

FALKIRK COUNCIL

MINUTE of the MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on MONDAY 14 DECEMBER 2015 at 9.30 a.m.

MEMBERS:

Councillor Steven Carleschi
Councillor Tom Coleman
Roseann Davidson (Convener)
Councillor Rosie Murray
Baillie Joan Paterson
Depute Provost John Patrick
Provost Pat Reid

OFFICERS:

Deirdre Cilliers, Head of Social Work Adult Services
Rhona Geisler, Director of Development Services
Kenny McNeill, Educational Resources Manager
Gordon O'Connor, Internal Audit Manager
Brian Pirie, Democratic Services Manager
Mary Pitcaithly, Chief Executive
Stuart Ritchie, Director of Corporate & Housing Services
Amanda Templeman, Acting Depute Chief Finance Officer

ALSO ATTENDING:

Jim Rundell, Audit Scotland

AC35. APOLOGIES

No apologies were intimated.

AC36. DECLARATIONS OF INTEREST

No declarations were made.

AC37. MINUTE**Decision**

The minute of the meeting of the Audit Committee held on 21 September 2015 was approved.

Baillie Joan Paterson joined the meeting following this item.

AC38. ORDER OF BUSINESS

In terms of Standing Order 14.2(i), the convener varied the order of business from that detailed on the agenda for them meeting. The following items are recorded in the order that they were taken at the meeting.

AC39. EXTERNAL AUDIT UPDATE

The committee considered a report by their External Audit Manager providing an update on 2015/16 External Audit work.

The report summarised:

- Audit Scotland's governance work, which included reviews of Internal Controls and Governance, ICT, and the National Fraud Initiative;
- The outcomes of national audit work, in particular Scotland's Public Sector Workforce: Impact Report;
- Progress against the 2015/16 External Audit plan; and
- The process for appointing an External Auditor for the period 2016/17 to 2020/2021.

Members sought clarification on the process of appointing the Council's next External Auditors. It was considered good practice to rotate audit teams to maintain independence and to 'freshen' the audit relationship. Mr Rundell confirmed that it was likely that the new team would be a private sector firm. For the previous 3 'rotations' Falkirk Council had been 'held' by Audit Scotland. He confirmed, following a question, that procedures were in place should an authority require to raise a complaint in regard to private sector auditors. He also gave an overview of the audit process in regard to the Integration Joint Board.

The committee discussed the audit plan for 2015/16 and sought assurance that the work could be completed before the handover to new auditors in September 2016. Both Mr Rundell and the Acting Deputy Chief Finance Officer confirmed that learning points arising from the audit of the accounts for 2015/16 would be implemented for the 2016/17 audit process.

Decision

The committee noted the report.

AC40. REVIEW OF INTERNAL AUDIT 2015/16

The committee considered a letter from Audit Scotland setting out the findings of its review of Internal Audit 2015/16.

Audit Scotland's Code of Audit Practice requires the Council's external auditor to undertake, annually, an assessment of the adequacy of the internal audit function.

Following a review and assessment, Audit Scotland concluded that Internal Audit operates in compliance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

The report also highlighted those areas of Internal Audit work on which Audit Scotland will place reliance.

The Internal Audit Manager provided an update on the arrangements for auditing the Integration Joint Board. A report will be submitted to the Board when it becomes fully operational on 1 April 2016 setting out proposals for the Internal Audit function. In response to questions from the committee, Mr O'Connor confirmed that Internal Auditors from the Council and the Health Board would continue to work closely to review the governance arrangements for the Board prior to its start date.

Decision

The committee noted the report.

AC41. INTERNAL AUDIT PROGRESS REPORT

The committee considered a report by their Internal Audit Manager providing an update on the Internal Audit Plan for 2015/16.

In regard to the plan, 9 assignments had been completed, 6 were in progress and 6 had not yet started.

Internal Audit performance to date, as measured by 5 key performance indicators, was broadly comparable to performance at the same point in 2014/15.

The report set out the key findings of those assignments which have been completed in 2015/16, and the position in relation to recommendations outstanding.

The committee sought an explanation for the limited assurance provided following the review of civic events and receptions. The Internal Audit Manager confirmed that the review identified the potential to better capture the documentation and rationale for decisions taken. It was not intended that the outcome would be an overly bureaucratic process.

The Internal Audit Manager provided details in regard to the current review of reducing bureaucracy in schools. The focus of the review was to ensure that the application of the controls in place were efficiently applied across the service, streamlining where possible.

Members sought confirmation on the reasons why a number of planned reviews had not yet started and asked whether there was criteria for scheduling reviews. The Internal Audit Manager stated that, for example, the reviews around financial risks had been completed first because Audit Scotland placed reliance on these, and that the review of information security was programmed to begin once the mobile and flexible working pilot was underway. Additionally, auditors had comfort as a consequence of previous reviews of information systems, such as Integra and SEEMIS. All reviews would be completed in 2015/16.

Decision

The committee noted:-

- (1) the progress in completing planned 2015/16 Internal Audit work;**
- (2) the Internal Audit performance, as reported at paragraph 2.3 of the report; and**
- (3) the position in relation to Recommendations Outstanding.**

AC42. BEST VALUE AUDIT 2014/15

The committee considered a report by the Director of Corporate and Housing Services setting out how Council will address issues arising from Audit Scotland's best value review of Falkirk Council.

The controller of Audit published his findings following a best value audit review of Falkirk Council by Audit Scotland.

Council considered a report on the review and findings on 7 October 2015 and agreed an Improvement Plan to address the issues raised in the audit. Council also agreed that there will be further discussion between the Leader of the Council, the Leader of the Opposition and the Provost regarding its implementation and agreed to receive a report on progress with the actions set out in the plan in March 2016.

The committee discussed the Business Transformation Board and the review of Standing Orders. The Director of Corporate and Housing Services confirmed that the Board had met once since Council on 7 October and that the minutes of its meetings would be submitted to the Budget Working Group. Members stressed the need for the review of Standing Orders to be completed by 31 March 2016. The committee discussed the role of members in decision making, stating that input and involvement should be at an early stage. The Chief Executive acknowledged the point, highlighting the purpose of policy development panels and scrutiny panels as examples of early member involvement in the decision making process.

The committee discussed the Improvement Plan. The convener stated that the Audit Committee would monitor its progress and have regard to any slippage. The committee discussed the recommendation from Audit Scotland that the Performance Panel should meet in public. Council had not agreed with this and meetings will be held in private although the agendas and papers will be available online. Following a discussion on this, the Chief Executive stated that Council had made its decision following debate and there was cross party support on this.

Following a question, the Chief Executive stated that she was unaware of formal protocols in regard to MSPs/MPs corresponding with elected members. However, this would be clarified. The committee then discussed training for elected members and questioned whether training in regard to scrutinising performance should be mandatory of all members. The Director of Corporate and Housing Services confirmed that training would shortly be provided for this but there had been no directive from elected members that participation should be mandatory.

Decision

The committee noted the report.

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PROGRESS REPORT 2015/16
Meeting: AUDIT COMMITTEE
Date: 18 April 2016
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 This short paper provides an update on progress with completing our 2015/16 Internal Audit Plan and on Services' progress with implementing Internal Audit recommendations.

2. AUDIT PROGRESS AND PERFORMANCE

- 2.1 Progress with completing planned 2015/16 Internal Audit work is as follows:

Assignment Status	Number	%
Complete	17	89%
In Progress	2	11%
Not Started	0	0%
Total	19	100%

- 2.2 The majority of Internal Audit work has been completed, with those assignments that remain 'In Progress' substantively complete and nearing finalisation. A summary of current assignment status is set out at **Appendix 1** along with the assurance level provided. Key findings arising from completed assignments which have not previously been reported to Committee are set out at **Appendix 2**.
- 2.3 My Annual Assurance Report to the June meeting of this Committee will provide an overall opinion on the adequacy of the Council's risk management, governance, and control arrangements for 2015/16. This will incorporate the conclusions arising from those assignments where final reports have yet to be issued.

3. REPORTING OF RECOMMENDATIONS OUTSTANDING

- 3.1 At the last meeting of Audit Committee in December 2015 only 2 recommendations were reported as being outstanding. These related to school entry security at St Bernadette's Primary School and management checks on the validity and accuracy of reissued payments (made via the Integra finance system). Both of these recommendations have now been implemented in full.
- 3.2 Ongoing engagement with Services, and effective use of the corporate Covalent action tracking system to monitor progress, has meant that the current position in relation to implementation of recommendations remains good.

3.3 At the time of writing this report there were 13 recommendations outstanding beyond their agreed implementation date. These relate to:

- Sundry Debtors (1 Rec);
- Business Gateway (2 Recs);
- Non-Domestic Rates (1 Rec);
- Pensions Administration (1 Rec);
- Employment and Training Unit (3 Recs); and
- Members' Services: Civic Events and Receptions, Training, Allowances and Expenses (5 Recs).

3.4 Details of each of these recommendations are set out at **Appendix 3**.

4. RECOMMENDATIONS

4.1 **Members are invited to note:**

4.1.1 **progress with completing planned 2015/16 Internal Audit work; and**

4.1.2 **the position in relation to Recommendations Outstanding.**

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Internal Audit Manager

Date: 08 April 2016

INTERNAL AUDIT PLAN 2015/16 – PROGRESS AT 08 APRIL 2016

No.	Service/Status	Assignment	Level of Assurance
<i>Assignments Complete</i>			
1.	Corporate and Housing	Pensions Administration and Pension Fund Governance	Substantial
2.	Corporate and Housing	Integra Supplier Data Management and Payments	Substantial
3.	Corporate and Housing	Investment (non-Pension Fund)	Substantial
4.	All Services	Corporate Purchasing and Contract Monitoring	Substantial
5.	Development	Employment and Training Unit	Substantial
6.	Children's	SEEMIS Security and Management	Substantial
7.	Corporate and Housing	Members' Training, Allowances, Expenses, and Civic Events and Receptions	Substantial / Limited
8.	Corporate and Housing	Revenues IT Systems Security and Management	Substantial
9.	Corporate and Housing	Corporate Risk Management Arrangements (Reciprocal Review with West Lothian Council) ¹	Substantial
10.	All Services	Financial Regulations	Not Applicable
11.	Social Work – Adult Services	Health and Social Care Integration	Not Applicable
12.	All Services	Continuous Auditing	Not Applicable
13.	All Services	National Fraud Initiative	Not Applicable
14.	Corporate and Housing	Corporate Fraud	Not Applicable
15.	Falkirk Community Trust	Chargeable Services Invoice Arrangements	TBC
<i>Additional Assignments Completed During 2015/16</i>			
1.	Corporate and Housing	Pensions Administration (2015/16 Transactions)	Substantial
2.	All Services	Serious Organised Crime (On-going Workstream)	Not applicable
<i>Assignments In Progress</i>			
1.	All Services	Data and Information Security – Governance and Practice	TBC
2.	Corporate and Housing	Mobile Device Security	TBC
<i>2015/16 Assignments Deferred / Not Undertaken</i>			
1.	Corporate and Housing	LEADER Funding	
2.	Internal Audit	External Quality Assessment by South Ayrshire Council	
3.	Children's	Reducing Bureaucracy in Schools	

¹ NOTE – Falkirk Council Internal Audit undertook a review of WLC SEEMIS Security and Management

Summary Of Key Findings Arising From Assignments Not Previously Reported To Audit Committee

No.	Assignment Area and Service	Assurance and Key Findings
1.	<p>Revenues IT Systems Security and Management</p> <p>Corporate and Housing</p>	<p>Substantial Assurance</p> <p>We reviewed the roles and responsibilities of those involved with Civica OPEN Revenues security; systems documentation; physical and environmental controls; access management; and arrangements for ensuring the quality and continuity of service provision.</p> <p>We found arrangements to be generally robust and proportionate. All staff were aware of their roles and responsibilities, with training available to ensure awareness of, and compliance with, data protection and information security guidance. Access to the system is controlled via robust password security, with sound backup arrangements in place to minimise the risk of data loss.</p> <p>There is some scope for better embedding risk management, and in particular the further development of formal continuity arrangements (business continuity plan). While there was a System Security Statement, this could be more detailed, and there is a need for an Access Control Policy to clarify arrangements for managing users' access to the system.</p> <p>We also found there to be some improvements required in relation to access to the ICT suite and server room at Municipal Buildings where the Civica servers are located.</p>
2.	<p>Corporate Risk Management Arrangements (Reciprocal Review with West Lothian Council)</p> <p>Corporate and Housing</p>	<p>Substantial Assurance</p> <p>This review of the Council's risk management arrangements was undertaken by West Lothian Council's Audit and Risk Team.</p> <p>The review was based on a benchmarking exercise against the 'ALARM CIPFA Risk Management Benchmarking Club 2014 – Questionnaire'.</p> <p>While there were a number of areas where the WLC Internal Auditor identified scope for further improvement, it is comforting that they also highlighted the good progress made, and practices in place, at Falkirk.</p> <p>A fuller update on the Council's approach to Risk Management is included elsewhere on the Agenda of this meeting.</p>
3.	<p>Financial Regulations</p> <p>All Services</p>	<p>Not Applicable</p> <p>An exercise to streamline and modernise Financial Regulations has been undertaken. This has involved a comprehensive review to ensure that the Regulations focus on key controls, and that these are robust yet proportionate. Responsibility for implementing elements of the Regulations has also been clarified.</p> <p>Sitting alongside the full Financial Regulations, a shorter, summarised, 'Financial Regulations Lite' has also been drafted. The purpose of this supplementary document is to provide elected Members and Officers with a summarised version of Financial Regulations, highlighting the more salient roles, responsibilities, and duties.</p> <p>The updated documents are currently undergoing consultation, and will be presented to the June meeting of Audit Committee for consideration.</p>

