2013/14 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 2014.

37. 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, Internal Audit and External Audit. Based on his considerations, 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 2014.

38. In relation to other entities that fall within the Council's group boundary, the Chief Finance Officer's review is informed by the:
- Statement on the System of Internal Financial Control included within the Annual Accounts of Central Scotland Valuation Joint Board;
- Statements of Assurance from the Chief Executives of Falkirk Community Trust and Falkirk Community Stadium Limited; and
- work of these bodies' respective External Auditors (and, where relevant, Internal Auditors) and other interim reports.

39. 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 of other bodies falling within the Council's group boundary.

40. In undertaking his duties, and in forming the above opinions, the Chief Finance Officer worked in conformance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Governance Arrangements – Areas for Improvement

41. Falkirk Council is committed to ensuring robust and proportionate governance. That said, the ever changing environment within which the Council operates, means that there will always be scope for improvement. Areas that will be addressed over the coming year include:

- Officers and Members will review and reflect on the Council's revised decision making structure;

- senior managers will continue to plan for, and manage, the risks associated with Health and Social Care integration and Welfare Reform;

- the Council's Anti Fraud and Corruption Strategy will be updated and detailed consideration will be given to the establishment of a team tasked with identifying and investigating non-benefit related fraud;

- Public Services Network re-accreditation will be given the appropriate priority; and

- the re-development of the Council's website will be completed.

Conclusion

42.   This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for 2013/14 and the period to date. It highlights areas for improvement and is consistent with the Council's established improvement agenda.

- 40 -

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Councillor Craig Martin   **Mary Pitcaithly**

Leader of Falkirk Council   **Chief Executive of Falkirk Council**

23 June 2014   **23 June 2014**

Falkirk Council

External Audit Progress Update Report

AUDIT SCOTLAND

Prepared for Falkirk Council Audit Committee

June 2014

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

Annual Audit Plan 2013/14

1. Our Annual Audit Plan (AAP) 2013/14 provides a summary of planned outputs for the year and the timescales for delivery. Appendix 1, accompanying this update, provides a summary of progress against the Annual Audit Plan. To date we are on schedule to deliver all outputs by the planned dates.

Governance work

2. **Review of internal audit**. We plan to place formal reliance on internal audit work on general services capital programme and debtors for the purposes of our financial statements responsibilities. This allows us to avoid duplication of effort and focus on other areas of risk. We have also agreed to meet with the Internal Audit Manager on a regular basis throughout the year to discuss audit issues and share information and intelligence.

3. **Internal Controls**. We have completed and reported on our work on the systems of internal control. Our work involved detailed testing of a number of systems:

   - Payroll

   - Trade payables

   - Council tax billing and collection

   - Non-domestic rates billing and collection

   - Housing rents

4. We also carried out some focused testing on a number of other systems including general ledger and trade receivables. There were no high risk issues that we require to draw to members' attention although we did identify a number of areas where controls could be improved. We have agreed an action plan of improvements with management. We will monitor this later in the year to confirm implementation. This is a requirement of Audit Scotland's Code of Practice.

5. **National Fraud Initiative** (**NFI).** NFI is the biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies on their financial systems to identify potential fraud, error or anomalies. It is part of the statutory audit.

6. As part of our work on NFI we monitor the council's arrangements throughout the year for prioritising and investigating data matches. We will be reporting our findings through the medium of the 2013-14 Annual Audit Report.

Performance

National Performance Studies

7. Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. A number of reports have been published since the last meeting of the Audit Committee in March which will be of interest to members and are summarised below:

8. **AN OVERVIEW OF LOCAL GOVERNMENT IN SCOTLAND 2014 (March 2014)**: The report is based on the local government audit work in 2013. This work was used to provide a high-level, independent view on the progress councils are making in managing their finances and in achieving Best Value, and to help councillors identify priorities in 2014.

9. The report is primarily for councillors, as a source of information to support them in their role. However, councillors will need to work closely with officers to identify the position in their councils and to address the priorities we identify. We also expect councils to discuss the report with their community planning partners.

Key messages

10. Councillors need to maintain a good understanding of the rapidly changing economic, social and political context. Demands on services and resources continue to increase and need to be managed alongside public service reforms, including changes in the welfare system and in health and social care.

11. Achieving Best Value requires good information about the cost and performance of current services and robust analysis of the options and the related risks associated with alternative ways of delivering services.

12. Governance is more important than ever. Councillors need to scrutinise reports from officers on the financial position and service performance: get the right information; ask the right questions; and ensure issues are resolved. They also need to scrutinise reports from auditors and get assurances from officers that weaknesses in financial systems are addressed. Councillors should assure themselves that the officer responsible for the council's finances retains appropriate access and influence within management structures.

13. The total level of reserves has increased but the level of 'free' reserves has fallen, with councils predicting future funding gaps. More work is needed to develop longer-term resource plans that show connections between savings, staff changes and how assets, such as land and buildings, are used to best effect in providing services.

14. Councils are working with their partners to meet the challenges of significant service reforms. Achieving more from Community Planning Partnership (CPP) working requires strong shared leadership, more effective governance and making the most of the combined public sector resources in the area.

15. There is increased evidence of political tensions and instability which is leading to strained working relationships. This comes at a time when decisions on services are becoming increasingly difficult and require strong political and managerial leadership. There will be additional demands on councillors in the run-up to the independence referendum. This will require a balance between their council responsibilities and their wider political activities.

Key recommendations

16. Councils continue to face significant challenges. They need to review how services are currently delivered and consider options as to how services might be delivered in future. They also need to increase the focus on partnership working and longer-term resource planning. Councils that place Best Value at the heart of all they do are best placed to deal with the challenges in 2014 and beyond.

17. The report also outlines the key priorities for councillors in 2014, as follows:

- ***Understanding the changing context and the crucial role of councillors***

    − Maintaining a clear understanding of the financial position.

    − Understanding the public reform agenda, including the impact of welfare reform.

    − Preparing for changes in health and social care.

    − Keeping up to date through training and development.

- ***Meeting user demands and the financial challenges***

    − Appraising the options for delivering services and charging for services.

    − Requiring good-quality cost and performance information for decisions and scrutiny.

    − Making better use of benchmarking to support service improvement & public reporting.

- ***Providing strong leadership and governance to support change***

    − Maintaining good professional working relationships and providing strong political leadership.

    − Getting assurance that governance is sound, including where arm's-length external organisations (ALEOs) are in place.

    − Providing stronger leadership of CPPs and working with partners to make the best use of the overall public resources available in the area.

18. **PROCUREMENT IN COUNCILS (April 2014):** The aim of the audit was to assess whether councils are efficiently and effectively managing how they procure goods and services.

Key messages

19. Councils spent over £5.4 billion on goods and services in 2012/13; over half of the total public sector procurement spends in Scotland. This spending is extremely diverse, although more than half is on social care and construction. Since 2006, initiatives by the Scottish Government and Scotland Excel have led to significant changes in councils' procurement practices.

Procurement now has a higher profile and councils are buying more goods and services collaboratively. New legislation and EU directives will bring about further change.

20. Councils can use procurement to improve service quality and achieve benefits for the community. Councils are systematically using procurement spending to support local economic development. Councils have recently begun to make community benefits such as apprenticeships and environmental improvements an integral part of contracts.

21. Councils' spending through collaborative contracts set up by the Scottish Government and Scotland Excel has increased by over 80 per cent over the past three years to £503 million, but accounts for only 9.3 per cent of their total procurement spend. This percentage is likely to increase further as Scotland Excel and the Scottish Government introduce more collaborative contracts. The Scottish Government, Scotland Excel and councils reported total procurement savings of £71 million in 2012/13, 1.3 per cent of procurement spend; with £43 million (61 per cent) of these savings arising from Scotland Excel or Scottish Government collaborative contracts. Councils are relying on procurement to generate savings to meet budget pressures, but some of their savings calculations may not be reliable or may be incomplete. Further savings are possible if councils make greater use of collaborative contracts and replace paper-based systems with 'purchase to pay' compliant ICT systems.

22. Councils and Scotland Excel have used the Procurement Capability Assessment process to improve procurement practice. All councils have improved their procurement capability since 2009; however, the average assessment score has only reached 56 per cent. The rate of improvement varies among councils and some need to improve more quickly. Councils that invest in qualified improvement staff and improved systems can both improve service quality and achieve financial savings.

Key recommendations

23. **Scotland Excel should**:

   - set realistic timescales and savings targets for contracts, particularly in new areas of contracting.

24. **Council staff involved in procurement should**:

   - submit accurate and complete information to the procurement Hub on a regular and timely basis (ideally quarterly, and as a minimum within three months of the end of the financial year)

   - engage earlier with suppliers and the people who use public services to help develop contract specifications that more accurately reflect service user requirements and allow for greater innovation within contracts

   - make full use of national collaborative contracts and provide a clear explanation for non-participation in these contracts to the relevant council committee

   - calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement.

- make better use of market research, cost avoidance and improved contract management to identify savings and potential service improvements

- examine the benefits of joint working or joint procurement teams as a way of securing economies of scale and creating collaborative contracts.

- aim to achieve the superior performance level in the PCA, particularly in relation to:

    - spend covered by an agreed commodity strategy

    - participation in Scotland Excel contracts

    - automation of procurement and payment processes

    - spend captured in the council's contract register.

25. **Councils' corporate management teams should**:

- benchmark their procurement staffing against similar-sized councils with higher PCA scores and, where appropriate, produce a business case for employing additional qualified procurement staff where they have lower staffing levels.

26. **Councils should**:

- encourage elected members sitting on the main committee(s) dealing with procurement to complete specific training to help them undertake their governance role more effectively.

27. **FALKIRK COMMUNITY PLANNING PARTNERSHIP (May 2014):** In 2012, the Scottish Government asked the Accounts Commission to lead audits of individual Community Planning Partnerships (CPPs) to assess their performance. During 2012-13 Audit Scotland reviewed three CPPS. The audit of Falkirk Council is one of five CPP audits being carried out in 2014/15. The key findings from the report are summarised below:

- The Commission recognises a strong record of collaborative working in Falkirk which has been of benefit to the area. We believe, however, that Falkirk Community Planning Partnership needs to demonstrate a shift from facilitating to leading partnership working, driving the pace of change and delivering better outcomes for the people of Falkirk.

- While it is encouraging that the partnership has a well established vision for the area, it now needs to determine its most important priorities and set clear targets and milestones. It is, for example unclear how inequalities in the Falkirk area are being prioritised and tackled.

- The Commission believes that the partnership has a good understanding of how it can work better and where it needs to improve. But its Leadership Board needs to show stronger leadership in the following areas:

    - setting a clear and strategic improvement agenda

    - holding partners to account for their contribution

    - helping partners overcome barriers to information sharing

- putting in place an effective system of performance management and scrutiny to measure and monitor progress against priorities

- ensuring its improvement group fulfils its crucial role in implementing the operational improvements the partnership knows it needs to make.

- The Commission notes individual partners' engagement with communities in Falkirk. We underline the potential to the partnership of evaluating this activity when developing its approach to involving local people in community planning.

- As with other Community Planning Partnerships that have been subject to this audit, the partnership needs to do more to align partners' resources to agreed local priorities and how it identifies, allocates and redirects resources to these priorities. We also stress the importance, especially for Falkirk Council and NHS Forth Valley, of clarity of relationship and effective joint working between the Community Planning Partnership and the proposed health and social care partnership.

28. Audit Scotland expects that councils have a formal process in place for national performance reports to be reviewed and scrutinised by an Audit Committee or equivalent. This is to ensure that action is being taken locally to make improvements. Full copies of all our national reports are available for download from the Audit Scotland website (www.audit-scotland.gov.uk).

Local Performance Audit Work

29. In the current year the main focus of our local performance work will be on a targeted follow-up of two national reports:

- Major capital investment in councils (March 2013)

- Arms Length external Organisations: are you getting it right? (June 2011).

30. **Major capital investment in councils**: The follow-up audit is being carried out at all 32 councils in Scotland with more detailed work (Stage 2) being carried out at nine selected councils. Falkirk is not one of the councils selected for Stage 2 review.

31. At a local level, the overall aim of this follow-up work is to answer specific audit questions:

- Have the recommendations from the report *Major capital investment in councils* been considered and effectively implemented?

- Do councils have sustainable capital investment plans which reflect strategic priorities?

- Are elected members provided with sufficient information to support effective scrutiny and decision-making?

32. We have completed our fieldwork and are due to issue a draft report in early course. There are no significant emerging issues that we would require to draw to members' attention at this point. The full report will be available at the next meeting of the Audit Committee.

33. **Arms Length External Organisations (ALEOs): are you getting it right?** The original report was part of the 'How councils work' series. It was aimed at all councils that were considering setting up ALEOs to deliver services, as well as those with existing ALEOs. The report was designed to promote and encourage good practice in the way ALEOs are set up

and operated. The report included a toolkit for improving the governance of ALEOs and this will be used in the current year to assess the governance arrangements of Falkirk's ALEOs.

34. We have completed our fieldwork and reported our findings to management. The key point that we would wish to highlight is that in the interests of scrutiny we would encourage all opposition members previously offered places on the Board of Falkirk Community Trust to take up their positions as vacancies arise

Assurance and Improvement Plan

35. The Assurance and Improvement Plan (AIP) sets out the planned scrutiny activity in Falkirk Council between April 2014 and March 2017. The AIP is based on a shared risk assessment undertaken by a local area network (LAN). There is a LAN for each council, comprising representatives of all the scrutiny bodies who engage with the council. The aim of the shared risk assessment process is to focus scrutiny activity where it is most needed and to determine the most proportionate scrutiny response over a three year period.

36. The AIP noted a number of areas of improvement particularly risk management and new developments in relation to performance management. The LAN agreed that there were two key areas where targeted Best Value work should be undertaken:

   - **Governance and accountability** - Audit Scotland's annual audit report 2012/13 noted that new decision making structures were approved by the council in 2012/13 with the first meetings taking place in May 2013. These new arrangements have only recently been implemented and not all members are participating in every aspect of the new decision making structures. This could undermine local governance and scrutiny arrangements. The targeted best value audit work will aim to establish the effectiveness of the new arrangements and will consider any post-implementation review carried out by the council.

   - **Performance management** - Audit Scotland has noted a number of developments in the area of performance management, including the introduction of a peer scrutiny review process and the establishment of a performance panel to promote challenge and improvement across the council. The Council's Public Sector Improvement Framework programme now covers all services over the period 2013 -2015. However, these developments are still in their very early stages and the LAN has concluded that targeted best Value work should be carried out to ensure that all aspects of performance management and scrutiny are well progressed and working effectively.

37. The targeted Best Value work is scheduled for this autumn and the plan is to try and complete this work in sufficient time to report through the medium of our 2013-14 Annual Audit Report which has a reporting deadline of 31 October 2014.

38. The AIP was discussed and agreed with management prior to publishing on Audit Scotland's website (www.audit-scotland.gov.uk).

Financial statements

39. **Financial statements audit 2013/14.** We have met with senior finance officers to discuss the timing of the financial statements audit planning. We have also issued finance staff with a detailed list of working papers that we require to carry out the audit efficiently. We expect to receive a draft set of accounts with comprehensive supporting working by 23 June 2013. We have planned and resourced the audit on that basis and we aim to have the bulk of our audit work completed by the end of August.

40. We have carried out some early substantive work on pay expenditure and capital. This should allow us to issue a proposed audit opinion by 15 September 2014 although the prescribed deadline for issuing our audit opinion is not until 30 September 2014.

41. We also meet regularly with senior finance staff to discuss potential accounting issues that could impact on the financial statements. In addition, we share technical advice provided by our Technical Services Unit to ensure that emerging issues are resolved quickly. This ensures that we are sighted on the key areas of risk.

Appendix 1

Progress against Annual Audit Plan 2013/14

Planned outputs	Target delivery date	Actual delivery date
Governance		
Review of adequacy of internal audit	31 January 2014	7 January 2014
Annual Audit Plan	31 March 2014	14 February 2014
Assurance and improvement plan update	19 May 2014	11 April 2014
Internal controls management letter	30 June 2014	27 May 2014
Computer services review follow-up	31 July 2014	On target
Performance		
Targeted follow-up of performance audit: ALEOs	31 May 2014	30 May 2014
Targeted follow-up of performance audit: Major capital investment in councils	30 June 2014	On target
Financial statements		
Report to Audit Committee in terms of ISA 260 (communication of audit matters to those charged with governance)	30 September 2014	On target
Independent auditor's report on the financial statements	30 September 2014	On target
Audit opinion on Whole of Government Accounts	3 October 2014	On target
Annual report to Members and the Controller of Audit	31 October 2014	On target

AUDIT SCOTLAND

Mr Bryan Smail
Falkirk Council
Municipal Buildings
West Bridge Street
Falkirk
FK1 5RS

27 May 2014

Dear Bryan

Falkirk Council 2013/14
Review of Systems of Internal Control

Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that Falkirk Council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests

- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption

- complies with established policies, procedures, laws and regulations.

The purpose of this review was to evaluate whether the internal controls operating within the main financial systems are adequate so as to enable us to place reliance on them when forming an opinion on the 2013/14 financial statements. It should be highlighted that these reviews were restricted to the key controls in place to meet our audit objectives for each system.

In accordance with *International Standard on Auditing (ISA) 330: the auditor's response to assessed risk* paragraphs 14 and 15 our audit judgements are based on current year testing of controls and where appropriate, prior year results. Our risk based audit approach allows us to take a 3 year cyclical approach to system controls testing. This enables us to place assurance on previous years' audit work where the system controls are unchanged and no significant weaknesses were identified.

The table overleaf summarises the main financial systems that were tested during 2013/14. It also identifies those where we are placing reliance on prior years' testing and those where we have placed formal reliance on internal audit work to avoid duplication of effort:

Providing services to the Auditor General for Scotland and the Accounts Commission

System	External audit testing in 2013/14	Reliance on prior year audit work	Reliance on aspects of internal audit work in 2013/14
General ledger		✔	
Payroll	✔		
Capital accounting		✔	✔
Cash and cash equivalents		✔	
Treasury management		✔	
Trade receivables		✔	✔
Trade payables (including corporate procurement cards)	✔		
Council tax billing and collection	✔		
Non-domestic rates billing & collection	✔		
Housing rents	✔		

Note - internal audit findings do not feature in this letter and are reported separately to management.

Audit Findings

Overall, we have concluded that the key controls within the council's main financial systems are operating satisfactorily. Where controls have not been tested or where the evidence of a control's effective operation does not exist, we will adjust our planned coverage of the financial statements to obtain sufficient evidence that they are free of material misstatement.