No.	Assignment Area and Service	Assurance and Key Findings
4.	<p>Health and Social Care Integration</p> <p>Social Work – Adult Services</p>	<p>Not Applicable</p> <p>Since the last meeting of Audit Committee the Falkirk Integration Joint Board (IJB) has considered a report on Financial Governance. As part of this paper, the IJB agreed that the NHS Forth Valley and Falkirk Council Chief Internal Auditors (CIA) hold that post for the IJB on a three year rotation basis. The NHS Forth Valley CIA will hold this post for the first three years, drawing on resource from both the Council and Health Board Teams.</p> <p>For 2015/16, Internal Audit work has focussed on the requirements of the Integrated Resource Advisory Group (IRAG) guidance on financial assurance, and in particular on the due diligence of the initial sums transferred to the IJB.</p> <p>A separate report on this work, which was undertaken jointly by the Council and NHS Forth Valley teams, is included elsewhere on the Agenda of this meeting. In summary, we were content that our due diligence work confirmed that, in setting the 2015/16 budget for the IJB, the Council has been consistent with the requirements of the guidance</p> <p>An IJB Internal Audit Plan for 2016/17 will be prepared for, and presented to, the June 2016 meeting of the Board.</p>
5.	<p>Continuous Auditing</p> <p>All Services</p>	<p>Not Applicable – Ongoing Assurance</p> <p>Work continues to focus on Creditors duplicate payments. To date, 62 duplicate payments, with a total value of c£58,000 have been identified.</p> <p>All identified duplicate payment amounts have been, or are being, recovered.</p>
6.	<p>National Fraud Initiative</p> <p>All Services</p>	<p>Not Applicable</p> <p>The purpose of the NFI exercise is to review and investigate the outcomes of data matching undertaken by Audit Scotland on behalf of the Cabinet Office. Matches cover areas such as Payroll, Pensions, Housing and Council Tax Benefit, and Creditors. Internal Audit are responsible for co-ordinating the process of ensuring that all relevant matches are followed-up.</p> <p>The 2014/15 NFI exercise is well underway. To date, 1,318 matches have been reviewed and investigated, with no material fraud or error detected (total outcomes of c£6,000 to date).</p> <p>In addition to the core NFI exercise, Falkirk Council participates in a related exercise designed to detect wrongly claimed Council Tax Single Person Discount. To date, as a result of participation in this exercise (which matches Council Tax and Electoral Roll data), 191 frauds or errors have been detected, totalling c£122,000, with recovery action taken or underway.</p>

No.	Assignment Area and Service	Assurance and Key Findings
7.	Corporate Fraud Corporate and Housing	<p>Not Applicable</p> <p>The Internal Audit Manager has worked with the Depute Chief Finance Officer (Revenues and Benefits) to establish a 'Corporate Fraud' team. This draws on existing fraud investigation expertise formerly responsible for investigating Benefit Fraud work (responsibility for which has now transferred to the Department for Work and Pensions).</p> <p>The team, which falls within the remit of the Internal Audit Manager, are currently developing a 2016/17 workplan. This includes the development of a Corporate Fraud Charter, as well as preventative and proactive workstreams.</p>
8.	Pensions Administration (2015/16 Transactions) Corporate and Housing	<p>Substantial Assurance</p> <p>We reviewed a sample of Falkirk Pension Fund Transactions, to ensure that: new member contributions were properly calculated; the correct transfer values of pension rights either into or out of the Pension Fund had been received or paid; and the correct pension payments (including lump sum payments) were paid to retiring Fund members.</p> <p>We found that sound processes were in place. Supporting documentation had been appropriately completed and authorised, calculations were correct, and the Pensions Administration had been accurately updated.</p>
9.	Serious Organised Crime and Corruption (On-going Workstream) All Services	<p>Not Applicable – On-going Workstream</p> <p>The Internal Audit Manager acts as Single Point of Contact with Police Scotland in relation to the risks associated with Serious Organised Crime. While this workstream has not resulted in an overarching report, significant work has been undertaken in relation to:</p> <ul style="list-style-type: none"> • Organising a series of 'lunch and learn' sessions for staff on topics such as: Social Media Risks; the Role of the Police Scotland Public Sector Counter Corruption Unit; and the risks associated with Cyber Crime; • Ongoing attendance at, and contribution to, the DETER Sub-Group of the Scottish Government's SOC Taskforce; • Participation in the Forth Valley SOC Partners Group, which was established during 2015; and • Meetings with the Home Office and various English Local Authorities on Internal Audit work undertaken at Falkirk in relation to SOC risks, and delivery of a presentation at the Annual Congress of the Polish Institute of Internal Control.
10.	Chargeable Services Invoice Arrangements Falkirk Community Trust	As reported to Falkirk Community Trust Audit and Performance Sub-Group.

INTERNAL AUDIT – RECOMMENDATIONS OUTSTANDING

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
1.	31 December 2013	Corporate and Housing	Sundry Debtors	Substantial	A debt recovery policy for Sundry Accounts should be developed.	Depute CFO: Revenues and Benefits	The draft corporate debt policy has been prepared. Once agreed the debt recovery policy for Sundry Accounts will link to this.	31 December 2015	The draft Corporate Debt Policy (covering all debt streams) has not been presented to Members as yet. In October 2015 a Rent Arrears project began to look at improving rent collection rates. A survey has been undertaken and site visits are planned in next few weeks. Given the need to consult with HRA tenants, it would now be advisable to look to include any examples of good practice gained from other Authorities during these visits, before submitting the Policy to Members. In the meantime, sundry accounts collection has improved, primarily due to the more regular use of Sheriff Officers where invoices are not paid.
2.	31 October 2015	Development	Business Gateway	Limited	The Adviser's Guide should be formally agreed and rolled out, and should take into account the recommendations made in this report.	Growth and Investment Manager and Business Gateway Contract Manager	The previous Adviser's Guide was not formally signed-off by providers. An updated Adviser's Guide will be produced and issued when the existing contract is either extended or renewed October 2015.	01 December 2015	A National Service Specification has been commissioned by Business Gateway National Unit and awarded to EKOS (January 2016). Unable to progress until this is concluded. Stage 2 operational application remains to be approved nationally by Scottish Government. Action cannot be progressed as outwith Falkirk Council control. Anticipate conclusion April 2016.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
3.	31 October 2015	Development	Business Gateway	Limited	Invoice overhead charge arrangements should be reviewed and streamlined.	Growth and Investment Manager and Business Gateway Contract Manager	An evaluation of the BG service is being carried out and this recommendation will be considered within that context.	30 November 2015	A National Service Specification has been commissioned by Business Gateway National Unit and awarded to EKOS (January 2016). Unable to progress until this is concluded. Stage 2 operational application remains to be approved nationally by Scottish Government. Action cannot be progressed as outwith Falkirk Council control. Anticipate conclusion April 2016.
4.	31 December 2015	Corporate and Housing	Non-Domestic Rates	Substantial	The Council's discretionary policies on NDR should be subject to formal review.	Depute CFO: Revenues and Benefits	It is accepted that discretionary policies require to be updated and to be approved by Members, and work has started on this. The date proposed is provisional, and may be impacted by the absence of the Depute CFO.	01 April 2016	At present there are significant changes being made by Scottish Government to the Business Rates Scheme (including 8 pieces of legislation last month). These are in addition to the implementation of the Community Empowerment Bill that brought into force the ability of Local Authorities to design local relief schemes to meet local needs (albeit full cost of such schemes must be borne by Local Authority). It is still hoped to bring a revised Policy to members in summer 2016.
5.	31 March 2016	Corporate and Housing	Pensions Administration	Substantial	A Register of Interests should be established to record details of any actual / potential conflicts relating to members of the Committee and the Board. The Register should be published on the Fund's website.	Pensions Manager	Recommendation accepted.	N/A	Not expected to be complete by due date given resource constraint and competing priorities. Priority has been given to investment strategy work; legal work relating to new infrastructure investments; and work on pensioner payroll project.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
6.	29 February 2016	Development	Employment and Training Unit	Substantial	Concise and written guidance, incorporating process flowcharts, should be developed for Employment and Training Unit staff. This guidance should take account of the recommendations made in this report.	ETU Manager	Recommendation Accepted. Appropriate processes will be pulled into a Manual. A review of processes will be undertaken and potential changes risk assessed prior to implementation. Written guidance and process flowcharts will clearly articulate all policies and procedures relating to day-to-day operations. Operating rules and compliance documents for external programmes will be referenced as part of written guidance.	N/A	The installation of VISIO (flowcharting software) has been delayed and this action can only now be taken forward. A new end date of 31 May 2016 is proposed.
7.	31 March 2016	Development	Employment and Training Unit	Substantial	A Procurement Strategy for training programmes should be developed and implemented along with a standard checklist of payment evidence requirements. An approved Training Providers Framework should be developed.	ETU Manager	Recommendation Accepted. Employment and Training Unit will take these points forward in partnership with the Corporate Procurement Unit.	N/A	This is ongoing with Procurement Unit and has been linked to budget process and external contracts which has delayed progress.
8.	31 December 2015	Development	Employment and Training Unit	Substantial	A run through of each initial grant start up process should be undertaken prior to commencing the project.	ETU Manager	In advance of the start of the European Social Fund programme in January 2016 a meeting will be held with Scottish Government European auditors.	N/A	Meetings still ongoing with Scottish Government and the timescale is outwith our control, but we are hoping for final clarification by the end of May 2016. The project will be required to start in April 2016 and a full risk assessment will be undertaken accordingly.
9.	31 March 2016	Corporate and Housing	Members' Services: Civic Events and Receptions, Training, Allowances and Expenses	Substantial / Limited	The points relating to procedural guidance should be addressed.	Members' Services Administrator	Develop an action plan and implement the recommendations listed at paragraphs 4.7.1 to 4.7.9. This also accords with the action plan developed following the Best Value Audit of Falkirk Council in 2014/15.	N/A	Work is ongoing.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
10.	31 March 2016	Corporate and Housing	Members' Services: Civic Events and Receptions, Training, Allowances and Expenses	Substantial / Limited	The points relating to the content of the mandatory training programme should be addressed.	Members' Services Administrator	Mandatory training is being developed (ie, scrutiny and financial planning). A mandatory training programme for Members will also be considered. Decision will be for Council to take as there is no statutory requirement for mandatory training.	N/A	Work is ongoing.
11.	31 March 2016	Corporate and Housing	Members' Services: Civic Events and Receptions, Training, Allowances and Expenses	Substantial / Limited	Personal Development Plans should be prepared for all Members, with a nil return completed for, and certified by, Members with no identified training needs. In addition, PDPs should include a required action and target completion date for all identified training needs.	Members' Services Administrator	Personal Development Plans (PDPs) are now in place for all Members, as required by the introduction of mandatory training for scrutiny and financial planning. All PDPs will be revisited and completion dates and actions updated.	N/A	Work is ongoing.
12.	31 March 2016	Corporate and Housing	Members' Services: Civic Events and Receptions, Training, Allowances and Expenses	Substantial / Limited	Documentation from all Members' Briefing Sessions should be uploaded to the Members Development Area.	Members' Services Administrator	Retrieve documentation from training events held over financial years 2014/15 and 2015/16 and upload to Members' development area on Underground.	N/A	Work is ongoing.
13.	31 March 2016	Corporate and Housing	Members' Services: Civic Events and Receptions, Training, Allowances and Expenses	Substantial / Limited	The points relating to the content of the Training Programme Evaluation Questionnaire should be addressed.	Members' Services Administrator	Training evaluation form to be revised to incorporate suggestions noted in paragraph 4.21.	N/A	Work is ongoing.

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PLAN 2016/17
Meeting: AUDIT COMMITTEE
Date: 18 April 2016
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 The Public Sector Internal Audit Standards 2013 (PSIAS) require me to prepare a risk based Internal Audit Plan (the Plan) setting out the Section's annual work programme.
- 1.2 The Plan should take account of the Council's risk and performance management arrangements. It should also detail the resources available to Internal Audit, and comment on the adequacy of those resources.
- 1.3 This Plan has been prepared in line with the requirements of PSIAS.

2. INTERNAL AUDIT RESOURCES

- 2.1 To provide a full and balanced opinion to Members on the adequacy of the Council's arrangements for risk management, governance, and control, the Internal Audit Section must be adequately resourced. In practice, this means that the Team must have the required knowledge, skills, and other competencies needed to complete planned work.
- 2.2 As Members are aware, the staffing position within the Section has been stable for some years now, and has been sufficient to allow us to provide robust, evidence based, assurance. All staff are qualified (either with CIPFA, the Chartered Institute of Internal Auditors, the Information Systems Audit and Control Association, or a combination of these) and the Team has an excellent mix of knowledge and experience.
- 2.3 The Internal Audit Plan for 2016/17 has been developed on the assumption that the Team will continue to be adequately resourced. Time will be allocated as follows:

Activity	Planned Days
Direct Internal Audit Time	655
Ad Hoc / Consultancy Work	120
Work on Recommendations Outstanding	5
Total Direct Internal Audit Activity	780 ¹

- 2.4 I have increased slightly the days allocated to ad hoc and consultancy work. This allows us to work closely with Services on things like: involvement in corporate projects and working groups; the provision of advice on guidance and controls; short-term assignments requested by Services; and involvement in the investigation of actual or alleged irregularities.

¹ Including provision of Internal Audit service to Falkirk Community Trust, Falkirk Pension Fund, and Falkirk Integration Joint Board.

2.5 Correspondingly, I've reduced the days allocated to 'Work on Recommendations Outstanding' from 15 to 5. All recommendations are now logged on the corporate Covalent system, with responsibility for monitoring implementation largely now sitting with Service managers. Services update progress on Covalent, and provide evidence to Internal Audit to support those updates.

3. DEVELOPMENT OF THE INTERNAL AUDIT PLAN, PLANNED AUDIT COVERAGE, AND REPORTING ARRANGEMENTS

3.1 As required by PSIAS, this Plan has been developed taking account of risk, via:

- review of the Corporate Risk Register;
- consultation with senior managers; and
- consideration of our own Internal Audit Needs Assessment model.

3.2 On that basis, then, our planned 2016/17 work programme is set out at **Appendix 1**.

3.3 On completion of each assignment Internal Audit will issue a draft report to the relevant manager. In most instances, this will include an overall opinion on the adequacy of risk management, governance, and control arrangements in the area under review, and an action plan setting out any recommendations for improvement. The assurance will be provided in line with the definitions set out at **Appendix 2**.

3.4 In some instances no overall assurance will be provided. This may be the case where, for example, Internal Audit undertake work in relation to a developing system and issue a Position Statement rather than a full report (though recommendations may still be raised), or where we are involved as part of a longer term workstream.

3.5 That said, where Internal Audit do raise recommendations, Service managers will be required to provide formal responses to these. The report and completed action plan will then form the final record of the assignment, with progress implementing recommendations monitored and managed via Covalent.

3.6 I will provide periodic reports to the Audit Committee on our progress with completing 2016/17 work, and summarising the findings arising from each completed review. In June 2017 I will provide an Annual Assurance Report giving an overall opinion on the Council's risk management, governance, and control arrangements, based on the work that Internal Audit has carried out over the course of the year.

4. RECOMMENDATIONS

4.1 **Members are invited to:**

4.1.1 **note the resources available to Internal Audit;**

4.1.2 **agree planned Internal Audit coverage for 2016/17; and**

4.1.3 **note that progress will be reported to Audit Committee on an ongoing basis.**

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Internal Audit Manager

Date: 8 April 2016

ASSIGNMENTS PLANNED FOR PERIOD APRIL 2016 TO MARCH 2017

No.	Service	Purpose and Scope of Assignment
A1	All Services	Code of Corporate Governance This review will focus on the Council's overarching framework of corporate governance documents and practices, based on the principles set out in the CIPFA / SOLACE 'Delivering Good Governance in Local Government' Framework.
A2	All Services	Compliance with Financial Regulations Internal Audit will undertake a programme of checking compliance with elements of Financial Regulations across all Services. This will focus on key controls where failure would have significant or material consequences.
A3	All Services	Welfare Reform To cover planning and change management, and arrangements for assessing and addressing impact.
A4	All Services	Corporate Purchasing and Contract Monitoring To cover arrangements for ensuring compliance with the purchasing and contract monitoring elements of Financial Regulations and Contract Standing Orders (including the monitoring of capital contracts).
A5	All Services	Serious Organised Crime / CONTEST / PREVENT Internal Audit will continue to have a role in reviewing and facilitating arrangements established in relation to national strategies on Serious Organised Crime, CONTEST, and PREVENT. This will involve close working with colleagues in other Council Services and partner organisations such as Police Scotland.
A6	Children's / All Services	Building Security (Council Buildings) Internal Audit will review controls established to manage the risks to the security of Council buildings, including physical security and the provision of out of hours access and security. Particular emphasis will be placed on school security.
A7	Corporate and Housing / All Services	Redundancy and Severance Arrangements We will review arrangements established to ensure compliance with the agreed Policy, including roles and responsibilities; application, assessment, and approval processes; the accuracy and consistency of benefit calculation; payment arrangements; and management information.

No.	Service	Purpose and Scope of Assignment
A8	Corporate and Housing / All Services	Payroll – Temporary and Permanent Adjustments To include starters and leavers, acting-up arrangements, additions to and deductions from salary, changes to payee details, as well as any other amendments.
A9	Corporate and Housing	Integrated Housing Management System – Security and Management We will review application and operating system security, as well as business continuity and disaster recovery arrangements.
A10	Corporate and Housing	Housing Rents Internal Audit work will focus on compliance with policy and regulations, calculation of rent due, rent collection, and management information.
A11	Corporate and Housing	ICT Service Desk and Support To include service levels, customer service and performance monitoring, ordering of equipment, and the disposal of obsolete equipment.
A12	Corporate and Housing / Children's / Adult Social Work	Procurement of Services from External Providers of Social Work Services This work will cover all aspects of procurement, including the setting up and use of central contracts, ordering, payment, and verification of receipt of services.
A13	Development	Refuse Collection To cover domestic (including special uplifts) and trade waste, policies, procedures, and performance monitoring, and expenditure / budget monitoring.
A14	Development	Financial Vetting, Insurance, and Performance Bonds We will review arrangements for ensuring that contractors are subject to the appropriate level of financial vetting prior to the award of contract, that they have the required insurances in place, and that performance bonds are requested and received for significant capital and revenue contracts.
A15	All Services	National Fraud Initiative To co-ordinate and manage the NFI process (2016/17 data submission and match investigation) for Falkirk Council.
A16	All Services	Continuous Auditing To consider, review, and test transactional systems on an ongoing basis.

No.	Service	Purpose and Scope of Assignment
A17	To Be Confirmed	Reciprocal Audit Review with West Lothian Council West Lothian Council Internal Audit will undertake a review of an agreed Falkirk Council system, and vice versa.
A18	Internal Audit	External Quality Assessment – Participation in External Quality Assurance Programme This exercise has been deferred from 2015/16. Falkirk Council's Internal Audit section will be subject to External Quality Assessment (EQA). Five yearly EQA is required by the Public Sector Internal Audit Standards. The review will be undertaken by South Ayrshire Council, and will require preparation and engagement on the part of Internal Audit.
A19	Falkirk Pension Fund	Falkirk Pension Fund Falkirk Council's Internal Audit Section provide Internal Audit services to Falkirk Pension Fund. For 2016/17, coverage will focus on Pension Investments, Governance, and the migration of data to the Altair Pensions administration system.
A20	Falkirk Integration Joint Board	Falkirk Integration Joint Board The Chief Internal Auditor of NHS Forth Valley is fulfilling that role for the IJB for the three years from 01 April 2016. An IJB Internal Audit Plan for 2016/17 will be presented to the Board meeting in June 2016. Falkirk Council's Internal Audit Section will provide resource to support the IJB Chief Internal Auditor in discharging his duties.
A21	Falkirk Community Trust	Falkirk Community Trust To be determined and agreed with Trust management.

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Substantial Assurance	Largely satisfactory risk, control, and governance systems are in place. There may be some scope for improvement as current arrangements may 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.

FALKIRK COUNCIL

**Subject: HEALTH AND SOCIAL CARE INTEGRATION –
INTERNAL AUDIT WORK 2015/16 AND 2016/17**
Meeting: AUDIT COMMITTEE
Date: 18 April 2016
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 This report provides an update on completed and future Internal Audit work for the Falkirk Integration Joint Board.
- 1.2 Members will be aware of the work progressed to meet the requirements of the Public Bodies (Joint Working)(Scotland) Act 2014. As part of the Health and Social Care Integration process, Internal Audit has a role in providing assurance to the Audit Committee (or equivalent) of the Joint Board and of Falkirk Council.

2. INTERNAL AUDIT

- 2.1 The Scottish Government's 'Health and Social Care Integration: Guidance for Integration Financial Assurance' (the Guidance) recommends that Health Board and Local Authority Chief Finance Officers, along with the Chief Officer and the Chief Finance Officer of the IJB, foster an assurance process based on mutual trust and confidence. This should involve an open book approach and an honest sharing and discussion of the assumptions and risks associated with the delegated services.
- 2.2 At its meeting on 05 February 2016, the Integration Joint Board agreed that the Chief Internal Auditor role would rotate on a three yearly basis, between the current postholders within the Health Board and the Council. It was agreed that the Health Board Chief Internal Auditor take on this role for the initial three year period. It was also agreed that the resource required to deliver Integration Joint Board Internal Audit Plans would be derived from both the Health Board and Council teams.
- 2.3 A joint paper by the NHS Forth Valley and Falkirk Council Internal Audit Managers, reporting on the Internal Audit work that had been undertaken for 2015/16 and proposing arrangements for the 2016/17 Internal Audit Plan, was presented to the IJB on 24 March 2016. A copy of this paper is attached at **Appendix 1** and confirms that:
 - for 2015/16, we are content that our due diligence work has confirmed that, in setting the 2015/16 budget for the Integration Joint Board, the Council has been consistent with the requirements of the guidance;

- the Integration Joint Board Chief Internal Auditor will present a draft 2016/17 Internal Audit Plan to the 03 June 2016 meeting of the Integration Joint Board, or to the Integration Joint Board Audit Committee if established before that. The Plan will be copied to this Committee in due course.

2.4 Finally, it is worth noting that the Internal Audit teams of Falkirk Council and NHS Forth Valley have worked closely and effectively to date on developing our approach to delivering our service in the run-up to full integration. We have maintained a good, open dialogue, and shared information and guidance as this has developed.

3. RECOMMENDATION

3.1 Members are invited to note:

- 3.1.1 the findings from the Internal Audit work for 2015/16; and the arrangements for presenting the Internal Audit Plan for 2016/17.

.....

Internal Audit Manager

Date: 08 April 2016

Title / Subject: Internal Audit Work 2015/16 and 2016/17
Meeting: Integration Joint Board
Date: 24 March 2016
Submitted By: Internal Audit Manager Falkirk Council and
Chief Internal Auditor NHS Forth Valley
Action: For Decision

1. INTRODUCTION

- 1.1 This report advises the Board of the Internal Audit Financial Assurance work that has been undertaken for 2015/16 and proposes arrangements for the 2016/17 Internal Audit Plan.

2. RECOMMENDATIONS

- 2.1 The Integration Joint Board is asked to:

- (i) note the findings from the Internal Audit Financial Assurance work for 2015/16 and,
- (ii) approve arrangements for devising and presenting the Internal Audit Plans for 2016/17 onwards.

3. BACKGROUND

- 3.1 Integrated Resource Advisory Group (IRAG) guidance states:

“It is the responsibility of the Integration Joint Board to establish adequate and proportionate Internal Audit arrangements for review of the adequacy of the arrangements for risk management, governance, and control of the delegated resources. This will include determining who will provide the Internal Audit service for the Integration Joint Board and nominating a Chief Internal Auditor.

The operational delivery of services within the Heath Board and Local Authority on behalf of the Integration Joint Board will be covered by their respective Internal Audit arrangements as at present.

A risk based Internal Audit plan should be developed by the Chief Internal Auditor of the Integration Joint Board and approved by the Integration Joint

Board or other Committee. It is recommended that it is shared with the relevant committees of the Health Board and Local Authority.

It is recommended that the Chief Internal Auditor from either of the Health Board or Local Authority fulfil this role in the Integration Joint Board in addition to their role as Chief Internal Auditor of their respective Authority.”

- 3.2 At its meeting on 05 February 2016, the Integration Joint Board agreed that the Chief Internal Auditor role would rotate, on a three yearly basis, between the current postholders within the Health Board and Council. It was agreed that the Health Board Chief Internal Auditor take on this role for the initial three year period. It was also agreed that the resource required to deliver Integration Joint Board Internal Audit Plans would be derived from both the Health Board and Council teams.

4. INTERNAL AUDIT WORK 2015/16

- 4.1 For 2015/16 Internal Audit work has focussed on the requirements of the Scottish Government guidance on Integration Financial Assurance. In line with the guidance, due diligence of the initial sums was undertaken by the NHS Forth Valley and Falkirk Council Internal Audit teams. This work will also be reported jointly to the Health Board and Council Audit Committees.
- 4.2 In particular, due diligence work has focussed on Section 3.2.1 of the guidance which states that:

“It is recommended that the initial sums should be determined on the basis of existing Health Board and Local Authority budgets, actual spend and financial plans for the delegated services. It is important that the plans are tested against recent actual expenditure and that the assumptions used in developing the plans and the associated risks are fully transparent.

To assist in this it is recommended that:

- The budget in the financial plan is assessed against actual expenditure reported in the management accounts for the most recent two/three years. Ideally, the roll forward of the budget for the delegated services and the actual expenditure over this period should be understood;
- Material non-recurrent funding and expenditure budgets for the delegated services and the associated risks are identified and assessed;
- The medium term financial forecast for the delegated services and associated assumptions and risks is reviewed;

- Savings and efficiency targets and any schemes identified are clearly identified and the assumptions and risks are understood by all partners;
- All risks should be quantified where possible and measures to mitigate risk identified. Risks could be classified as delivery of efficiency savings; on-going risks; emerging risks;
- The amount set aside for the Integration Joint Board consumption of large hospital services is consistent with the methods recommended in the IRAG guidance on the set aside resource and that the assumptions and risks are assessed.”

4.3 The findings from the due diligence work are summarised at Sections 5 to 7 of this report.

5. GOVERNANCE ARRANGEMENTS

- 5.1 Integration arrangements included the formation of a Finance Workstream Group, chaired by the NHS Forth Valley Director of Finance, with membership comprised of Chief Financial Officers of the Falkirk, Clackmannanshire and Stirling Councils along with Senior Finance representatives from each of the above. The Finance Workstream Group reports to the Programme Board which is chaired by the Chief Officer for Stirling & Clackmannanshire IJB. The Finance Workstream Group has oversight of the two sub groups; Sub Group 1 (Methodology and identification and calculation of budgets) and Sub Group 2 (Governance, Assurance and Risk).
- 5.2 We noted good practice in that the two Sub Groups have in place comprehensive and regularly updated project plans which detail key tasks, lead officers and timescales and issue logs are in use. In compliance with the guidance requirement to ensure partners are aware that the financial regimes, cultures, and terminology differ between Health Boards and Local Authorities, and are clear about the definitions of terms used in their assurance work, a glossary of terminology has been developed to assist partners.
- 5.3 Guidance states that the due diligence process should be based on mutual trust and confidence involving an open-book approach and an honest sharing and discussion of the assumptions and risks. Our discussions with management and our review of the Finance Workstream Group and Sub Group documentation evidenced that regular liaison took place between NHS Forth Valley and Council Finance staff and we commend the collaborative approach taken.

- 5.4 The Financial Assurance Guidance stresses at various points the importance of understanding the key risks and assumptions inherent in the budgets and financial positions for the delegated services. It also states that all risks should be quantified where possible and measures to mitigate risk identified.
- 5.5 Whilst work is ongoing to agree a Forth Valley wide Risk Management Strategy and to agree risk registers for both IJBs, all financial risks have not yet been quantified and risks have yet to be reported to allow IJB members to conclude on the adequacy or otherwise of the resources. The Chief Finance Officer for both IJBs has informed us that financial risk will be prominent in the budget papers presented to the March IJB meetings.
- 5.6 Financial Regulations for the IJBs have been drafted and have been circulated for comment through the Finance Workstream Group. The final draft will be presented to the March IJB meetings for approval. The Chief Finance Officer has informed Internal Audit that work on financial reporting is ongoing to ensure it is in line with the requirements of the Integration Scheme.

6. INTERNAL AUDIT WORK 2015/16 – FALKIRK COUNCIL

- 6.1 Our due diligence work focussed on reviewing the processes that were followed in setting the Council's budget allocation to the Integration Joint Board for 2016/17. The net revenue budget of £61.466m was approved by the Council on 17 February 2016.
- 6.2 The methodology followed in setting the Council's budget allocation was reported to the Transitional Board on 04 September 2015. The methodology report included details of all the in scope functions. We were content that this methodology was followed in identifying in scope budgets, expenditure, and variances. The actual resources made available needs to be related to the 2016/17 funding position. For example, Falkirk Council's cash grant has decreased by £10m (3.5%) and it is inevitable that will impact on the Integration Joint Board.
- 6.3 The budget mapping process was on-going from August 2014 and included identifying existing budget information and determining whether the function was in or out of scope. Budget tracking spreadsheets were used to record the impact and details of any subsequent changes to the budget from 2013/14 onwards.
- 6.4 To support integration arrangements a Finance Workstream, with two Sub-Groups, was established (see paragraphs 5.1 and 5.2). The detail of any issues or queries that were raised were recorded on the Sub-Group query log. We were content that a robust audit trail around the in scope functions was

maintained and this included review by Social Work to confirm the accuracy and completeness of proposed budget allocations.