Based on the audit work we carried out we did not identify any areas exposed to significant risk. However, there are some areas where there is scope for improvement and these are included in the action plan agreed with management which accompanies this management letter.

A number of other minor issues were also identified and notified to management during the course of our audit work but these do not feature in this letter.

Follow-up of 2012/13 internal controls management letter

We also followed up the issues reported to management in 2012/13 to ensure that progress has been made in implementing the agreed actions. Of the 12 issues and risks reported last year, we have identified 5 where the action is either outstanding or the action taken has not led to improvement. These issues have been included in the 2013/14 action plan and we will continue to monitor progress in these areas.

Mr Bryan Smail
Falkirk Council

27 May 2014

Management Action

The weaknesses identified in this management letter are only those that have come to our attention during the course of our normal audit work and, therefore, are not necessarily all the weaknesses that 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 decide on the extent of the internal control systems appropriate to Falkirk Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

The matters included in the action plan at Appendix 1 have been discussed and agreed with management.

Acknowledgement

The contents of this management letter have been agreed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Yours sincerely

Jim Rundell
Senior Audit Manager

Email: Mary Pitcaithly, Chief Executive
            John Flannigan, Depute Chief Finance Officer (Corporate Finance)
            Susan Mathers, Depute Chief Finance Officer (Revenues and Benefits)
            Paul Ferguson, Revenues Manager
            Ian Renton, Payroll Manager
            Gordon O'Connor, Internal Audit Manager

Providing services to the Auditor General for Scotland and the Accounts Commission

Falkirk Council 2013/14
Review of Systems of Internal Control

Appendix 1
Action Plan - Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
Payroll			
1	Our testing confirmed that payroll output was reconciled to the financial ledger on a quarterly basis throughout the year in accordance with established procedures. However, we noted that reconciliations are still not being independently checked and authorised by a more senior officer. ***Risk: there is a risk that any discrepancies between payroll output and amounts posted to the ledger are not identified promptly and become difficult to clear.*** *Also reported in 2012/13.*	The reconciliations are already undertaken at quite a senior level typically by a Payroll Team Leader or Payroll Officer. Since no further checking is undertaken, it is questionable what value is added to the control by the additional check and countersignature. The current procedure will be reviewed together with Internal Audit.	Payroll Manager (30 Sep 2014)
2	Manual forms are used to process new starts and leavers in some services. These forms are also used to process overtime and staff expenses. Our testing highlighted that payroll staff cannot always identify the authorising officer from their signature before they are processed. Manual forms do not always request the authoriser's name to be printed while the authorised signatory list maintained by the payroll section is incomplete. ***Risk: there is a risk that manual forms are processed by payroll without the appropriate authorisation leading to an increased risk of fraud or error.***	This relates to a small group of individuals i.e. Modern Apprentices and Skill Seekers who are not part of the Falkirk Council establishment and who cannot, therefore, be processed through the electronic HR Forms Online system. Arrangements will be made to bring the Authorised Signatory lists up to date for this group of individuals and to undertake a 100% check of the paper new start forms.	Payroll Officer (Operations) (30 June 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
3	Monthly payroll reports are sent to departments for employee details to be verified. Services are required to notify the payroll section of the outcome of these checks to provide assurance on the accuracy of payroll data. At the time of our review several services had not notified payroll staff for a number of months. **_Risk: there is a risk of inaccurate or fraudulent payments being processed_**. *Also reported in 2012/13.*	This position has improved considerably since the audit was carried out with most Services being no more than two months outstanding. A new technology based solution is being developed so that the reports are distributed more readily and so that Managers can view the reports online. This should allow earlier confirmation that the reports have been checked. The Payroll Manager will meet with the Internal Audit Manager and Depute Chief Finance Officer to discuss how the current arrangements can be streamlined without compromising the control and to agree an escalation process where verification is not received timeously.	Payroll Manager (30 Nov 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
		.	
4	Payroll exception reports (e.g. percentage differential between actual and expected pay, high overtime, errors and warning) are produced for internal control purposes. It is important that these reports are reviewed and corrective action taken where necessary. Our testing highlighted that exception reports are not always signed and dated as evidence of review and confirmation that appropriate follow-up action has been taken. **Risk: there is a risk that payroll errors are not detected and corrected promptly.** *Also reported in 2012/13.*	An additional Item will be added to the Pay run Checklist to require Payroll Team Leaders to confirm that all pages of the reports have been checked, signed and dated. Payroll Team Leaders will be reminded of the need for this confirmation with the Payroll Officer (Operations) carrying out regular spot checks to ensure completion.	Payroll Officer (Operations) (1 June 2014)
5	Weekly audit reports are produced for all new starts, leavers and bank detail changes. The details in these reports are checked by a member of payroll staff. The audit reports can run to a number of pages in length and consist of a number of separate reports for different pay runs. As a result the reports are distributed amongst the payroll team for checking. We identified a number of instances where the reports had not been signed and dated as evidence of checking. **Risk: there is a risk that inaccuracies in the audit reports are not identified promptly and investigated.**	There is already an Item on the Pay run Checklist that prompts Payroll Team Leaders to confirm that Audit reports have been run and checked. The wording will be amended and Payroll Team Leaders reminded of the need for this confirmation with the Payroll Officer (Operations) carrying out regular spot checks to ensure this.	Payroll Officer (Operations) (1 June 2014)

Providing services to the Auditor General for Scotland and the Accounts Commission

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
6	We tested a sample of 15 changes to employee bank details. In one instance officers were unable to locate the authorised form to support the change made although there was evidence that the change had been checked on the monthly audit report. It is essential that all documents containing personal details are stored securely. *Risk: personal details of an employee could be accessed by an unauthorised person.*	Whilst the form could not be located, there is evidence on the Audit report that it was checked. It is considered that the instance identified was an exception and not indicative of a general weakness. Nevertheless, a reminder will be issued to staff regarding the need to ensure that documents are filed accurately.	Payroll Manager (1 June 2014)
Council tax			
7	It is the council's policy to carry out monthly sample checks on council tax input (e.g. discounts/exemptions applied) to ensure the accuracy of processing. At the time of our review these checks were not taking place. *Risk: erroneous input may not be identified and corrected promptly.*	Sample checking was carried out for both Council Tax Reduction (as part of housing benefit checks) and for new employees but it is accepted that resources were not allocated to any further sample checks during period of material backlogs. Sample checking will now take place at each billing run (currently daily) to ensure accuracy of sample of awards prior to issue of demand notices (demand notices are automatically generated when any relief is added or removed). This will ensure that all processed changes are adequately sampled and any errors corrected prior to	Revenues Manager (from May 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
		customer receiving notification.	
8	Our review found that there are some differences in the weekly reconciliation between the properties on the council tax listing and those on the assessor's records. On investigation we found that a number of these were not valid differences and occurred due to problems with the system's ability to recognise certain characters. **Risk: there is a risk that the reconciliations are ineffective if officers cannot establish where real differences exist.**	Paul Ferguson, Revenues Manager, has made contact with the Assessor to try and have these errors fixed. All errors bar one have been fixed as at 25/4/14. It should be noted that throughout the period these differences were displayed on the report we were able to evidence that there was no error on council tax system and the delay in resolving was due to the fact that this was not a material issue. This did not prevent appropriate identification and resolution of genuine errors.	Revenues Manager (30 June 2014)
9	We reviewed a sample of five weekly assessor compare reports and noted that there was no clear evidence that reconciling differences had been investigated and cleared. **Risk: there is a risk that differences between the council tax listing and the assessor's records are not fully investigated.**	A process is now in place to run a report the day after corrections are made to demonstrate that the reconciling differences have been cleared.	Revenues Manager (from March 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
10	We tested a sample of 30 council tax arrears cases to ensure that the debt was pursued in accordance with the council's prescribed timetable. Our testing highlighted one case where arrears had not been followed up within the prescribed timetable. In this case special arrangements for payment were agreed, however, this was later amended and the customer did not pay. A second reminder was not sent to the customer until later in the year due to the fact that the council tax system does not automatically identify changes made in relation to special payment arrangements. **_Risk: there is a risk that similar arrears balances are not being identified and investigated._**	The process for recovery in relation to failed special arrangements was not as slick as we would have liked during 2013/14 but that has been improved and failed arrangements are captured timeously and recovery progressed. This was due to some inexperience with the new system.	Revenues Manager (from 1st April 2014)
Non-domestic rates			
11	Revenues staff to carry out monthly sample checks on non-domestic rate input (e.g. new reliefs applied, rateable value changes) to ensure that data has been processed accurately. At the time of our audit there had been a significant delay in completing these sample checks. **_Risk: erroneous input may not be identified and corrected promptly._**	Delays exacerbated by system conversion but 'real-time' sample to be introduced at billing stage (similar to Council Tax) to avoid recurrence.	Revenues Manager (from May 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
12	Our review of the annual billing reconciliation between the value and number of bills on Civica Open and the assessment roll identified that although there was evidence that the reconciliations had been performed, there was no evidence to indicate who had prepared and reviewed the reconciliations and when. **Risk: there is a risk that the reconciliations are not completed timeously and reconciling differences go undetected.** *Also reported in 2012/13.*	The relevant files and paperwork were checked and fully reconciled but we accept that the reconciliation is unsigned. It is assumed because of our partial rebill (due to impact of Large Business Supplement) we have not re-performed the authorisation element of this reconciliation. This was an oversight on our part and we will ensure that the reconciliation is signed in 2014/15.	Revenues Manager (from April 2014)
13	The original documentation held in support of charity relief applications has not been retained in all cases. In addition, there is no evidence that a formal review of charity relief cases has been undertaken since the receipt of original applications. **Risk: The absence of a formal review increases the risk that relief is granted in error or to recipients who are no longer eligible to receive relief.** *Also reported in 2012/13.*	Due to time constraints following the system conversion in 2013/14 we were unable to review all reliefs as intended but any outstanding cases will be reviewed in 2014/15.	Revenues Manager (by 31st March 2015)

AUDIT SCOTLAND

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

30 May 2014

Dear Mary

Falkirk Council
Targeted follow-up audit - Arm's-length external organisations: Are you getting it right?