- 6.5 In relation to medium term financial forecasting, this was problematic due to the one year financial settlement from the Scottish Government for 2016/17. It is expected that the next settlement from the Scottish Government will be for two to three years and it is recognised that this will significantly facilitate a robust medium term position. The Council identified in its Budget where it thinks savings for the Integration Joint Board should be made.
- 6.6 For financial risk management the approach followed has been to highlight the main factors in relation to the wider economic climate in papers to the Board. For example, key pressures were detailed in the financial update report to the Transitional Board on 05 June 2015. A risk workshop attended by all partners was held on 01 March 2016 and this will result in the presentation of a risk strategy and risk register to the Integration Joint Board.
- 6.7 One outstanding issue relates to the comparability of Falkirk Council's contribution to some of the in scope functions (when compared as a percentage of total spend per head to Stirling and Clackmannanshire). This issue has been recorded as on-going on the Sub-Group query log.
- 6.8 In conclusion, we are content that our due diligence work has confirmed that, in setting the 2016/17 budget for the Integration Joint Board, the Council has been consistent with the requirements of Section 3.2.1 of the Integration Financial Assurance guidance.

7. INTERNAL AUDIT WORK 2015/16 – NHS FORTH VALLEY HEALTH BOARD

- 7.1 The NHS Forth Valley Director of Finance has provided regular Health & Social Care Integration progress updates to the Audit Committee and to the Performance & Resources Committee. Reporting to the Integration Working Group, which includes both Non Executive and Executive membership, has been iterative in that regular update reports have built on information previously reported, with the 2015/16 budget baseline approved for formal sharing with the IJBs on 22 December 2015 by the Performance & Resources Committee. The 2015/16 budget baseline will be used as a starting budget for drafting 2016/17 IJB budgets which is scheduled for consideration at a Special Board meeting on 18 March 2016.

- 7.2 In order to ensure that the IJB budget setting processes undertaken by NHS Forth Valley were appropriate, we examined the *'Integration Joint Board Budget Methodology'* and reviewed a sample of the underlying working papers used to produce these reports. We also discussed the detailed process undertaken with the NHS Forth Valley Director of Finance and Assistant Director of Finance and the IJB Chief Finance Officer.
- 7.3 Principles were established by a methodology paper which was developed and agreed by both Partnerships. An NHS Forth Valley Integration Masterfile spreadsheet was produced to record the previous three years' figures and to track all agreed changes made by the Finance Workstream Group. This spreadsheet has been regularly presented to the Finance Workstream Group and where changes were agreed, they have been made with strict version control. We carried out sample testing of the figures provided to the underlying working papers provided to us and found no exceptions.
- 7.4 Financial Planning for 2016/17 is in progress and the Chief Finance Officer has informed Internal Audit that the intention is for the IJBs to be given a proposed plan around savings and efficiencies, following the NHS Board setting of IJB budgets at the Special Board meeting on 18 March 2016. This aligns with the approach the Local Authorities have taken in budget setting.
- 7.5 We can provide assurance that, in our opinion, the process undertaken to agree the health allocation base budget for 2015/16 has been sufficiently robust and the methodology used sound.
- 7.6 Due diligence has been completed on the baseline budgets for 2015/16, including the amount set aside for IJB consumption of large hospital services, with the remainder of the due diligence work to be completed on conclusion of the Budget Setting process.
- 7.7 As reported in the Audit Scotland report 'Health and Social Care Integration' published in December 2015, the results of the UK spending review were not announced until November 2015 and the Scottish Government published its financial plans on 16 December 2015. Following the Scottish Parliament's approval of the 2016/17 Budget Bill on 24 February 2016, the Cabinet Secretary for Finance, Constitution, and Economy announced initial revenue allocations for 2016/17. The timing of the revenue allocation notification has had an impact nationally on Health Boards' ability to prepare baseline budgets. Therefore, whilst aspects of the IRAG guidance have been addressed through the Finance Workstream, all requirements of the guidance have not yet been fully reported to the IJBs in a way that would fulfil the essence of the guidance i.e. to provide sufficient information to allow the IJBs to assess whether the resources delegated to the IJB are adequate for it to carry out its functions.

8. ARRANGEMENTS FOR DEVISING AND PRESENTING INTERNAL AUDIT PLANS FOR 2016/17 AND SUBSEQUENT YEARS

- 8.1 Internal Audit plans for 2016/17 and subsequent years will require input from the Integration Joint Board Chief Officer, Chief Financial Officer, and External Auditor, as well as the Falkirk Council and NHS Forth Valley Chief Internal Auditors. Preparatory work is required, and a draft Internal Audit 'Universe' has been prepared for discussion between the relevant parties and to facilitate consideration of materiality and risk.
- 8.2 For the moment, the universe is predicated on the assumption that the Internal Audit of operational delivery of services will remain with the NHS Forth Valley and Falkirk Council Internal Auditors, as set out in the IRAG guidance and consistent with s4.1 of the Health and Social Care Integration Scheme for Falkirk, although this may be subject to change as and when the role of the Integration Joint Board evolves.
- 8.3 The Integration Joint Board Chief Internal Auditor will present a draft 2016/17 Internal Audit Plan to the 03 June 2016 meeting of the Integration Joint Board, or to an Integration Joint Board Audit Committee if established before that date. The opportunity will be taken to engage with the Chief Officer and Chief Finance Officer on areas of potential work for inclusion in the 2016/17 Internal Audit Plan. This is likely to include (but not be limited to):
- **Strategic Planning:** review of compliance with elements of the Strategic Plan; and
 - **Governance Arrangements:** including arrangements for Clinical and Care, Financial, Staff, and Information Governance, and overall Corporate Governance including Risk Management, Performance Reporting, and Standing Orders, Financial Regulations, and Schemes of Delegation.
- 8.4 This will allow Internal Audit to provide an early assessment of the robustness of the governance mechanisms in place to control and direct the Integration Joint Board's activities and meet the requirements of both national guidance and the Falkirk Integration Scheme. It will also provide assurance on the extent to which governance documentation and structures of the Integration Joint Board (and the parties) reflect a shared understanding of the Integration Joint Board's role in assurance.
- 8.5 Once the 2016/17 Internal Audit Plan has been approved by the Falkirk Integration Joint Board, details of planned coverage will be made available to the Health Board and Council Audit Committees (as part of existing reporting arrangements).

- 8.6 Following the year end, the Chief Internal Auditor will submit an Internal Audit Assurance Report to the Integration Joint Board (or relevant Committee) reporting on the delivery of the 2016/17 Internal Audit Plan. This will summarise key findings and recommendations, and will provide an opinion on the adequacy and effectiveness of internal control, based on work undertaken.

Approved for Submission by

Internal Audit Manager (FC) and Chief Internal Auditor (NHSFV)

For further information, please contact Gordon O'Connor, Audit Manager (FC) on 01324 506 339 or Tony Gaskin, Chief Internal Auditor (NHSFV) on 01334 696028

Falkirk Council

External Audit Progress

Update Report



Prepared for Falkirk Council Audit Committee

April 2016

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

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Annual Audit Plan 2015/16

1. We are making good progress against our 2015/16 Annual Audit Plan as summarised in appendix 1 accompanying this report. All outputs to date have been delivered in line with agreed reporting dates and we are on target to deliver the remaining outputs.

Governance work

2. **Internal Controls.** We have completed most of our controls work and will be reporting our findings in early course. We carried out a high level review and testing of key controls in a number of financial systems including trade payables (focusing on social work payments), trade receivables, banking, housing rents, council tax and non-domestic rates, payroll and general ledger. We have also carried out detailed substantive testing of payroll and general ledger transactions. This work will help us to reduce the level of testing required during the financial statements audit and allow us to focus on other areas.
3. **Reliance on internal audit.** We communicate with internal audit on a regular basis to discuss emerging issues / risks, share intelligence and technical guidance. We are placing formal reliance on aspects of internal audit's work in relation to investments (non-pension) and plan to rely on internal audit work on the integrated finance system (supplier management and payments). This will allow us to focus on other areas considered to be of higher risk. In addition as part of our wider responsibilities we will consider internal audit reports in a number of areas including corporate risk management and adult health & social care integration.
4. **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 or error. As part of 2015/16 Annual Audit Report to members we will be reporting on the council's progress in following up and investigating data matches. Also, as appropriate, we will report on any areas where we believe progress has been less than expected.
5. **Shared Risk Assessment.** As part of our annual planning process we met with other inspectorates as part of a Local Area Network (LAN) to discuss scrutiny risks and to develop a local scrutiny plan. This was then discussed with the Chief Executive and the Director of Corporate and Housing Services before submitting to Audit Scotland for final review and

publication. A best value follow-up audit will be carried out as part of this year's scrutiny activity to gauge progress in implementing the council's best value action plan. We will include key findings in our 2015/16 Annual Audit Report.

6. **Housing benefit performance audit - outcome of risk assessment.** Our specialist benefits staff carried out their review of housing benefit performance and issued a report in January 2016. The report noted that despite considerable changes in personnel within the revenues and benefits section, the council has made a very positive contribution to the delivery of the benefit service.
7. In particular the service has significantly improved the time taken to process new claims and change events from 42 days and 22 days in 2013/14 to 20 days and nine days in 2015/16 (as at 31 October 2015). At the same time the service has maintained a high level of financial accuracy and delivered an excellent performance in the recovery of HB overpayments. This is commendable and it is important that this is sustained. A fully copy of the housing benefit report accompanies this progress update.

Performance

National Performance Studies

8. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. Since our last progress report to Audit Committee in December 2015 several national reports have been published.
9. **Health and social care integration (December 2015).** The report highlights that while all 30 Integrated Authorities (IAs) are expected to be operational by the 1 April 2016 there are still significant risks to be addressed if integration is to fundamentally change the delivery of health and social care services. There is evidence to suggest that IAs will not be in a position to make a major impact during 2016/17. Difficulties in agreeing budgets and uncertainty about longer-term funding mean that they have not yet set out comprehensive strategic plans.
10. There is broad agreement on the principles of integration. But many IAs have still to set out clear targets and timescales showing how they will make a difference to people who use health and social care services. These issues need to be addressed if IAs are to take a lead in improving local services.

11. Douglas Sinclair, the current chair of the Accounts Commission, said that: *"Integration has the potential to be a powerful instrument for change and the Scottish Government, NHS boards and councils have done well to get management arrangements in place. However, there is a real and pressing need for integration authorities to take the lead now and begin strategically shifting resources towards a different, more community-based approach to healthcare"*.
12. The report also states that if the reforms are to be successful in improving outcomes for people, there are other important issues that need to be addressed including:
 - Partners need to set out clearly how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability and potential conflicts of interests for board members and staff. There is a risk that this could hamper the ability of an IA to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care. In addition, Integration Joint Board (IJB) members need training and development to help them fulfil their role.
 - IAs must have strategic plans that do more than set out the local context for the reforms. To deliver care in different ways, that better meets people's needs and improves outcomes, IAs need to set out clearly:
 - the resources, such as funding and skills, that they need
 - what success will look like
 - how they will monitor and publicly report on the impact of their plans.
 - NHS boards and councils must work with IAs to agree budgets for the new IAs. This should cover both their first year and the next few years to give them the continuity and certainty they need to develop and implement strategic plans. IAs should be clear about how they will use resources to integrate services and improve outcomes.
13. **Major capital investment in councils: follow-up (February 2016).** The headline message from this report is that councils need to improve further the way they manage major projects like schools, roads, housing and flood prevention, says the Accounts Commission.
14. The report highlights some progress has been made in addressing the recommendations made by the Commission in a 2013 report. Councils have taken a range of actions and display aspects of good practice. But, overall, they need to increase the pace of improvement to comply fully with good practice.

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15. Accounts Commission chair Douglas Sinclair said: *"Councils spend a great deal of money on capital projects such as schools and roads which are vital for local services. Our 2013 report recommended actions to help councils improve performance. They have made some progress since then but they need to do further work to fully comply with good practice. In particular, they should provide councillors with better information through clear, good quality reports to enable them to effectively challenge and scrutinise capital investment decisions, plans and progress"*.
 16. The report found weaknesses in capital investment planning. Councils need to do more to develop their long-term capital investment strategies and plans. In particular, they need to make it clearer how capital investment contributes to their strategic objectives, why and how projects are prioritised, and clearly set out the benefits these projects are expected to deliver.
 17. Councils have improved their structures and processes to help them manage capital investment activity more effectively. But they need to do more work to comply fully with good practice. They should review business cases as projects progress and evaluate them after completion so that good practice and lessons learned can be shared within councils and with others.
 18. Councils also need to provide better information to councillors to allow them to scrutinise capital investment effectively.
 19. **Procurement in councils - impact report (February 2016).** Audit Scotland has taken stock of changes in councils' procurement performance. Between 2009 and 2014, councils' procurement performance was assessed annually by Scotland Excel using the Procurement Capability Assessment (PCA) tool.
 20. A total of 25 councils chose to participate in the 2014 PCA. Among the 25 councils that participated in the 2014 PCAs:
 - Twenty-three councils improved their overall PCA score.
 - Four councils were in the 'superior performance' category (Renfrewshire, 83 per cent; City of Edinburgh; 76 per cent; Glasgow City, 76 per cent; South Lanarkshire, 75 per cent).
 - Nineteen councils were in the 'improved performance' category (50-74 per cent).
 - Two councils were in the 'compliance' category (Shetland Islands, 40 per cent; Clackmannanshire, 45 per cent)

21. Some councils improved significantly from 2013 to 2014 (e.g. East Dunbartonshire, City of Edinburgh, Falkirk, North Ayrshire, South Lanarkshire). On average councils' overall PCA scores improved from 56 per cent to 62 per cent on average between 2009 and 2013
22. The report also recognises that councils continue to face staffing challenges and that 'councils and Scotland Excel believe shortages of skilled purchasing staff remain, and that there is a limited pool of experienced purchasing staff in the public sector from which to draw. As the economy improves, there is a risk that councils will lose qualified staff to other public sector organisations and the private sector, where salaries are higher.' Scotland Excel reiterated to Audit Scotland in October 2015 that these challenges remain and that some councils risk having an insufficient number of suitably qualified staff to properly plan and manage procurement.
23. **Community planning (March 2016).** The key message in this report is that community planning has yet to plug the gap between expectations and delivery. Progress on community planning has not yet achieved the major change needed to fulfil its potential to reduce inequalities and put communities at the heart of delivering public services.
24. In its third update on community planning for the Auditor General and the Accounts Commission, Audit Scotland states that local and national progress has been made since its last report in 2014. It recognises that CPPs have improved leadership and scrutiny, and the way they use data to set clearer priorities. However, more effort is needed to shift resources on a larger scale towards long-term goals and to involve communities fully in making decisions that affect their lives, so CPPs can improve outcomes and address inequalities, particularly in more disadvantaged areas.
25. The Community Empowerment (Scotland) Act 2015 sets out new statutory duties for CPPs, and reforms such as health and social care integration aim to promote prevention and outcomes. But stronger national leadership and support from the Scottish Government and the Convention of Scottish Local Authorities (COSLA) is needed for community planning to meet its full potential.
26. The Scottish Government is improving its understanding of individual CPPs, but should be clear on what role it expects CPPs and partners to play in reforming public services. The report also states that some short-term performance targets make it difficult to advance reform and shift the focus of public bodies to long-term outcomes for services and the people who use them.