Background

Arm's-length external organisations (ALEOs) provide recognised 'council services' such as leisure services, but they can also manage commercial operations e.g. exhibition facilities and commercial properties. While the ALEO is responsible for providing services, the council remains accountable for the public money it gives to the ALEO and the quality of these services.

Councils in fulfilling their statutory best value duties should consider options for delivering services including the use of ALEOs. ALEOs can offer an alternative means of providing services compared to the more traditional 'in-house' or contract-based approach. Invariably, ALEOs are established as either companies or trusts. There may be benefits in this approach, but there are also risks.

The Accounts Commission's interest in ALEOs dates back to 1996 when it worked jointly with COSLA to produce the *'Following the public pound'* Code. Furthermore, in 2011, the Accounts Commission published *'Arm's-Length External Organisations: Are you getting it right?'*(1). This report set out good practices to be considered when setting up and operating ALEOs.

More recently, following its consideration of a case involving the Highland Council (2), the Chair of the Accounts Commission's wrote to all councils highlighting the serious financial consequences of weak governance in the arrangements for overseeing ALEOs. The Chair took this opportunity to remind councils about the Commission's previous work in this area.

The Commission's ongoing review of ALEOs reflects its interest in ensuring effective governance of public finances and service performance, regardless of the way services are delivered.

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1 How councils work: An improvement series for councillors and officers - Arm's-length external organisations: Are you getting it right?, June 2011 http://www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf
2 The Highland Council: Caithness Heat & Power, Follow-up statutory report, January 2014 http://www.audit-scotland.gov.uk/docs/local/2014/sr_140109_chap.pdf

Audit scope and objectives

The targeted follow-up audit of ALEOs is being carried out across all local authorities in Scotland. The primary aims of the audit are to:

- Provide the Accounts Commission with a position statement on councils' use of ALEOs and, in particular, on progress since the *'Arm's-Length External Organisations: Are you getting it right? (2011).*
- Inform the Accounts Commission's consideration of ALEOs in the context of the public sector audit model.

More specifically, we have been asked to provide a high level assessment of the governance arrangements that Falkirk Council has in place for overseeing its ALEOs. In carrying out this assessment we used the toolkit accompanying the 2011 report.

Our review covered the following ALEOs:

Name of ALEO	Legal status	Services delivered	Turnover	Net assets	Workforce
Falkirk Community Trust Ltd	Charitable company limited by guarantee	Management and operation of a range of community facing sport, recreation, arts, heritage and library services provided by Falkirk Council.	£16.712m	£742,000	344
Falkirk Community Stadium Ltd	Company limited by guarantee	Management and operation of The Falkirk Stadium.	£843,919	£941,047	16
thinkWhere Ltd (formerly known as Forth Valley GIS Ltd)	Company limited by guarantee	Providing location based information products and consultancy services. Provides geographical information services to the council under contract.	£1,396,091	£669,725	25

Key findings

Has the council formally considered the How Councils Work report on ALEOs?

The national report *'Arm's-Length External Organisations: Are you getting it right? (2011) has not been considered by the council's elected members.* Our 2012/13 annual audit report to members highlighted the absence of a formal process by which members consider national audit reports. The Audit Committee has recently approved an approach to address this and, in future, national reports will be considered by an appropriate committee. Members of the committee will have the opportunity to question the relevant senior officer on the council's position in relation to the report and any action

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that has been planned in response. The Audit Committee will be provided with an overview of the council's consideration and response to all national reports to allow the members to retain oversight of the process. We will monitor the effectiveness of the new arrangements through our attendance at committee meetings and our follow-up audit work. In line with ongoing reporting arrangements for local audit findings, this letter is to be considered by a meeting of the Audit Committee.

How clear is the council about its reasons for delivering services through ALEOs?

The decisions to deliver services through ALEOs have been subject to approval by Falkirk Council. Members were provided with a comprehensive and detailed appraisal when considering the delivery of leisure, cultural and library services via Falkirk Community Trust ("the Trust"). The decision to establish the Trust was made in the context of significant financial constraints on the council. The financial element was clearly an important consideration and members were advised on the contribution a Trust could make to bridge the council's savings gap. Other potential benefits of establishing a Trust were explained to members as well as alternative options to a Trust that members could consider.

Similarly, the evidence provided to support the decision to establish thinkWhere Ltd in 2007 was comprehensive and demonstrated that other options were assessed and presented to members for consideration. Furthermore, members requested further information on the proposed business model and financial forecasts. This was provided prior to a final decision being made to proceed with setting up the company.

The proposal to wind up Falkirk Community Stadium Ltd is on the basis that financial loss can be avoided by 'gifting' assets to the Trust. This option was not possible prior to the establishment of the Trust.

How well does the council understand the financial commitment and risk to which it is exposed through ALEOs?

The council is required, as set out in the funding agreement with the Trust, to approve the Trust's business plan on an annual basis including the funding commitment for the year. The information provided to members to inform such approval was comprehensive and detailed. At the 2014/15 council budget meeting, members requested that a separate meeting be held in future years to consider the Trust's business plan. Their view was that more time is required to scrutinise the plan in detail and ensure that there is no risk of it being overshadowed by the discussions around Falkirk Council's annual budget. This demonstrates a good level of self-awareness amongst members of the importance of having sufficient information and time to scrutinise the Trust's activities and funding arrangements.

In terms of Falkirk Community Stadium Ltd (FCSL) and thinkWhere Ltd, members have played a more limited role in the governance of these bodies. As regards Falkirk Community Stadium Ltd the council has only been involved with the company at pivotal moments, including the de-merger in 2009 and the recent proposal to wind up the company. The situation is notably different from that of Falkirk Community Trust because the council does not provide regular significant funding to the company. FCSL does however have accrued debt to the Council of £1.011m which is unlikely to be repaid in the short term. This has previously been reported to members as well as the fact that this is covered by the value of assets within FCSL.

Providing services to the Auditor General for Scotland and the Accounts Commission

How effective are the council's arrangements for monitoring the financial and service performance of ALEOs, maintaining accountability and for ensuring audit access?

The performance of the Trust has been considered by members of the council on a 6-monthly basis since it was established in July 2011. Responsibility for scrutinising the Trust's performance was passed from the Best Value Forum to the Leisure, Tourism and Community Committee in early 2013 and, under the council's revised decision making structure, now lies with the Scrutiny Committee. The most recent report presented to committee was in the style of a *Following the Public Pound* report which covered, amongst others things, performance against key objectives. The report also offered members the opportunity to request further information or follow-up action. This is consistent with good practice.

In addition to the routine scrutiny described above, the council has taken the decision to carry out a comprehensive review of the effectiveness of the Trust. The review is expected to start in the summer of 2014 when the Trust will have been in operation for three years. It is understood the review will be led by the council's Section 95 Officer and full use will be made of the toolkits which accompanied the Audit Scotland report on *'Arm's-Length External Organisations: Are you getting it right?'* The proposed use of toolkits is good practice.

While recognising that the council is following good practice in relation to the Trust, this is not evident to the same extent in the case of the other ALEOs. In particular, we noted that elected members do not routinely monitor the financial and service performance of other ALEOs. The council instead relies on senior officers on the Boards of both Falkirk Community Stadium Ltd and think Where Ltd to identify and inform any issues that should be brought to the attention of the council. It is better practice for members to receive periodic reports on the performance of all ALEOs, even if only to provide positive assurance on their performance *(refer to improvement point 1).*

Where members or senior officers are appointed to the board or equivalent of ALEOs, how clear are they about their roles?

The council agreed on 2 March 2011 that the Board of the Trust would comprise 2 members from the Labour Group; 2 members from the SNP Group and 1 member from the Conservative or Independent Groups or a non aligned member. Opposition members declined at that time and again in May 2012 to take up positions on the Board. This is similar to the position reported in our 2012/13 Annual Audit Report where we commented that not all members are participating in decision-making structures and scrutiny committees *(refer to improvement point 2).*

The representation of the council on the Board of the Trust has been the subject of review with, for example, a report being presented to Council on 26th June 2013 seeking a decision on three appointments which had reached the end of their respective two year terms. In addition, all members appointed to the Board of the Trust have, prior to their first Board meeting, received training on directors' roles and responsibilities conducted by the council's Legal Services supported by the Chief Executive of the Trust and Finance Services.

Senior officers are appointed to both the Board of Falkirk Stadium Ltd and thinkWhere Ltd. Elected members need to be clear about these appointments and the rationale behind them. They need to be assured that appointees have the appropriate skills and experience to perform effectively in their role. The council's Depute Chief Finance Officer (DCFO) currently sits on the Board of Falkirk Stadium Ltd but his retiral is imminent. An appropriate individual will need to be identified to take on this role following the DCFO's departure and we understand action is currently being pursued to address this.

Providing services to the Auditor General for Scotland and the Accounts Commission

Mary Pitcaithly
Chief Executive
Falkirk Council

30 May 2014

Improvement action plan

Issues arising from our follow-up audit together with management's responses are detailed in the Improvement Action Plan included at Appendix A.

The issues identified in letter are only those which have come to our attention during the course of the review and are not necessarily, therefore, all the issues that may exist. It remains the responsibility of management to determine the extent of any improvement actions appropriate. We would stress, however, that commitment to an improvement agenda is an essential part of the efficient management of any organisation.

Acknowledgements

The contents of this letter have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Please do not hesitate to contact me on 0131 625 1777 or 01325-506258 if you have any queries on this management letter.

Yours sincerely

Jim Rundell
Senior Audit Manager

Email: Bryan Smail, Chief Finance Officer
                  Rose Mary Glackin, Chief Governance Officer
                  Fiona Campbell, Head of Policy, Improvement and Technology
                  John Flannigan, Depute Chief Finance Officer (Corporate Finance)
                  Gordon O'Connor, Chief Internal Auditor
                  Gordon Smail, Senior Manager, PABV (Audit Scotland)

Providing services to the Auditor General for Scotland and the Accounts Commission

Appendix A

Improvement Action Plan

Point No.	Improvement Point	Planned management action	Responsible officer	Target date
1	It is good practice for regular financial and performance reports on ALEOs to be presented to the council for scrutiny so that follow-up actions can be initiated where performance standards are not being met.	Suitable arrangements are already in place for Falkirk Community Trust. Annual reports on the performance of the other ALEOs will be presented to the Scrutiny Committee in line with the Following the Public Pound arrangements.	Head of Policy, Technology & Improvement	By 30 September 2014
2	All Opposition members previously offered places on the Board of the Trust should be encouraged to take up their positions as vacancies arise.	We will continue to encourage participation by all members in the decision making process.	Chief Executive & Chief Governance Officer.	October 2014

Falkirk Council

Assurance and Improvement Plan

2014–17

May 2014

Contents

Introduction

1. This Assurance and Improvement Plan (AIP) sets out the planned scrutiny activity in Falkirk Council between April 2014 and March 2017. The AIP is based on a shared risk assessment undertaken by a local area network (LAN). There is a LAN for each council, comprising representatives of all the scrutiny bodies who engage with the council. The aim of the shared risk assessment process is to focus scrutiny activity where it is most needed and to determine the most proportionate scrutiny response over a three year period.

2. This is the fifth AIP for Falkirk Council since the introduction of the shared risk assessment process.[1] It is the result of the shared risk assessment which began in October 2013. The process drew on evidence from a number of sources, including:

   - the annual report to the Controller of Audit and elected members for 2012/13 from the council's appointed external auditors, Audit Scotland

   - evidence gathered from Audit Scotland, Education Scotland, the Care Inspectorate, the Scottish Housing Regulator and Her Majesty's Inspectorate of Constabulary (HMICS), including published inspection reports and other supporting evidence

   - the Single Outcome Agreement (SOA) and associated development plan for the council area

   - the council's own performance data and self-evaluation evidence

   - analysis of data from the SOLACE/COSLA/Improvement Service Local Government Benchmarking Framework.[2]

3. The shared risk assessment process was reviewed in 2013, in the context of a significantly changed scrutiny landscape and the evolving public service reform agenda.[3] Based on the findings of the review, this year's shared risk assessment focused on identifying the council's current position in implementing the Scottish Government's reform agenda. It also placed more emphasis on scrutiny risk in relation to the council's improvement and transformation agenda. This change in approach is reflected in the structure of the AIP for 2014-17, which covers four areas:

   - local priorities and public service reform

   - corporate assessment

   - service performance

   - improving and transforming public services/public performance reporting.

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[1] Assurance and Improvement Plans for each council since 2010 are available on the Audit Scotland website: http://www.audit-scotland.gov.uk/work/scrutiny/aip.php

[2] The indicators used in the framework can be found on the Improvement Service website: http://www.improvementservice.org.uk/benchmarking/

[3] The review of the shared risk assessment process was one of four work streams taken forward by the Strategic Group for Local Government Scrutiny Co-ordination during 2013.

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4. Scrutiny risk is assessed against the following criteria:

    •   No scrutiny required - there are no significant concerns, so no scrutiny work is necessary.

    •   Scrutiny required - there are concerns about performance, services or outcomes, resulting in the need for scrutiny work.

    •   Further information required - there is insufficient information to reach a judgement about the scrutiny risks in a particular area.

5. The National Scrutiny Plan for 2014/15 is available on the Audit Scotland website. It provides a summary of planned scrutiny activity across all councils in Scotland, based on the AIPs for each council.

Summary

6. The council and its community planning partners have revised the SOA for the area to reflect the six policy priorities contained in the guidance on Community Planning Partnerships (CPPs) issued by COSLA and the Scottish Government in 2012. Falkirk Council, in agreement with partners, has been selected as one of five sites for the second round of CPP audits conducted by Audit Scotland. This audit is ongoing and Audit Scotland will report its findings in June 2014.

7. The 2013-16 AIP identified risk management arrangements as an area where scrutiny was required. Since then the council has taken positive steps to improve its risk management arrangements, including the appointment of a corporate risk manager, the introduction of a revised risk policy and framework, and training across services. Management recognise that there are still further improvements to be made. The LAN is satisfied that the council has made sufficient progress in this area and has concluded that no further scrutiny is required at this stage. Audit Scotland will continue to monitor developments in this area through the 2013/14 annual audit process.

8. The 2013-16 AIP assessed a number of corporate areas as 'further information required'. This included performance management and challenge and improvement and the financial position (including rent arrears). In terms of performance management, the LAN agreed in the 2013-16 AIP to defer any best value scrutiny work to allow the council to implement planned improvements. Audit Scotland has noted a number of developments in this area, including the introduction of a peer scrutiny review process and the establishment of a performance panel to promote challenge and improvement across the council. The council's Public Sector Improvement Framework programme now covers all services over the period 2013 -2015. However, these developments are still in their very early stages and the LAN has concluded that scrutiny is required (see page 24 'improving and transforming public services') to ensure that all aspects of performance management and scrutiny are well progressed and working effectively in the coming year.

9. In respect of the council's financial position, the LAN noted that:

    - The council's general fund balance increased by £5.194 million in 2012/13. This represented an underspend of £11.216 million against budget. This is in contrast to the 2011/12 financial position when the council reported a decrease in the general fund balance of £4.482 million, which was £3.258 million more than planned. Finance officers are now reviewing the base budget to ensure that it is aligned with future spending requirements.

    - Audit Scotland carried out a targeted follow-up audit of their national report *Scotland's Public Finances: Addressing the challenges*. The report noted that progress had been made in strengthening the links between the budget and the council's corporate plan. It also highlighted that members regularly scrutinised the council's financial position through budget monitoring reports and reserve strategy updates. A number of improvements were

also identified and an action plan was agreed with management. Progress against this action plan will be monitored as part of the 2013/14 annual audit process.

10. On this basis, the LAN has now concluded that no specific scrutiny is required in this area. Audit Scotland will continue to review the financial position of the council as part of the 2013/14 annual audit process.

11. The Scottish Housing Regulator (SHR) published its report on the council's improvement progress in 2011. In response, the council put in place an Improvement Action Plan to address the areas of weakness identified. A review of the council's latest progress report (June 2013), and its 2012/13 performance indicators for housing and homelessness services, show improvements being recorded in most areas. However, this data also shows that the council's performance in relation to average time to re-let low demand houses and tenancy sustainment has deteriorated.

12. The LAN has assessed education, social care services and non-regulated services as 'no scrutiny required'. However, a number of concerns have been raised for aspects of the council's housing service as outlined above, resulting in a 'further information required' assessment. In addition, the LAN has raised concerns about the time being taken to fill the post of director of education on a permanent basis. The post has been vacant since September 2013 with no indication so far of a timescale for resolving this, although two senior education officers are covering the post on an interim basis. Management also indicated that as part of the public service reforms agenda they would be looking at how best to fill the post in future.

13. By April 2014, both the council and NHS Forth Valley had agreed a preferred 'Body Corporate' model of health and social care integration. Under this new arrangement, Falkirk Council and NHS Forth Valley will delegate accountability for the delivery of agreed health and social care services to a new Integrated Joint Board, which will have equal representation from both organisations. The LAN has assessed this as an area where more information is required and will continue to monitor developments in health and social care integration ahead of implementation from 1 April 2015.

14. The Care Inspectorate, in partnership with the Association of Directors of Social Work and the Risk Management Authority, has been undertaking supported self-evaluation activity to assess the initial impact of the introduction of the assessment and case planning instrument LS/CMI across Scotland's criminal justice social work services. This activity started in June 2013 and will conclude with the publication of a national report by May 2014. Action plans arising from this activity will be implemented in 2014.

15. In this year's shared risk assessment the LAN has concluded that scrutiny is required in the area of governance and accountability (see page 13 'governance and accountability'). Audit Scotland's annual audit report 2012/13 noted that new decision-making structures were approved by the council in 2012/13 with the first meetings taking place in May 2013. These new arrangements have only recently been implemented and not all members are participating in every aspect of the new decision-making structures. This could undermine

local governance and scrutiny arrangements. The LAN has agreed that scrutiny is required, potentially in the form of targeted best value audit work to establish the effectiveness of the new arrangements.