-
27. Caroline Gardner, Auditor General for Scotland, said: *"Community planning continues to be given a pivotal role in transforming public services in Scotland. The progress we've seen from individual CPPs shows there is enthusiasm for pushing forward with this ambitious reform. But without a stronger focus on prevention, long-term outcomes, and how partnerships perform, it's difficult to see how community planning can make the impact that's needed. If community planning is to thrive, the views and experiences of local people must be at the heart of measuring delivery of public services."*
28. Douglas Sinclair, chair of the Accounts Commission, added: *"This report makes clear that a gap still exists between national expectations of CPPs, and how partnerships plan and deliver services. Bridging that gap requires firm leadership from the Scottish Government, COSLA, and CPPs, strengthened by empowered communities and a commitment from all partners to share and deliver resources towards joint priorities."*
29. **Changing models of health and social care (March 2016).** The report looks at the growing need to create new ways of working to cope with the impact of these and other pressures, including an ageing GP workforce and a tough financial climate for public spending. The key messages in the report are summarised below:
- The growing number of people with complex health and social care needs, particularly frail older people, together with continuing tight finances, means that current models of care are unsustainable. New models of care are needed. With the right services many people could avoid unnecessary admissions to hospital, or be discharged more quickly when admission is needed. This would improve the quality of care and make better use of the resources available.
 - The Scottish Government has set out an ambitious vision for health and social care to respond to these challenges. There is widespread support for the 2020 Vision, which aims to enable everyone to live longer, healthier lives at home or in a homely setting. There is evidence that new approaches to health and care are being developed in parts of Scotland.
 - The shift to new models of care is not happening fast enough to meet the growing need, and the new models of care that are in place are generally small-scale and are not widespread. The Scottish Government needs to provide stronger leadership by developing a clear framework to guide local development and consolidating evidence of what works. It needs to set measures of success by which progress can be monitored. It

also needs to model how much investment is needed in new services and new ways of working, and whether this can be achieved within existing and planned resources.

- NHS boards and councils, working with integration authorities, can do more to facilitate change. This includes focusing funding on community-based models and workforce planning to support new models. They also need to have a better understanding of the needs of their local populations, and evaluate new models and share learning.

30. The report recommends that NHS boards and councils should work with integration authorities during their first year of integration to:

- carry out a shared analysis of local needs, and use this as a basis to inform their plans to redesign local services, drawing on learning from established good practice
- ensure new ways of working, based on good practice from elsewhere, are implemented in their own areas to overcome some of the barriers to introducing new care models
- move away from short-term, small-scale approaches towards a longer-term approach to implementing new care models. They should do this by making the necessary changes to funding and the workforce, making best use of local data and intelligence, and ensuring that they properly implement and evaluate the new models
- ensure, when they are implementing new models of care, that they identify appropriate performance measures from the outset and track costs, savings and outcomes
- ensure clear principles are followed for implementing new care

31. The report also references the pivotal role of health and social care integration in transforming how services are delivered, with new integration authorities (IAs) set to go live on 1 April 2016. In their first in a series of reports on the progress of integration, the Auditor General and Accounts Commission recommended in December 2015 that IAs need to be clear about how they will use resources to integrate services and improve outcomes.

32. Full copies of all our national reports are available for download from the Audit Scotland website (www.audit-scotland.gov.uk).

Financial statements

- 33. **Financial statements audit 2015/16.** We expect to receive the unaudited financial statements and supporting working papers on 20 June 2016. Thereafter we plan to bring our 2015/16 Annual Audit Report (AAR) to the September 2016 meeting of the Audit Committee.
- 34. We are currently carrying out substantive testing in a number of key areas such as payroll to ensure that the final accounts process runs smoothly. It will also help us focus our testing in other areas requiring more attention such the revaluation of council houses.

Appendix 1

Progress against Annual Audit Plan 2015/16

Planned outputs	Target delivery date	Actual delivery date
Governance		
Review of adequacy of internal audit	31 December 2015	18 November 2015
Annual Audit Plan	31 March 2016	1 March 2016
Internal controls management letter	30 June 2016	
Performance		
Scotland's Public Sector Workforce f/up questionnaire	30 June 2016	Note 1
Financial statements		
Annual Audit Report 2015/16	26 September 2016	
Independent auditor's report on the financial statements	26 September 2016	
Audit opinion on Whole of Government Accounts	30 September 2016	

Notes:

1. Any significant findings will be shared with management.
2. The table above excludes audited grant claims e.g. housing benefit, non-domestic rates return.



Falkirk Council

Annual Audit Plan 2015/16

Prepared for Members of Falkirk Council

March 2016



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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Fiona Mitchell-Knight as the external auditor of Falkirk Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of Falkirk Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission’s annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Falkirk Council's financial statements.
2. This report summarises the key challenges and risks facing Falkirk Council and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
 - the risks and priorities facing Falkirk Council
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.
3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the local authority is the sole trustee. Falkirk Council has one trust falling into that category. Falkirk Temperance Trust with reported net assets of £0.160 million as at 31 March 2015. Accordingly, we will perform the audit of the council's charitable trust in parallel with the audit of the council's financial statements.

4. Health and social care integration: the Falkirk Integration Joint Board (FIJB) was established on 3 October 2015 although services will not transfer to the new body until 1 April 2016. The FIJB is subject to a separate audit in 2015/16. Fiona Mitchell Knight, Assistant Director, Audit Services is the appointed auditor and an annual audit plan will be issued in due course. We do not expect the FIJB to be material to the council's group accounting arrangements in 2015/16.

Summary of planned audit activity

5. Our planned work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of Falkirk Council and its group as at 31 March 2016 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's (LAN's) assessment since last year
 - a review and assessment of Falkirk Council's governance and performance arrangements in a number of key areas including:

internal controls, adequacy of internal audit and fraud prevention measures

- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- reporting of National Fraud Initiative arrangements and results
- collection of relevant financial and performance information to inform Audit Scotland's national reports.

Responsibilities

6. The audit of the financial statements does not relieve management or the Audit Committee as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

7. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
8. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Chief Finance Officer

9. It is the responsibility of the Chief Finance Officer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - maintaining proper accounting records
 - preparing financial statements which give a true and fair view of the state of affairs of Falkirk Council and its group as at 31 March 2016 and its expenditure and income for the year then ended.
10. It is also important that the accounts are proof read before being submitted for audit to ensure a prompt start to our work and to reduce the number of presentational amendments.

Format of the accounts

11. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.
12. Falkirk Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

13. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Falkirk Council and its group. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of Falkirk Council and its group and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how Falkirk Council will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
14. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:
 - comprehensive closedown procedures for the council and group financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2015/16.
15. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit services are provided by the internal audit section of the council. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).
16. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:
 - Investment (non-pension)
 - Integra finance system – supplier data management and payments.

17. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:

- Corporate risk management arrangements
- Adult health and social care integration
- Data and information security - governance and practice
- Revenues IT systems security and management
- Corporate purchasing and contract management
- Financial regulations.

Materiality

18. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.

20. Based on our knowledge and understanding of Falkirk Council we have set our planning materiality at £6.415 million (1% of budget gross expenditure).

21. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements
- nature and extent of prior year misstatements
- extent of audit testing coverage.

22. For 2015/16 performance materiality has been set at £3.208 million. We will report, to those charged with governance, all misstatements identified which are greater than £64,000.

Reporting arrangements

23. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.

24. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.

25. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30

September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.

26. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The local authority is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.
27. A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1 below.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January to April 2016
Meetings with officers to clarify expectations of working papers and financial system reports	Ongoing
Consideration of unaudited financial statements by those charged with governance	20 June 2016
Latest submission date of unaudited council financial statements with complete working papers package	20 June 2016
Progress meetings with lead officers on emerging issues	Ongoing

Key stage	Date
Latest date for final clearance meeting with Chief Finance Officer	12 Sep 2016
Agreement of audited unsigned financial statements, and issue of Annual Audit Report which includes the ISA 260 report to those charged with governance	26 Sep 2016
Independent auditor's report signed	26 Sep 2016
Latest date for signing of WGA return	30 Sep 2016

28. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Chief Finance Officer, and relevant senior managers, Internal Audit Manager and Audit Scotland's Performance Audit and Best Value Group.
29. We will provide an independent auditor's report to Falkirk Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. The combined ISA 260 and Annual Audit Report will be issued by 30 September.
30. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.
31. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Quality control

- 32. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established as part of financial audit procedures. This is to provide reasonable assurance that those professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.
- 33. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).
- 34. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Fiona Mitchell Knight.

Independence and objectivity

- 35. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional

accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

- 36. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Falkirk Council.

Audit issues and risks

Audit issues and risks

37. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Falkirk Council. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in [Appendix 2](#).

Financial statement issues and risks

38. **Income:** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. Falkirk Council receives a significant amount of funding from the Scottish Government. Money is also received from other sources, including council tax, housing rents and service income from fees and charges. The complexity of income means there is an inherent risk that income could be materially misstated. It is our opinion that the council has mitigating controls in place to reduce this risk although risk can never be fully eliminated. We review the systems of internal control and perform substantive testing across all areas of income to obtain assurances for the purpose of our audit.
39. **Management override of controls:** ISA 240 recognises that management are in a unique position and have the ability to manipulate accounting records, and prepare fraudulent financial

statements, by overriding controls that would otherwise appear to be operating effectively. ISA 240 requires that this risk be recognised in audit plans.

40. **Equal pay claims:** The council recognised a provision in respect of equal pay in the 2014/15 financial statements and disclosed a contingent liability. There is a risk that the provision does not accurately reflect the liability to the council. This will become clearer as the legal position develops and cases are settled. We will monitor the situation throughout the year and review the equal pay provision as part of the 2015/16 financial statements audit process.
41. **Revaluation of council dwellings:** The council has used a discounted cash flow approach to the valuation of its council dwellings since 1 April 2010. The LASAAC Mandatory Guidance on the Valuation Methodology for Council Dwellings (the LASAAC Guidance), October 2010, requires Scottish local authorities to adopt the beacon approach methodology by 2015/16. Officers have obtained a valuation using the beacon approach methodology for inclusion in the 2015/16 financial statements. There will be a material increase in the value of council dwellings on the balance sheet. Officers will need to ensure that council dwellings are accounted for in line with the Code, including depreciation and recognition of capital expenditure. We have had early discussions with officers about the proposed accounting treatment and will review this in advance of the financial statements audit.

Wider dimension issues and risks

42. **Financial management:** As at 31 December 2015 the council was projecting an underspend of £2.055m in the year mainly due to

lower than anticipated costs in education, particularly early years provision. This is accompanied by a significant overspend of £2.864m in social work services (both children and adult), which has been funded by a £2m contingency included in the 2015/16 budget and offset by underspends in other services. Recurring overspends in social work services suggest that the budget does not accurately reflect the cost of providing these services. Members have received reports outlining plans to address the overspends. Good financial management will be critical to the council achieving a balanced budget going forward. We will continue to monitor and report on the council's financial position.

43. **Best Value audit follow-up:** A targeted audit of Best Value arrangements at the council was published in August 2015. The audit identified a number of areas for improvement that relate to the scale and pace of change at the council and its approach to scrutiny, performance management and performance reporting¹. The Accounts Commission requires a report on the council's progress from the Controller of Audit by the end of 2016. It is important that the council is able to demonstrate that action has been taken to address improvement areas identified by the BV audit.
44. **Workforce planning:** In response to the constrained financial position that the council is facing members have approved plans to reduce the workforce by 348 full time equivalents over 2015/16 and 2016/17. If this cannot be achieved through voluntary means then other actions may need to be taken. Audit Scotland have previously

highlighted that councils need to ensure that staff reductions are considered within the context of comprehensive workforce strategies and plans. The council's existing workforce strategy only covers the period 2011-2014, although a revised strategy is being developed. Audit Scotland published a report on Scotland's Public Sector Workforce in November 2013². We will carry out local follow-up work this year based on the recommendations in the 2013 report. Any significant issues will be reported via our 2015/16 Annual Audit Report.

45. **Infrastructure Assets:** From 2016/17, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be included in the council's financial statements at depreciated replacement cost. The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The specific requirements are outlined at Appendix D to the Code. We will report on the council's preparation and review the disclosures in the 2015/16 accounts.

National performance audit studies

46. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process, we will carry out work to collect relevant financial and performance information to inform Audit Scotland's national reports.

¹ *Falkirk Council Best Value Audit 2014/15*, Audit Scotland, August 2015

² *Scotland's Public Sector Workforce*, Audit Scotland, November 2013

Fees and resources

Audit fee

47. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.
48. In determining the audit fee we have taken account of the risk exposure of Falkirk Council, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 20 June 2016.
49. The proposed audit fee for the 2015/16 audit of Falkirk Council and Falkirk Temperance Trust is £322,190. Our fee covers:
 - the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - your organisation's allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland
 - a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.
50. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

51. Fiona Mitchell Knight, Assistant Director is your appointed auditor. The local audit team will be led by Jim Rundell who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2.