16. The scope and timing of this work will take cognisance of the council's plan to carry out a post implementation review of the new structure by the summer.

Planned scrutiny activity

17. Audit Scotland will be carrying out targeted Best Value audit work in two areas:

   - governance and accountability, specifically the effectiveness of the council's new scrutiny arrangements (see page 13)

   - improving and transforming public services, specifically how the performance management arrangements support scrutiny of the council's performance (see page 24).

18. A self-assessment is to be issued to the council in June 2014 as a follow-up to the inspection carried out in 2011 by the SHR. This will be carried out on a risk based approach, covering only areas of weaker performance highlighted by the council's own Improvements and Evidence Report and 2012/13 Statutory Performance Indicators. However, no on-site scrutiny is proposed.

19. The Care Inspectorate and Healthcare Improvement Scotland also plan to carry out an inspection of services relating to adults aged 65 and over in September/October 2014. This is part of the Care Inspectorate's wider programme of national work and not as a result of the LAN's assessment.

20. During 2014, Audit Scotland will carry out a targeted follow-up of two national performance audits - *Arm's-length external organisations (ALEOs): are you getting it right?* (June 2011) and *Major capital investment in councils* (March 2013).

21. There is some non-risked based scrutiny activity planned across councils in 2014/15, but where scrutiny bodies are yet to determine which specific council areas will be included. This includes the following:

   - The SHR recently carried out a thematic inquiry into the outcomes that councils are achieving by delivering housing options and prevention of homelessness services. A sample of councils were selected to take part in this as case studies. The findings from this work could potentially lead to further engagement with some councils. The SHR will carry out further thematic inquiries between 2014/15 and 2015/16. If a council is to be involved in a thematic inquiry the SHR will confirm this with the council and the appropriate LAN lead.

   - HMICS will be inspecting local policing across Scotland over the next three years. This will examine, amongst other things, local scrutiny and engagement between Police Scotland and councils. The geographic areas to be inspected during 2014/15 have yet to be determined.

- Education Scotland will be working in partnership with councils to carry out self-evaluation of education psychology services over a two year period beginning in 2014/15.

- Education Scotland will be reviewing the quality of Careers Information Advice and Guidance services delivered by Skills Development Scotland across all council areas over the next three years.

- Education Scotland will continue to engage with councils for the purpose of validated self-evaluation (VSE). The scheduling of VSEs will be arranged by negotiation between Education Scotland and individual councils.

22. Scheduled audit and inspection work will take place through the annual audit process. The ongoing inspection of school and care establishments by Education Scotland and the Care Inspectorate respectively will continue as planned. Individual audit and inspection agencies will continue to monitor developments in key areas of council activity and will provide support and challenge as appropriate. This will help to inform future assessment of scrutiny risk.

23. Audit Scotland will also carry out a programme of performance audits during the period of this AIP that will involve work with councils. The performance audit programme for 2014/15 is available at http://www.audit-scotland.gov.uk/work/forwardwork.php?year=2014.

24. A timetable for the planned audit and inspection activity in Falkirk Council between April 2014 and March 2017 is at Appendix 1.

Local priorities and public service reform

25. Local councils are operating within a context of significant change as a result of the challenging financial environment and the public service reform agenda. The Scottish Government's reform agenda emphasises the importance of place, people, partnership, prevention and performance in public services. This year's shared risk assessment identified the council's current position in implementing the Scottish Government's reform agenda, specifically in relation to:

- community planning and new Single Outcome Agreements

- police and fire oversight arrangements (following the introduction of new national police and fire services)

- health and social care integration

- welfare reform.

Community planning and Single Outcome Agreements

26. The council and its community planning partners have revised the SOA for the area to reflect the joint Statement of Ambition and guidance on Community Planning Partnerships (CPPs) issued by COSLA and the Scottish Government in 2012. The revised SOA is structured around six key priorities. These are to:

- Focus our key activity on tackling the most significant inequalities in our area and providing everyone with hope and opportunity.

- Take action where appropriate that cross organisational and structural boundaries in order to recognise that many of the challenges and inequalities we face are inter-connected.

- Pursue a preventative and early intervention approach which we know will be more effective at tackling the root causes of inequality.

- Ensure that we deploy our collective effort and resources in securing local outcomes.

- Be both transparent and accountable to local people and communities, giving them a say and a meaningful role and contribution in realising our vision.

- Be both innovative and creative in the solutions we develop and the way in which we change services to meet the demands of the modern world.

27. The community planning partners' SOA was reviewed and approved by an independent quality assurance team who praised the CPP for establishing a good sense of place on which to base their key strategic outcomes. The review also highlighted areas for further improvement. This included a better understanding of resources available to the CPP and how

these are directed to priority areas, and a greater focus on early intervention and prevention through the partnership.

28. Falkirk Council, in agreement with partners, has been selected as one of five sites for the second round of CPP audits conducted by Audit Scotland. The other CPP sites are Moray, West Lothian, Orkney and Glasgow. The audit will consider the CPP's recent performance and planned developments, focusing on four main areas:

- Vision and strategic direction

- Governance and accountability

- Collaboration

- Performance, impact and outcomes.

29. Audit Scotland will publish its findings in June 2014. These will be considered by the LAN in due course and will help inform discussions on future scrutiny activity. The LAN has assessed this area as 'no scrutiny required'.

Police and fire

30. Falkirk Council has delegated scrutiny of the performance of Police Scotland and the Scottish Fire and Rescue Services in respect of their local policy and fire plans to the Scrutiny Committee. The Scrutiny Committee has agreed a timetable for scrutinising performance reports from Police Scotland and the Scottish Fire and Rescue Service. It was agreed that each service would report performance information on a quarterly basis with meetings scheduled for 8 August 2013, 14 November 2013 and 13 February 2014. Additionally, induction packs were prepared for members in order to assist in the scrutiny process. The reports presented to the committee are comprehensive and provide contextual information on police performance. On this basis, the LAN has assessed this area as 'no scrutiny required'.

31. It is essential that elected members have the skills and expertise to provide effective challenge to local police and fire services. It is important that the council makes use of the non-statutory national guidance issued by the Scottish Government to ensure that members have the knowledge and understanding to challenge the performance of their local police and fire services effectively.[4] This position is complicated by the current situation where not all members are participating in the new decision-making structures (including scrutiny committee meetings). This poses a risk to the effectiveness of the council's new governance arrangements.

32. HMICS conducted a thematic inspection of the new arrangements for local scrutiny in 2013 and believes that the new arrangements for local scrutiny and engagement require more time to bed in and that it is therefore too early to assess the effectiveness of these arrangements.

33. In relation to the wider issue of the delivery of community safety, HMICS has seen no significant changes to partnership arrangements since the creation of a single police service

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[4] *A Collaborative Statement of Good Scrutiny and Engagement,* Scottish Government, 2013. The latest iteration is due in 2014.

model for Scotland. HMICS is considering community safety as a possible area of focus within its 2014-17 work plan.

34. Fire reform is also still at an early stage and HM Fire Service Inspectorate (HMFSI) has not as yet undertaken any detailed examination of the way in which community safety and engagement activities are delivered across local authority areas in Scotland. HMFSI published *An Overview of the Scottish Fire and Rescue Service (SFRS)* in 2013. In its report, HMFSI highlighted that local senior officers (LSOs), who have responsibility for overseeing partnership working with local authorities in the delivery of community safety and engagement, are clearly sighted on their responsibilities and are keen to make local partnerships work in an effort to optimise community outcomes.

35. The SFRS is consulting on a suite of local fire and rescue plans. HMFSI is not currently proposing any specific scrutiny on local planning and consultation processes, but may consider this in its future inspection plans.

Health and social care integration

36. The Public Bodies (Joint Working) (Scotland) Bill was introduced by the Scottish Government in May 2013. The Bill aims to ensure that the health and social care systems work together to improve outcomes for people. For example, by providing consistency in the quality of services, ensuring people are not unnecessarily delayed in hospital, and maintaining independence by creating services that allow people to stay safely at home for longer. Arrangements for how services will be delivered are determined by councils and health boards based on what they believe is the best way to meet the care needs of their local populations.

37. There is clear evidence of NHS Forth Valley and Falkirk Council working at a strategic and operational level to integrate services, with regular, high level discussions between the chief officers of both the NHS Board and the council through the Joint Executive Group. Falkirk Council agreed a preferred 'Body Corporate' model of health and social care integration in March. That model was also approved by NHS Forth Valley Board in April. Under these proposed new arrangements, Falkirk Council and NHS Forth Valley will delegate accountability for the delivery of agreed health and social care services to a new Integrated Joint Board, which will have equal representation from both organisations. The Board will also appoint a Chief Officer who will report directly and jointly to the Chief Executives of Falkirk Council and NHS Forth Valley

38. Work is ongoing to develop and agree an Integration Scheme which will set out the range of services and resources which will be delegated to the new Falkirk Health and Social Care Partnership. It will also describe the key national and local outcomes and priorities for the Partnership and outline how and when these will be achieved. Further work is also required to establish the budgets for all services within scope and to establish frameworks for financial control and monitoring.

39. The LAN has assessed health and social care integration as 'further information required' due to the early stage of development. LAN members will review the council's progress in this area

as part of their ongoing discussions with the council. Audit Scotland will report an update in the 2013/14 annual audit report.