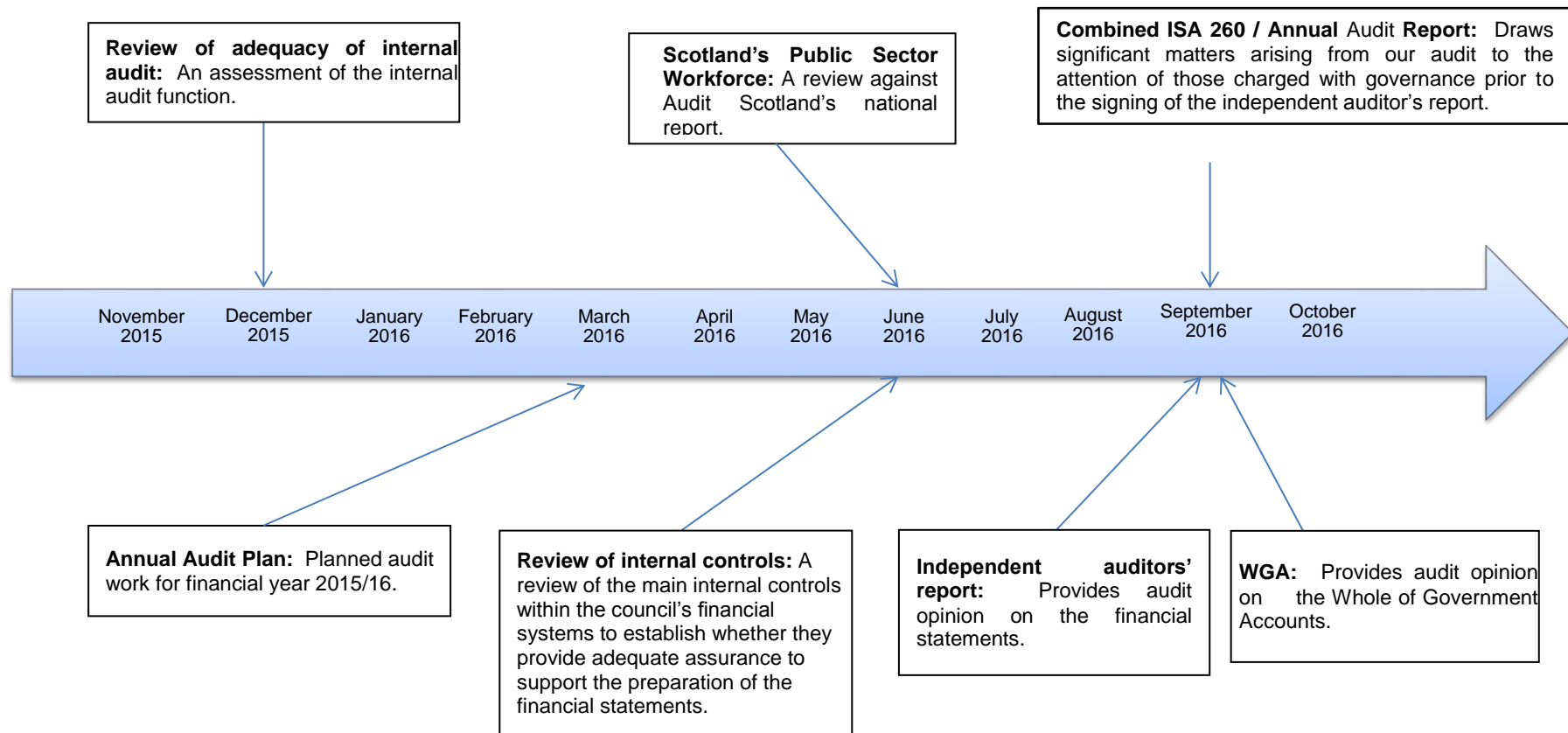
Exhibit 2: Audit team

Name	Experience
Fiona Mitchell-Knight BA (Hons) FCA <i>Assistant Director of Audit Services (and certifying auditor)</i>	Fiona took up post as Assistant Director of Audit in August 2007. Fiona has 22 years experience in public sector audit, covering local government, health and the further education sector. Fiona is also the officer who certifies the annual accounts.
Jim Rundell MA (Hons) CPFA <i>Senior Audit Manager</i>	Jim has 31 years public sector audit experience, mostly in local government and health. Recently he was responsible for revising Audit Scotland's risk management policy, strategy and assurance framework to comply with good practice, and continues to act as Risk Champion for Audit Services providing support and advice on risk. His recent audit responsibilities have included City of Edinburgh Council, NHS Greater Glasgow and Clyde and Lothian Pension Fund.
David Meechan BA CA <i>Senior Auditor</i>	David joined Audit Scotland 14 years ago, after 24 years in private sector audit, where he specialised latterly in the voluntary housing and independent schools sectors. Since joining Audit Scotland he has worked mainly on local government and health audits, most recently leading on the audit of Glasgow City Council for 2012/13 and 2013/14.
Lisa Duthie MA (Hons) CPFA <i>Senior Auditor</i>	Lisa joined Audit Scotland in 2008 and has over 7 years experience in public sector audit covering local government, health and central government.
Gerry Collins <i>Auditor</i>	Gerry has over 21 years experience working as an auditor/accountant. He has worked for the last 13 years in external and internal audit within the public sector, in both health and local government. Gerry is part ACCA qualified.
Russell Croal BAcc (Hons) <i>Professional Trainee</i>	Russell joined Audit Scotland in 2014 and is currently training for the ICAS professional accountancy qualification.

NB - The core team will call on other specialist and support staff as necessary.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for Falkirk Council in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	Income Falkirk Council receives a significant amount of income in addition to SG funding. The complexity of that income means there is an inherent risk of fraud in accordance with ISA240.	<ul style="list-style-type: none"> Mitigating controls in place to reduce this risk e.g. regular reconciliations, segregation of duties. Internal audit reviews. 	<ul style="list-style-type: none"> Controls testing of accounts receivable system and transaction testing which will cover each service income area. Detailed testing of revenue transactions focusing on areas considered higher risk. Testing of significant grants received. Focussed testing on local taxation systems.
2	Management override of controls As stated in ISA 240, management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	<ul style="list-style-type: none"> A sound system of budgetary control, including regular budget monitoring. Regular updates of Standing Orders and Financial Regulations, which require approval by the Full Council. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates for bias. Evaluating significant transactions that are outside the normal course of business. Focussed testing of the regularity and cut-off assertions during the financial statements audit.
3	Equal pay claims There is still uncertainty over the legal position of outstanding equal pay claims against the council. Risk: Material misstatement of the level of provision required.	<ul style="list-style-type: none"> Finance team seek advice from the council's legal team when determining provisions to be included in the accounts. 	<ul style="list-style-type: none"> Monitor legal developments nationally; assess potential financial impact on the council. Review of calculations and assumptions supporting provision.

#	Audit Risk	Source of assurance	Audit assurance procedure
4	<p>Revaluation of council dwellings</p> <p>The council has obtained a valuation of its council dwellings under the beacon approach methodology for inclusion in the 2015/16 financial statements.</p> <p>Risk: Council dwellings are not accounted for correctly in the financial statements.</p>	<ul style="list-style-type: none"> Valuation obtained from District Valuer. Council dwellings will be accounted for in line with the Code. Early discussions with auditors to ensure consistent view on accounting treatment. 	<ul style="list-style-type: none"> Review the valuation and accounting treatment of council dwellings in advance of the financial statements audit.
Wider dimension issues and risks			
5	<p>Financial management</p> <p>Social work services (both children and adult) continue to overspend in 2015/16. The overspend of £2.864m as at 31 December 2015 has been funded by a £2m contingency and offset by underspends in other areas.</p> <p>Risk: Overspends persist and the council is unable to balance the budget in future years.</p>	<ul style="list-style-type: none"> Proposals to address the situation have been reported to the Scrutiny Committee, although the impact is yet to be seen. 	<ul style="list-style-type: none"> We will monitor the council's financial position and comment in our annual audit report.
6	<p>Best Value follow-up audit</p> <p>The Accounts Commission requires a report on the council's progress against the improvements identified in the Best Value audit report from the Controller of Audit by the end of 2016.</p> <p>Risk: The council is unable to demonstrate that action has been taken to address the improvement areas identified.</p>	<ul style="list-style-type: none"> A Best Value improvement plan has been developed and agreed by members. 	<ul style="list-style-type: none"> Best Value follow-up audit to be reported by the end of 2016.

#	Audit Risk	Source of assurance	Audit assurance procedure
7	<p>Workforce planning</p> <p>In response to the constrained financial position that the council is facing members have approved plans to reduce the workforce by 348 full time equivalents during 2015/16 and 2016/17.</p> <p>Risk: Reduced workforce and a loss of intellectual capacity has an adverse impact on service delivery and staff morale.</p>	<ul style="list-style-type: none"> The council will update its workforce strategy for approval by members by March 2016. 	<ul style="list-style-type: none"> We will carry out local follow up work this year based on the recommendations in Audit Scotland's report, <i>Scotland's Public Sector Workforce</i>.
8	<p>Infrastructure assets</p> <p>The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.</p> <p>Risk: The council has not prepared the information needed to include the appropriate disclosures in 2015/16 and meet the change in accounting requirement for 2016/17.</p>	<ul style="list-style-type: none"> Training delivered by CIPFA to staff concerned. Utilising the Valuation Toolkit that has been provided as part of the CIPFA supporting materials. Disclosures in the 2015/16 accounts will include an estimate of the impact on the 2016/17 figures. 	<ul style="list-style-type: none"> We will review the disclosures relating this standard issued but not yet adopted in the 2015/16 accounts. We will consider the council's preparedness for the change to accounting for infrastructure assets and comment in our annual audit report.

FALKIRK COUNCIL

Subject: LOCAL SCRUTINY PLAN 2016-17
Meeting: AUDIT COMMITTEE
Date: 18 April 2016
Author: CHIEF EXECUTIVE

1. INTRODUCTION

- 1.1 This report presents the Local Scrutiny Plan 2016-17 for Falkirk Council prepared annually by the Local Area Network (LAN).

2. LOCAL SCRUTINY PLAN

- 2.1 The Local Scrutiny Plan provides details of the planned scrutiny activity to be undertaken in Falkirk Council during the current financial year. The plan is based on a shared risk assessment undertaken by the Local Area Network (LAN). The LAN, led by Audit Scotland, consists of representatives from Audit Scotland, Scottish Housing Regulator, Education Scotland, Care Inspectorate and Healthcare Improvement Scotland.
- 2.2 The Local Scrutiny Plan (LSP) notes national risks as well as local risks and identifies how and when these risks will be audited during the financial year.
- 2.3 The LSP begins with an update on the work undertaken by the LAN during 2015/16. A summary of the conclusions and risks are noted below:

Financial Sustainability

- 2.4 As previously reported, the Council's 2014/15 Revenue Budget anticipated the application of £1.5m from reserves. In the event, a further £2.440m was necessarily applied to cover cost pressures, primarily in Social Work. Reports to members regularly highlight that the application of reserves to balance the Budget or to deal with Budget overspending is not sustainable. Nevertheless, reserves are a legitimate and important element in the Council's financial "toolkit" and are appropriately harnessed, where necessary. The forthcoming financial challenges facing the Council were explicitly highlighted in the Budget report recently approved by Council in February.

Best Value

- 2.5 The attached plan notes the need to ensure progress against the Improvement Plan agreed in response to the Best Value and Community Planning Audit published last year. Members will be aware that Auditors will soon commence work to provide that assurance to the Controller of Audit by the end of 2016.

Education and Children's Services.

This section notes the strong inspections from primary and secondary schools. It notes issues regarding special schools and the improvement work that is being undertaken to address these issues.

Members will be aware that the Joint Inspection for Children's Services is due to report later this year and as such there are no further inspections planned in this area.

Social Work/ Social Care

- 2.6 While no specific areas of inspection have been identified, the report notes the need for all Councils and partners to ensure the recommendations arising from the national multi agency and public protection arrangements review are progressed appropriately.
- 2.7 The report notes progress on health and social care integration and that the external auditor will continue to monitor progress in this regard.

Housing Benefit Performance Audit

- 2.8 A review of housing benefit performance was published earlier this year with the Local Scrutiny Plan noting the 'admirable progress' against identified risk.

Community Planning

- 2.9 The report notes that in the follow up to the Audit in 2014 progress is being made but more needs to be done. The external auditor will continue to monitor this area of work.

Social Landlord Services

- 2.10 While some performance indicators in the above service were noted as being in the bottom quartile in the benchmarking group, the LAN noted that assurance had been received about appropriate improvement plans in place to address these areas.

3. PLANNED SCRUTINY ACTIVITY

- 3.1 The Council will be subject to a range of risk-based and nationally driven scrutiny activity during 2016/17, although in relation to the national scrutiny activity, not all of the activity relating to which Council has been determined or timetabled as yet. While some of the audit and inspection work is proportionate and risk driven, some inspections are yet to be timetabled. The report also notes the new focus for Best Value Audits and the arrangements for undertaking these in the future. These new arrangements were reported to the Council's Scrutiny Committee earlier this year.
- 3.2 The following areas have been noted by the Local Area Network and Audit Scotland for activity during 2016/16:
 - The Care Inspectorate has been commissioned to review the services delivered by Drug and Alcohol partnerships including the Falkirk Partnership. Work on this 'review' has already started with file reading taking place in March and interviews being organised for June 2016;
 - follow up work on progress made to improvement areas following the Best Value and Community Planning Audit – fieldwork in May /June with published report in August 2016;

- a national review of housing benefit risk will take place in 16/17 but will not affect Falkirk until the end of 16/17 if at all;
- the validated self-assessment for Educational Psychology Services will take place in Falkirk between August – December 2016;
- Education Scotland will carry out a review of quality of careers information and advice and guidance services delivered by Skills Development Scotland and will take place in Falkirk in October 2016;
- the Scottish Housing Regulator (SHR) will monitor the areas of service it noted as needing improvement with reports being submitted on a regular basis to the regulator; and
- In addition the SHR will identify topics for theme studies including the review of charter data submitted by landlords.

4. RECOMMENDATION

- 4.1 **It is recommended that the committee notes the Local Area Network's Local Scrutiny Plan 2016 -17 as set out in appendix 1 of this report.**

.....
CHIEF EXECUTIVE

Date: 31 March 2016

Ref: ABB0416FC – local scrutiny plan 16/17

Contact Name: Fiona Campbell Ext: 6004

LIST OF BACKGROUND PAPERS

Nil

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506004 and ask for Fiona Campbell.

Falkirk Council

Local Scrutiny Plan 2016/17

Introduction

1. This local scrutiny plan sets out the planned scrutiny activity in Falkirk Council during 2016/17. The plan is based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the council (Audit Scotland, Care Inspectorate, Education Scotland and Scottish Housing Regulator). The shared risk assessment process draws on a range of evidence with the aim of determining any scrutiny activity required and focusing this in the most proportionate way.
2. This plan does not identify or address all risks in the council. It covers only those risk areas that the LAN has identified as requiring scrutiny, or where scrutiny is planned as part of a national programme. Planned scrutiny activity across all councils in Scotland informs the National Scrutiny Plan for 2016/17, which is available on the Audit Scotland website.

Scrutiny risks

3. The LAN's conclusion from this year's shared risk assessment is that no new scrutiny risks have been identified which require specific scrutiny work during 2016/17.
4. **Financial sustainability:** Audit Scotland reported in September, 2015 that almost £6 million from the council's usable reserves had been utilised in funding 2014/15 overspends, an arrangement acknowledged by management as inappropriate and unsustainable.
5. The council agreed its 2015/16 budget in February 2015 and set indicative budgets for 2016/17 and 2017/18. In doing so a funding gap of £46 million was established for the three years to 2017/18. Savings of £12.4 million, £18.4 million and £15.4 million respectively were identified to cover the budget gaps through to 2017/18. However, a report to the council in October, 2015 identified an estimated £11.4 million as the budget gap for 2018/19.
6. In addition, the Scottish Government Financial Settlement presented a further reduction of £7 million in funding for 2016/17, thus extending the funding gap for that year to over £25 million. At a meeting on 17 February, 2016 the council agreed a balanced budget, which included measures to bridge this funding gap.
7. There is a risk that the council will be unable to deliver the necessary savings to bridge the future funding gaps. The Accounts Commission, in its August, 2015 Best Value

audit report for the council, also raised concerns about the council's ability to produce clear and detailed plans for how it will make these savings.