Welfare reform

40. The council is well prepared for the introduction of welfare reform. Its website has a section dedicated to welfare reform where people can access information on the main changes arising from welfare reform. The information available is comprehensive and includes details of where to seek help and advice. Hardcopy information (leaflets, pamphlets, etc.) are widely circulated in the Falkirk area. In addition, helplines are available for anyone seeking further information.

41. Elected members receive regular updates on welfare reform and its impact locally so that they are well aware of the issues facing their local constituents. The council seeks to address the impact of these through education (prevention), intervention (support) and recovery actions (sanctions). The Community Planning Leadership Board also receives regular reports updating its members on welfare reform. In general, the council has been proactive in its planning for welfare reform and its likely impact on citizens.

42. A Welfare Reform Governance Group has been established to coordinate and take forward the council's approach to welfare reform. This working group has representatives from all relevant council services. Four work streams have also been established to provide support to the group. Their work includes empowering citizens to manage with less, providing better support to customers affected by welfare reform, sustaining tenancies and reducing arrears.

43. Within the corporate plan 2012-17, a priority outcome is to 'address issues of poverty and inequality in line with the council's poverty strategy'. A key element of the strategy is to 'seek to address issues raised by welfare reform and support local communities, citizens and staff through these significant changes'. In the longer term the council has identified welfare reform as an area where it must ensure robust delivery plans and have milestones in place, and give added attention to achieving required outcomes.

44. The Council Service Performance Plans for 2012/13 to 2016 set out the priorities for each service area. The Corporate and Neighbourhood Services Plan looks to promote equality and equity of access in all services, in particular, addressing the impact of welfare reform. Corporate and Neighbourhood Services plays a leading role within the council to mitigate the impacts of welfare reform through, for example, supporting local Citizen's Advice Bureaux and Credit Unions to ensure that local people are prepared to meet the new needs associated with reform. This service is also leading the long-term transformation process so services continue to meet the needs of vulnerable local people. Furthermore, all heads of service are charged with monitoring and preparing services for the ongoing impact of welfare reform.

45. In 2013-14, the SHR surveyed social landlords and published findings on the early impact of welfare reform on rent arrears. It will continue to gather information on rent and arrears through the annual return on the Scottish Social Housing Charter in order to monitor the impact of welfare reform on social landlords and their tenants.

46. The LAN has assessed this area as 'no scrutiny required'.

Corporate assessment

47. The following table provides an assessment of scrutiny risk relating to the council's management arrangements (including how it is meeting its Best Value obligations).[5]

Area	Risk assessment	Current position	What we plan to do
Leadership and direction How the council's vision is designed around its knowledge of its local communities and how this is translated throughout all the council's plans and strategies.	No scrutiny required	The council's Corporate Plan 2012-17 clearly sets out the council's vision and outlines its planned contribution to achieving local outcomes. The plan also sets out goals for the local area and the outcomes necessary to achieve these goals. This is supported by service performance plans where objectives are linked to corporate goals and objectives. A CPP audit is currently underway within the council but findings are not due to be reported formally until June 2014. These will be considered by the LAN and will inform any decisions about future scrutiny activity.	No specific scrutiny activity
Governance and accountability Whether governance arrangements are working effectively and whether good	Scrutiny required	The council introduced a new decision-making structure in May 2013. As reported in Audit Scotland's 2012/13 Annual Audit Report, the Annual Governance Statement recognises that there will inevitably be a period of adjustment while the council's new decision-making structures bed in. However, not all members are participating in the new structure. This is evidenced by non-attendance of some members at the executive and scrutiny	Targeted Best Value work on the effectiveness of the decision making and scrutiny arrangements

[5] The Local Government in Scotland Act 2003. Best Value Guidance, Scottish Executive, 2004.

Area	Risk assessment	Current position	What we plan to do
governance underpins council decisions and supports performance improvement.		committee meetings and scrutiny and policy development panels. This poses a significant risk to the effectiveness of the council's new governance arrangements.	
Community engagement and empowerment Whether the council is giving local people a greater say in local budget decisions and giving communities a right to challenge local public service delivery.	No scrutiny required	The council's website has a section entitled 'Respond to a consultation' which provides details of how to provide feedback on council services and on the communities where people live. The council also operates a Citizens Panel with more than 1,500 people volunteering to complete three to four surveys each year. Additionally, customer satisfaction surveys are carried out and monitored to assess levels of satisfaction with services provided by the council and whether these are improving or deteriorating. The council also produces Citizens Panel feedback reports that provide updates on consultation. The council also recently held a conference for residents entitled 'Your Community, Your Place'. The LAN is satisfied that this is not an area of particular risk.	No specific scrutiny activity
Financial management How effectively the council is planning and managing its budgets.	No scrutiny required	The general fund reported a net surplus for 2012/13 of £5.194 million, increasing the general fund balance to £37.428 million as at 31 March 2013. This represented an underspend of £11.216 million against budget. The general fund balance is made up of earmarked commitments of £23.311 million leaving an unallocated general fund balance of £14.117 million, which exceeds the council's stated reserves strategy to retain uncommitted reserves of between £7 million and £10 million. This is in contrast to the 2011/12 financial position where the	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
		council reported a decrease in the general fund balance of £4.482 million, which was £3.258 million more than planned. In addition, the council reported cash efficiency savings of £4.011 million in 2012/13 against a target of £3.515 million. Going forward, finance officers are now reviewing the base budget to ensure that it is aligned with future spending requirements. In July 2013, Audit Scotland published *Scotland's Public Finances: addressing the challenges: a targeted follow-up report,* which highlighted a number of good practices including the ongoing work to strengthen the link between the budget and the council's corporate plan and the council's participation in the SOLACE benchmarking project. Also, members regularly scrutinise the council's financial position through budget monitoring reports and reserve strategy updates. Additionally, Audit Scotland identified a number of areas of challenge and improvement for the council. On this basis the LAN is satisfied that no scrutiny is required and that this area is no longer categorised as 'further information required'. The financial position of the council is an area that is subject to close monitoring as part of the normal audit process.	
People management The effectiveness of the council's workforce planning and management arrangements.	No scrutiny required	Data from the Audit Scotland report *Managing Early Departures in the Scottish Public Sector* shows that Falkirk Council has reduced the workforce in recent years through a series of initiatives, such as: • Changes to employee terms and conditions. • Re-graded posts.	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
		• Reducing use of overtime. • Reducing use of agency/temporary workers. • Various early release schemes. An Audit Scotland national report on *Scotland's public sector workforce* was published in November 2013 and, as part of normal audit work, Audit Scotland will monitor the arrangements in place for reviewing and discussing national reports and their impact locally.	
Asset management The council's arrangements for managing assets and how this key resource is used to support effective service delivery.	No scrutiny required	The Property Asset Management Plan supports the Corporate Asset Management Strategy and is coordinated by the Corporate Asset Management Working Group. It is also supported by the Asset Management Unit. A close working relationship exists between the council's Corporate Asset Management Working Group and the Capital Planning and Review Officer Working Group. This is to support the integration of asset management planning and investment decision making. This includes cross representation in both groups by relevant officers. The Statutory Performance Indicator (SPI) data shows that the proportion of internal floor area of operational buildings in satisfactory condition improved in the latest results (2012/13) from 82 per cent to 84.4 per cent, and that the proportion of operational buildings that are suitable for their current use is also improving in the latest results with 87.7 per cent compared to 81.6 per cent in 2011/12.	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
Procurement How effectively corporate procurement contributes to the council maximising value for money in the goods and services it uses to deliver its services.	No scrutiny required	The council's procurement capability assessment (PCA) scores have shown a steady increase over the last few years as illustrated below: • 2010 - 29 per cent • 2011 - 34 per cent • 2012 - 56 per cent • 2013 - 60 per cent The council's overall performance is categorised as 'improved performance' and is one of the better performing councils in Scotland. In four categories of the PCA assessment, the council is nearing 'superior performance' (ie procurement leadership and governance; procurement strategy objectives; people procurement commodity; and project strategy and collaborative procurement). The council's procurement team were also selected as the 'Team of the Year' at the National GO Procurement Awards.	No specific scrutiny activity
Risk management The effectiveness of the council's arrangements for identifying, managing and mitigating risks and how its management of risk contributes to the successful delivery of	No scrutiny required	Risk management arrangements were highlighted as an area for improvement in the 2013-16 AIP. Audit Scotland has noted that the council has taken positive steps towards developing corporate risk management arrangements. At the Audit Committee meeting of 23 September 2013 members were advised that good progress has been made in implementing the risk management workplan and that risk training was being provided to both members and officers. The Committee also considered a revised risk policy and framework of operations which	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
public services.		was subsequently agreed by the Executive. A Corporate Risk Register is in place and risk registers are also included within each service performance plan for the period 2013-15. While there has been an improvement in risk management procedures, it is still too early to make a judgement on their effectiveness. Risk management arrangements are subject to regular monitoring by external audit to assess progress being made in implementing improvements.	
Information management The effectiveness of the council's arrangements for managing information as a key resource in delivering services.	No scrutiny required	An ICT service review was carried out by Audit Scotland as part of the 2012/13 audit process. A number of good practices were reported but some areas where the council is exposed to a degree of risk were also identified. An ICT review follow-up is planned for 2013/14 to gauge progress made by the council in implementing agreed improvement actions. This is due to be reported in July 2014. The council received Public Services Network (PSN) certification in November 2013 based on revised security arrangements. There are a number of areas where the council still needs to install permanent solutions. Our ICT auditor will continue to monitor the council's progress in this area.	No specific scrutiny activity
Joint working Progress with any significant shared services initiatives, in particular in relation to	No scrutiny required	The council are involved in a CPP which is currently the subject of an audit by Audit Scotland. There are a number of other joint working initiatives in place involving Falkirk such as the Forth Valley Geographical Information System, Falkirk's Children's Commission, and a joint procurement arrangement for CCTV involving Falkirk,	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
governance or pace of implementation.		Stirling and Clackmannanshire councils, as well as Police Scotland. A commentary on joint working progress will be included within Audit Scotland's 2013/14 Annual Audit Report. This is also the mechanism for raising any concerns.	
Efficiency How effectively the council is improving its efficiency in response to the budget challenges being faced.	No scrutiny required	The council has adopted a system of self-assessment (Public Sector Improvement Framework - PSIF) in order to ensure that it continues to identify areas for efficiency and improvement. The council has a programme to cover all areas of service over the period 2013 to 2015. The council, in completing its efficiency statement to COSLA, reported: • Total cash efficiency savings of £4.011 million in 2012/13. Savings of £1.724 million have also been reported for procurement activity and £0.466 million for improved asset management. • A considerable amount of work has been undertaken by continuing to review procurement processes. • Residential care is now retained within the council as opposed to private sector placements. • The council has successfully recovered a higher than budgeted value of Council Tax but with no change to staffing levels.	No specific scrutiny activity
Equalities Whether the council is providing effective	No scrutiny required	The council's equality outcomes and mainstreaming report entitled "Ane for A" was developed in consultation with community planning and other public sector partners. The report outlines action being	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
leadership of equalities and is meeting its statutory obligations.		taken or planned by the council to mainstream equality into everyday working. It also provides information and analysis on equality outcomes as well as information on the gender pay gap. There are also good links to the corporate plan which has equality issues embedded within it. Equality is also embedded within service plans. These set out legislative sensibilities and what actions are being taken (or planned) to meet these responsibilities. Additionally training is provided to staff to raise their awareness of the equalities agenda. Furthermore, staff can access various guidance and reference material (eg cultural awareness handbook) to enhance their knowledge and understanding of equality issues.	

Service performance

48. The following table provides an assessment of scrutiny risk relating to the performance of the council's main inspected public services (education, social care services and housing) and non-inspected services (eg corporate services, culture and leisure services, environmental services).

Area	Risk assessment	Current position	What we plan to do
Education The quality of local education services and the resulting outcomes (including early years).	No scrutiny required	Falkirk Council has improved its performance across almost all performance measures over the period 2008 to 2013. Attainment at Scottish Credit and Qualifications Framework (SCQF) level three is better than national and comparator averages. 2013 pre-appeal data on performance in SQA examinations shows a slight dip in some aspects of performance. However, data over the five year period presents a strongly improving trend. Implementation of Curriculum for Excellence (CfE) is supported by an effective curriculum development team which make effective use of ICT to disseminate examples and promote discussion of effective and innovative teaching and learning. The council is providing effective support for the implementation of CfE. The post of director of education is currently filled on a temporary basis through two heads of service sharing the additional responsibilities, pending council decisions on revised organisational structures. Further temporary arrangements have been put in place at head of service level. Further detailed information is required on restructuring plans and how educational leadership will be sustained in	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
		the longer term. The post has been vacant since September 2013 with no indication so far of a timescale for resolving this. This will be monitored through the Education Scotland Area Lead Officer.	
Social care services The quality of local social work and care services and the resulting outcomes (including adult care, older people's services, learning disability services, criminal justice services, mental health services, children and families).	No scrutiny required	Follow-up evidence to the 2012 Care Inspectorate scrutiny report reflects improvement in a number of areas. The latest figures supplied by Falkirk indicate that they meet or exceed targets across the service with the exception of social background reports in relation to delayed discharges and sickness/absence days lost. Falkirk's national statistics are generally close to the national average. Overall, Falkirk are progressing slowly with service redesign and are reviewing their care home provision. The LAN, however, agree that there are no significant risks and no scrutiny is required at this point in time. Specific concern had been raised around the building maintenance of two care homes in the Falkirk area following some work carried out by the Care Inspectorate. However, assurance has been provided by the director of social work that the council are committed to responding to the problems that the Care Inspectorate have identified.	Adult (aged 65 and over) services inspection to be carried out in September/October 2014.
Housing and homelessness The quality of housing and homeless services and the resulting outcomes.	Further information required	Following SHR's targeted on-site scrutiny it published its report on improvement progress in October 2011. The report acknowledged improvements in the council's self-awareness and highlighted progress. However, the report also identified a number of weaknesses, many of which related to its homelessness service and some of which were significant.	A self-assessment is to be issued to the council in June 2014 which will focus on weaker performance highlighted by the council's own

Area	Risk assessment	Current position	What we plan to do
		In response to the Regulator's report, in July 2012, following extensive consultation with service users, the council put in place an Improvement Action Plan to address the areas of weakness identified. Regular reports are being provided to elected members, updating them of progress. The council's 2012/13 performance indicators for its housing and homelessness services show improvements being recorded in most areas. However, this data also shows the council's performance around average time to re-let low demand houses and tenancy sustainment has deteriorated. It is also evident that while the rent arrears position has improved slightly, it remains above the national average. In response, the council has recently put in place a Rent Arrears Improvement Plan (January 2014).	Improvements and Evidence Report and 2012/13 SPIs. However, no on-site scrutiny is proposed.
Non-regulated services Particular strengths and challenges in the range of non-regulated services provided by the council, and any significant changes to performance.	No scrutiny required	Service performance was assessed using SPI data covering the period 2010/11 to 2012/13. In addition, the latest available SOLACE data covering the period 2010/11 to 2011/12 was considered. Falkirk shows strength across a number of performance indicators with some specific areas for improvement. However, these were not significant enough to detract from overall service performance. Overall, the LAN does not consider this an area of scrutiny risk.	No specific scrutiny activity

Improving and transforming public services/public performance reporting

49. The following table provides an assessment of scrutiny risk relating to how the council is improving and/or transforming public services, and the extent to which it is meeting its public performance reporting obligations under the Local Government in Scotland Act 2003.

Area	Risk assessment	Current position	What we plan to do
Improving and transforming public services The council's arrangements for continuing to deliver services with reducing resources and growing demand, and what impact this is having on service outcomes.	Scrutiny required	Following the 2013-16 AIP, Audit Scotland has had regular meetings with the head of policy, technology and improvement to keep abreast of ongoing improvements. There have been a number of general developments in the area of performance management, however the improvements are in the very early stages of development and the challenge for the council is to ensure that the new arrangements are effective in practice. The first meeting of the recently set up Performance Panel took place in late November 2013. It replaced the Best Value Forum which last met in April 2013. In the intervening period there has been no scrutiny of service performance by members. The Performance Panel focused on scrutinising the 2012 annual performance report for each service. This meeting was well attended and demonstrated a high level of scrutiny. The LAN's view is that some performance targets still need to be reviewed to ensure that they are specific and challenging in the interest of promoting continuous improvement.	Targeted Best Value work on how the performance management arrangements support scrutiny of the council's performance

Area	Risk assessment	Current position	What we plan to do
Public performance reporting (PPR) The progress that is being made by councils in meeting their PPR obligations.	No scrutiny required	The council's website includes a 'Performance Zone' which contains performance information such as SPIs, as well as service specific performance information. This is kept up to date and is made readily available to the public through the council's website. From 2013/14, the suite of SPIs will be reduced and only SPI 1 (covering corporate management) and SPI 2 (covering service performance) will be required by the council for public performance reporting. The assessment of Falkirk's arrangements for meeting reporting requirements for these two SPIs was mixed, however only one area of 18 was not being met, with seven fully being met and ten partially being met. Public performance reporting is subject to annual audit review as part of the audit process.	No specific scrutiny activity

Appendix 1: Scrutiny plan

FALKIRK COUNCIL	2014/15											
Scrutiny activity year 1	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Audit Scotland - targeted Best Value - performance management, and governance and accountability						x	x					
Care Inspectorate - adult (aged 65 and over) services inspection						x	x					
National or supported self-evaluation work year 1												
Scottish Housing Regulator - improvement plan follow-up self assessment			x									
Audit Scotland - follow-up of Audit Scotland national report *Arm's-length external organisations (ALEOs): are you getting it right?*		x										
Audit Scotland - follow-up of Audit Scotland national report *Major capital investment in councils*			x									

FALKIRK COUNCIL 2015/16												
Scrutiny activity year 2	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
National or supported self-evaluation work year 2												

FALKIRK COUNCIL 2016/17	
Indicative scrutiny activity for third year	**Potential scrutiny bodies involved**

Note: The focus of the AIP is strategic scrutiny activity - that is, scrutiny activity which is focused at a corporate or whole-service level. However, there will also be baseline scrutiny activity ongoing at a unit level throughout the period of the AIP, for example, school and residential home inspections. Scrutiny bodies also reserve the right to make unannounced scrutiny visits. These will generally be made in relation to care services for vulnerable client groups. The annual audit of local government also comprises part of the baseline activity for all councils and this includes work necessary to complete the audit of housing benefit and council tax benefit arrangements. Education Scotland, through the Area Lead Officer, will continue to support and challenge education services regularly and as appropriate. The Care Inspectorate will continue to regulate care services and inspect social work services in accordance with their responsibilities under the Public Services Reform (Scotland) Act 2010.