8. The LAN has concluded that whilst no specific scrutiny is required in this area, the external auditor should continue to review the financial position of the council, and its progress in these areas, as part of the annual audit process.
9. **Best value:** A targeted audit of Best Value arrangements at the council was published in August, 2015. The audit identified a number of areas for improvement that relate to the scale and pace of change at the council and its approach to scrutiny, performance management and performance reporting. The Accounts Commission requires a report on the council's progress from the Controller of Audit by the end of 2016. It is important that the council is able to demonstrate that action has been taken to address improvement areas identified by the BV audit.
10. **Education and children's services:** The LAN has not identified the need for any specific scrutiny in this area beyond normal ongoing oversight and monitoring. Results from early years and primary school inspections carried out within the 2014/15 session have been positive, and recent secondary school inspections have indicated a strong performance. A number of issues have arisen from recent special school inspections, where the council have worked together with Education Scotland to put the necessary changes and support in place.
11. A Joint Inspection of Children's Services, led by the Care Inspectorate, and involving Healthcare Improvement Scotland (HIS), Education Scotland and HMICS was carried out at Falkirk Council at the end of 2015, as part of the wider planned programme of national scrutiny work. Findings are still to be reported. The impact of the 2014/15 structural changes on delivery of children's services and related outcomes will continue to be monitored in the short to medium term. There are currently no children's services in the Falkirk Council Area considered high risk by the Care Inspectorate.
12. **Social Work/Social Care:** No requirement for specific additional scrutiny has been identified by the LAN. No significant concerns have been raised in relation to adult or children's services, public protection issues or criminal justice.
13. HMICS and The Care Inspectorate carried out a joint thematic review of multi agency public protection arrangements (MAPPA) in Scotland during 2015 as part of a wider programme of national inspection. This inspection was carried out between October, 2014 and November, 2015 and the final report was published 26 November, 2015. Key message is that MAPPA is making an effective contribution to public safety and sex offender management. Councils and other groups will be asked to outline how the report's recommendations and areas for development will be implemented, and progress monitored and evaluated.
14. Findings from the 2014 joint inspection of health and social work services for older people, carried out by The Care Inspectorate and HIS, were published in July 2015. The report highlighted the significant work still to be completed on health and social care

integration at that time, and noted issues around communication with front line staff, and improvements required in change management processes.

15. Good progress has since been made on health and social care integration, and the full Integration Joint Board (IJB) was established from 3 October, 2015. The necessary integration scheme was finalised by June, 2015 and the council are on track to implement full integration by 1 April, 2016. The external auditor will continue to monitor progress in implementing the governance and accounting arrangements for the new IJB.
16. **Housing benefit performance audit:** A follow-up risk assessment of the council's housing benefit service was carried out by Audit Scotland in November, 2015. The aim of this review was to obtain assurance that sufficient progress had been made against the action plan from the 2014 risk assessment audit, and that no additional material risks had arisen. A report on the findings was issued to the council 14 January, and responses are to be provided by 12 February, 2016, however, the report indicates that the council has made a very positive contribution to the delivery of the benefits service and has made admirable progress against risks previously identified.
17. **Community planning:** In 2015, Audit Scotland undertook follow-up work on the Community Planning Partnership (CPP) audit which was reported in May, 2014. The findings from the follow-up were reported to the council in October, 2015, indicating that progress had been made against parts of the improvement agenda, but that there was still more to be done. The external auditor will continue to monitor progress in progressing the CPP improvement agenda.
18. **Social landlord services:** To assess the risk to social landlord services, the Scottish Housing Regulator (SHR) has reviewed and compared the performance of all Scottish social landlords in order to identify the weakest performing landlords. Their review found that Falkirk Council is in the bottom quartile for all social landlords in relation to non-emergency repairs, gross rent arrears, the percentage of antisocial behaviour cases completed within locally agreed targets and tenant satisfaction with the overall service, on being kept informed about services and outcomes, and with the standard of their home when moving in. Council officials have assured SHR that they are aware of these areas of weaker performance and have a number of plans in place to improve future performance.
19. In addition, tenants and residents involved in the council's Customer Led Inspection of Estate Management Services have indicated that the resulting programme of planned actions has yet to be fully delivered by the council, and improved outcomes have yet to be achieved.

Planned scrutiny activity

20. As shown in [Appendix 1](#), the council will be subject to a range of risk-based and nationally driven scrutiny activity during 2016/17. For some of their scrutiny activity in

2016/17, scrutiny bodies are still to determine within their work programmes which specific council areas they will cover. Where a council is to be involved, the relevant scrutiny body will confirm this with the council and with the appropriate LAN lead.

21. As noted above, Audit Scotland will carry out a follow-up review of actions taken by the council in response to the 2015 Audit of Best Value and Community Planning. This work is provisionally scheduled for April/May, 2016, with a December, 2016 deadline for reporting its findings.
22. In December, 2014, the Accounts Commission concluded its review of Best Value and set out principles for a new approach to auditing Best Value. These principles include the need for more frequent assurance on Best Value across all 32 councils, integrating the audit processes, an increased emphasis on driving improvement, and a strong focus on the quality of service experienced by the public and the outcomes achieved.
23. The new approach will be rolled out from October, 2016 but will continue to evolve. It will include assessment each year of aspects of Best Value as part of an integrated annual audit, and a public report (Controller of Audit report to the Accounts Commission) for each council, at least once in a five year period, that will bring together an overall picture of the council drawn from a range of audit activity. The initial iteration of the rolling programme, which will be reviewed and refreshed annually in response to factors including the SRA, will be presented to the Accounts Commission in April, 2016. The results of this current SRA will make a significant contribution to the audit intelligence that will underpin the new approach, and inform the development of the initial programme.
24. 2016 is a transition year which includes development of the intelligence about each council for the new approach, and the handover to new audit appointments. While preparation for the new approach progresses, the scope of any Best Value audit work planned for 2016 will not change, however, appropriate elements of the new approach, such as reporting mechanisms, will be tested in some councils.
25. Audit Scotland will continue to carry out a programme of housing benefit risk assessments across councils in 2016/17. The latest such assessment for Falkirk Council was carried out as recently as November, 2015, therefore no work is planned at Falkirk Council for the first half of 2016/17. Plans for the second half of 2016/17 are yet to be developed, and will be based on a risk assessment of council HB services.
26. The Care Inspectorate will work together with partner regulatory agencies to continue to deliver a coordinated programme of joint scrutiny of Community Planning Partnerships and integration joint boards. Partner agencies are reviewing the methodology for joint inspections of Adults' services. As well as joint strategic scrutiny programmes, the Care Inspectorate will also be reviewing its approach to strategic commissioning, reviewing the validated self-assessment of Alcohol and Drug Partnerships and undertaking a variety of thematic programmes of work.

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27. HMICS will continue to inspect local policing across Scotland during 2016/17 as part of its rolling work programme. These inspections will examine, amongst other things, local scrutiny and engagement between Police Scotland and councils. HMICS will identify and notify LANs and the local Policing Divisions to be inspected approximately three months prior to inspection.
 28. The Scottish Government has confirmed in its funding letters to Alcohol and Drugs Partnerships (ADPs) that the Care Inspectorate will undertake Validated Self-Evaluation (VSE) activity with Alcohol and Drug Partnerships. The purpose of this activity is to support the validation of ADP and services' self-assessment of local implementation and service compliance with the Quality Principles: Standard Expectations of Care and Support in Drug & Alcohol Services. The findings from this validation work will be reviewed by the Scottish Government to consider and inform the future programme of national support that will further encourage and support delivery of continued improvements at ADP and service level. It is anticipated that all 30 ADPs will participate. On site activity is likely to commence in March, 2016 with a national overview report completed by the end of 2016. The Care Inspectorate will also provide brief, customised feedback to each ADP in order to help build their capacity for self-evaluation.
 29. Education Scotland will continue to work, in partnership with councils, to complete its two year programme of validated self-evaluation (VSE) of educational psychology services across all councils. This work is planned to be carried out at Falkirk Council August – December, 2016.
 30. Education Scotland is also carrying out reviews of the quality of Careers Information Advice and Guidance (CIAG) services delivered by Skills Development Scotland across all councils, and this work is scheduled for Falkirk Council in October, 2016. In addition to specific work shown in [Appendix 1](#), routine scheduled audit and inspection work will take place through the annual audit process and the ongoing inspection of school and care establishments by Education Scotland and the Care Inspectorate respectively.
 31. Audit Scotland plans to undertake performance audit work in three areas covering local government during 2016/17. It will undertake a performance audit on **early learning and childcare**, and a follow-up audit on **self directed support**. Audit work on **equal pay** will also be carried out, but the focus and outputs from the work in this area are still being considered, and any engagement with councils is still to be determined. Details of future audit work are available on the Audit Scotland website [here](#).
 32. The Scottish Housing Regulator (SHR) will monitor the council's progress in addressing the weaknesses identified above. The council will submit quarterly progress reports in relation to its proposed improvement actions and their outcomes. This will be followed by meetings with council officials and representative tenant groups, if considered necessary.
 33. The SHR will publish the findings of its thematic inquiry work completed during 2015/16, and will carry out further thematic inquiries during 2016/17. It will review the Charter
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data submitted by landlords and carry out data accuracy visits during the second quarter of 2016/17. If the council is to be involved in a thematic inquiry or data accuracy visit, SHR will confirm this directly with the council and the LAN lead.

34. 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.

March 2016

Appendix 1: Scrutiny plan

Scrutiny body	Scrutiny activity	Date
Audit Scotland	Best Value follow-up review.	April/May, 2016 and reporting by end 2016.
	Audit Scotland will carry out a programme of performance audits during 2016/17. It will undertake a performance audit on early learning and childcare and a follow-up audit on self-directed support. Audit Scotland will also carry out audit work on equal pay.	2016/17 Specific engagement with councils to be determined.
Care Inspectorate and Healthcare Improvement Scotland	Validated self evaluation of Alcohol and Drug Partnerships as part of a national review programme and not as a result of the LAN's assessment.	From March, 2016; Dates for Falkirk TBC
Education Scotland	Validated self-evaluation (VSE) of education psychology services within the council.	August, 2016
	Review of the quality of Careers Information Advice and Guidance services delivered by Skills Development Scotland across the council's area.	October, 2016
Scottish Housing Regulator (SHR)	Monitoring of the council's progress in addressing weaknesses identified.	Quarterly
	Further thematic inquiry work will be carried out during 2016/17.	To be confirmed
	Review of Charter data submitted by the council, and related data accuracy visits.	Quarter 2

FALKIRK COUNCIL

Subject: AUDIT OF HOUSING BENEFIT – RISK ASSESSMENT REPORT
Meeting: AUDIT COMMITTEE
Date: 18 April 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 I attach a report from the Council's External Auditor following his 2015/16 follow up work for Audit Scotland's housing benefit (HB) risk assessment programme. The risk assessment considers the effectiveness of the benefit service in meeting national and local priorities, business planning and reporting, and delivering outcomes.

2. AUDIT REPORT

- 2.1 A risk assessment was carried out in February 2014, at which time five risks were identified. Of these five risks, four risks are now completed with only 1 outstanding.

- 2.2 The report highlights that in completing four of the risks, the Council has made a very positive contribution to the delivery of the benefit service, as demonstrated by:

- significant improvements in the time taken to process new claims and change events;
- a high level of financial accuracy and reductions in non-financial errors;
- regular checks on overpayment classifications, ensuring that local authority and administrative error overpayments are below the DWP lower threshold; and
- excellent performance and significant improvements in the recovery of HB overpayments.

- 2.3 The report states that whilst the Council has demonstrated an awareness of what constitutes an effective, efficient and secure benefit service, there are four new risks and one risk outstanding from the previous risk assessment as detailed below:

- having staff contingency arrangements in place to manage the potential loss of temporary staff to other areas of the council or externally;
- ensuring the performance against all aspects of the benefit service, such as accuracy of payments and the percentage of overpayments recovered against all debt outstanding, is routinely and regularly reported to staff, senior managers and members;
- increasing automation levels within the DWP's Automated Transfer to Local Authority Systems (ATLAS) to reduce the manual processing of changes; and
- collating and analysing management checks in respect of all its activities to provide the council with a holistic view of errors found and to help identify areas for learning and development of staff and the service.

- 2.4 The outstanding action point from 2014 is the development and implementation of a benefit specific overpayment policy. A policy is being prepared for Executive. However, the report acknowledges the significant performance improvement in this area.

3. RECOMMENDATION

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

Director of Corporate & Housing Services

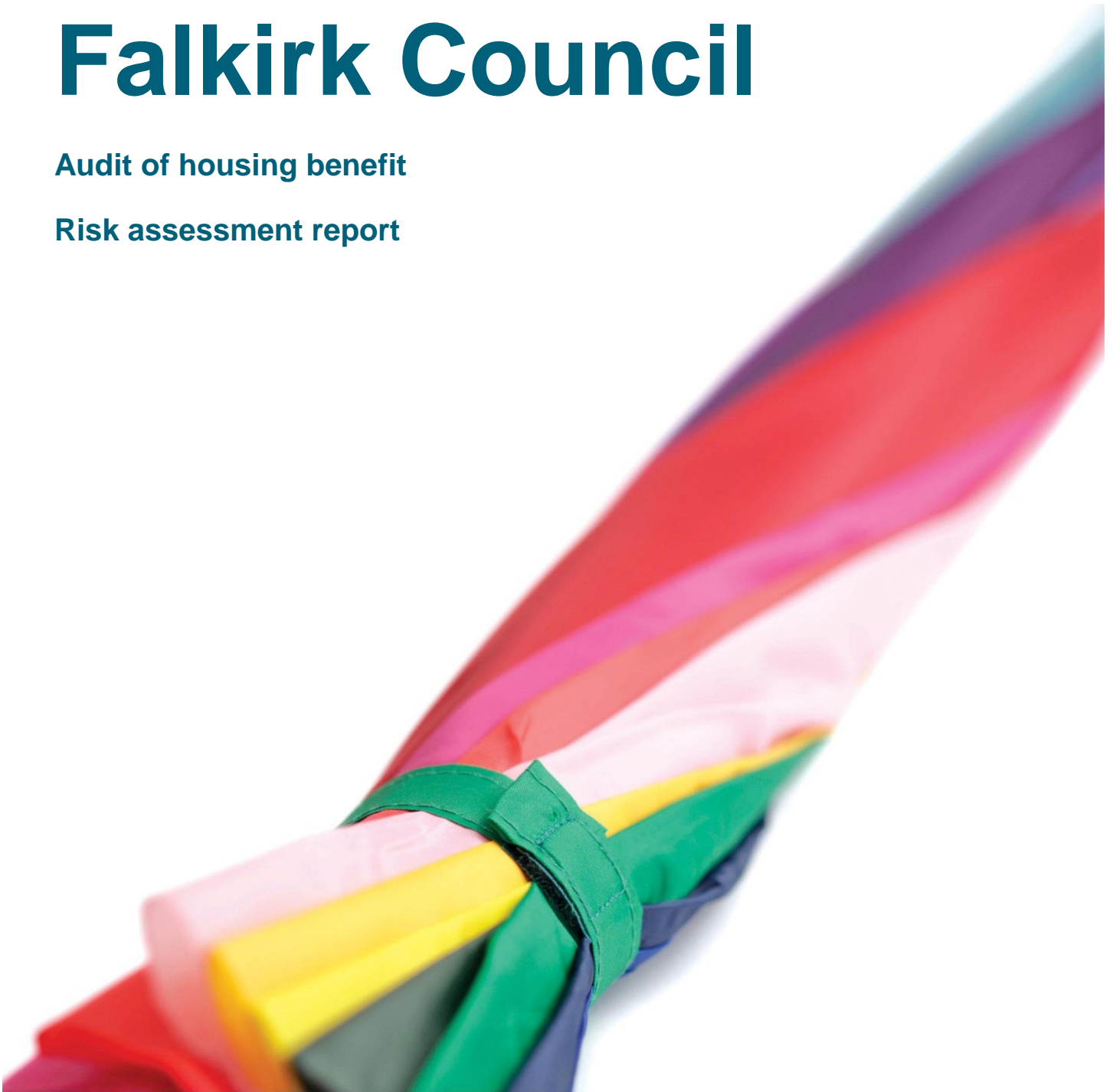
Date: 08 April 2016

Contact Officer: Amanda Templeman

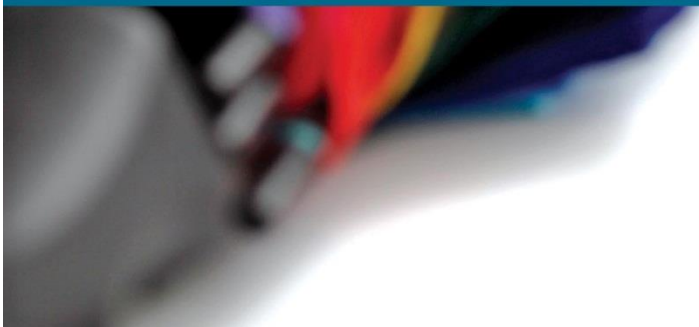
Falkirk Council

Audit of housing benefit

Risk assessment report



Prepared for Falkirk Council
January 2016



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Introduction

1. This risk assessment was completed as part of Audit Scotland's housing benefit (HB) risk assessment programme. It does not represent a full audit of Falkirk Council's benefit service.
2. The Local Government in Scotland Act 2003 introduced new statutory duties relating to Best Value and Community Planning. The key objective of the risk assessment is to determine the extent to which the benefit service is meeting its obligations to achieve continuous improvement in all its activities.
3. Specifically, the risk assessment considers the effectiveness of the benefit service in meeting national and local priorities, business planning and reporting, and delivering outcomes.
4. Information for this risk assessment was gathered from a range of sources including:
 - the self-assessment, supporting evidence, and updated action plan provided by the council
 - Department for Work and Pensions (DWP) indicators and other performance measures
 - scrutiny of internal and external audit reports
 - discussions with the appointed external auditor
 - discussions with senior officers in the council during our site visit in November 2015.

Executive summary

5. A risk assessment was previously carried out on Falkirk Council's benefit service in February 2014 when Audit Scotland identified five risks to continuous improvement. These were reported to the Chief Executive in April 2014 and, in response, the council submitted an action plan in June 2014 to address these risks which Audit Scotland accepted as satisfactory, if fully implemented.
6. Since our previous visit there have been some significant changes within the council and, as a consequence, the way in which benefit services are delivered. In December 2014, the Senior Benefit Officer (Technical), one of two Senior Benefit Officers, left the service. In addition, the Deputy Chief Finance Officer (DCFO) who had responsibility for the benefit service has been on long-term sick leave since January 2015. The council told us that the loss of these officers left the service with severely depleted expertise at a senior level.
7. In the short-term the DCFO's duties, which included significant involvement in the day-to-day running of the service, were split between the Revenues Manager and the Senior Benefit Officer (Welfare Reform, Appeals and Complaints). In March 2015, the Senior Benefit Officer (Welfare Reform, Appeals and Complaints) took on the role of acting Benefit Manager on a month to month basis to provide some stability to the service. This arrangement continued until October 2015 when the Benefit Manager role was advertised on a temporary basis until

May 2016. The Senior Benefit Officer (Welfare Reform, Appeals and Complaints) subsequently applied for this position and was successful. In addition to these changes, a restructure was carried out in August 2015 which resulted in the Revenues and Benefits service being incorporated into Corporate and Housing Services.

8. In October 2015, the council submitted a current self-assessment along with supporting evidence, and an updated action plan. Of the five risks identified, the council has made admirable progress as follows:

- four risks completed
- one risk outstanding.

Appendix A covers this in detail.

9. In completing four of the risks the council has made a very positive contribution to the delivery of the benefit service. In particular, by:

- significantly improving the time taken to process new claims and change events from 42 days and 22 days in 2013/14 to 20 days and nine days in 2015/16, at 31 October 2015. In view of the loss of senior staff in 2014/15, this level of improvement is commendable
- maintaining a high level of financial accuracy and reducing the number of non-financial errors from 45% in 2013/14 to 28%, at 31 October 2015
- carrying out regular checks on overpayment classifications, which has helped ensure that the reported level of local authority and administrative error (LA/admin) overpayments was below the DWPs lower threshold in 2014/15, and remains below the lower threshold in 2015/16, at 31 October 2015
- delivering an excellent performance and significant improvement in the recovery of HB overpayments from 2013/14 when 43% of in-year debt and 16% of all outstanding debt was being recovered to 2015/16, when 81% of in-year debt had been recovered, at 31 October 2015, and a projected annual performance of 28% of all outstanding debt being recovered. This level of improvement is also commendable.

10. Although the council demonstrates awareness of what constitutes an effective, efficient and secure benefit service, there are four new risks and one risk outstanding from our previous risk assessment. In order to ensure continuous improvement, the council needs to address these risks. These include:

- having staff contingency arrangements in place to manage the potential loss of temporary staff to other areas of the council or externally. This should ensure that the service is resilient to change and well positioned to improve or sustain current performance levels across all of its activities while delivering new initiatives such as the current programme of interventions and preparing for the rollout of Universal Credit (UC)
- ensuring that performance against all aspects of the benefit service, such as the accuracy of payments and the percentage of overpayments recovered against all debt outstanding, is being routinely and regularly reported to staff, senior managers and members

- increasing automation levels within the DWP's Automated Transfer to Local Authority Systems (ATLAS) service to reduce the manual processing of changes notified and help free up resources to carry out other benefit-related tasks
- collating and analysing management checks in respect of all its activities to provide the council with a holistic view of errors found to help identify areas for learning and development of staff and the service.

Business planning and reporting

11. An effective business plan provides an opportunity for the council to set out the aims and objectives for each service and should contain key deliverables against which performance can be measured, monitored and reported.
12. Following a restructure in August 2015, the Revenues and Benefits service was incorporated into Corporate and Housing Services, and the *Corporate and Housing Services - Service Performance Plan 2015/2018* is now the key strategic document for the service. This is a three-year rolling plan which details the Corporate and Housing Services' key commitments which are to improve the way the service is managed and to improve the services that are delivered to customers. To support these commitments the service has four key goals which are to:
 - further develop a thriving and sustainable economy
 - improve the health, safety and wellbeing of citizens and communities
 - increase efforts to tackle disadvantage and discrimination
 - enhance an environment in which people want to live, work and visit.
13. The service performance plan also contains the two key performance indicators for the benefit service which are the average time to process new claims and the average time to process change events.
14. Since 2013, the Revenues and Benefits service has made good use of temporary staff on rolling contracts to help deliver the service. We were told that, in order to recruit a permanent member of the establishment, a number of conditions need to be met, for example, the consideration of other staff within the council who could be suitably redeployed.
15. At the time of the on-site visit there were 19 revenues assistants on rolling contracts, which had all been recently extended until March 2016 following representations to the Chief Executive. Although this arrangement has worked well for the council, the nature of temporary contracts means that the benefit service is vulnerable to the availability of permanent positions within other areas of the council or externally, and we were told that in the last year four temporary revenues assistants had left the service for permanent positions elsewhere.

16. At the time of our previous visit, the benefit service had made changes to its working practices to enable performance improvements to be delivered. These included changing the workload allocation and management function which had been carried out locally, and delivering this function centrally from the Callendar Square office.
17. Although this approach was initially successful, we were told that over time the expected improvements were not being realised and that, in order to address concerns raised by the Area Office Managers (AOMs), a local office action plan was developed by the Benefit Manager and the Revenues Manager with the key objective to *determine how the service could work better to deliver the customer service function more effectively while meeting back office demands within existing constraints*.
18. To support this action plan, a one day workshop was held in January 2015 with the AOMs. Following the workshop, a decision was taken in March 2015 to revert to the previous working practice which provided the AOMs with full control and responsibility of their individual area office workloads. This change has had a positive effect and has helped contribute towards the benefit service's significant improvements in claims processing times, which is discussed in more detail under *Speed of Processing*.
19. The council makes good use of an online reporting system which is updated monthly and is accessible by senior management and members. This is currently limited to performance in respect of the average time to process new claims and change events, and the percentage of in-year debt recovered, as we were told that more detailed benefit service performance would only be formally reported to senior management and members by exception.
20. At an operational level there are regular team meetings where performance is routinely discussed, and all staff are provided with a weekly 'snapshot' of work outstanding. In addition, a monthly Benefit Manager update is issued to all staff by e-mail which provides more detailed information in respect of:
 - the volume of work outstanding
 - speed of processing new claims and change events
 - in-year overpayment recovery performance
 - the level of LA/admin error against the DWPs threshold.

Risks to continuous improvement

1	The continued use of temporary staff on short term contracts could result in the further loss of staff to other areas of the council or externally, which could impact on the service's ability to sustain or improve its performance while delivering new initiatives such as the current programme of interventions and the rollout of UC.
2	Performance is not being reported across all aspects of the service. For example, there is no routine reporting of accuracy levels, or the performance of the service in respect of the total value of debt outstanding, despite a key outcome in the service performance plan to maximise subsidy and income to the council.

21. Audit Scotland identified one risk to continuous improvement during the previous risk assessment in that the council had not progressed the action, first identified in 2009, to develop a benefit-specific overpayment policy.
22. Although the council has a draft *Corporate Debt Recovery Policy*, as it has yet to be formally approved, we consider that this risk remains outstanding.

Delivering outcomes

23. Effective operational processes and IT systems, along with skilled staff, help benefit services deliver sound performance and continuous improvement. The council has a number of management arrangements in place to support this.

Speed of processing

24. When customers claim benefit, it is a time of financial uncertainty for them and, as such, it is essential that the service has sufficient fully trained and effective benefit processors in place that can make informed decisions on complex benefit claims and pay benefit promptly.
25. At the time of our previous visit in 2013/14, the council had experienced a significant decline in its claims processing performance as a result of the delayed implementation of a new benefit IT system in 2012/13. This was compounded by the preparation required by the service to train staff and review working practices and procedures, and an extended downtime at year-end for the annual billing and uprating processes.
26. As a consequence, a significant backlog of work accrued which resulted in an increase in the average time taken to process new claims and change events from 34 days and 12 days in 2012/13, to an average of 42 days and 22 days respectively in 2013/14.
27. However, the council responded positively to address this decline and made considerable improvements in the time taken to process new claims and change events in 2014/15 to an average of 25 days and eight days respectively. This level of performance placed the council 19th and 20th in Scotland for speed of processing new claims and change events which is highly commendable given the loss of the Senior Benefit Officer (Technical) in December 2014, and the DCFO who has been on sick leave since January 2015.
28. Despite the loss of two senior and highly experienced officers, the benefit service has proved very resilient and has continued to deliver improvements in 2015/16 by processing new claims in an average of 20 days and maintaining a good level of performance in the average time taken to process change events, at nine days, at 31 October 2015. This level of performance placed the council 10th and 18th in Scotland for speed of processing new claims and change events, based on the DWPs published performance data for quarter one 2015/16.

29. Exhibit 1 illustrates the council's current and previous performance.

Exhibit 1: Speed of processing performance (average number of days)			
	2013/14	2014/15	2015/16 (31 Oct)
New claims	42 days	25 days	20 days
Change events	22 days	8 days	9 days

Source: Falkirk Council & DWP

30. Although the council has improved its processing times significantly since 2013/14, there is scope for further improvement. At the time of the site visit we were told that the level of ATLAS automation was approximately 26% which is well below what we regularly see in other councils where automation levels are in excess of 40%.

Risk to continuous improvement	
3	The council is not making full use of the automated function when dealing with changes arising from the DWP's ATLAS service and is therefore missing an opportunity to reduce the manual workload for the service and free up resources to carry out other benefit-related tasks.

Accuracy

31. The accurate and secure administration of HB should be a key priority for every council, and to support this it should have a robust quality assurance framework in place.
32. The benefit service has a comprehensive management checking regime and the process is contained within the *Sample Checking HB/CTR claims* procedural document. In August 2014, following the implementation of the benefit IT system's checking module, the service carries out its management checks before a payment has been issued, which helps reduce the potential for LA/admin delay error overpayments to arise. This is considered to be good practice.
33. On a daily basis, the Benefit Officer (Compliance and Investigation) selects a random sample of 1 in every 35 claims processed that day for a full case check which consists of relevant claim checks from a total of 95 possible areas of the claim. For example:
- have all sections of the claim form been fully completed, and has the declaration been signed and dated?
 - is the date first notified (of a change) in writing correct?
 - if appropriate, has the capital been calculated and input correctly?
34. The outcome of each check is recorded on a *Sample Checking Control Sheet* which contains details of the error found and the corrective action required. The control sheet is then referred to the relevant AOM who would discuss the error with the individual processor and advise the

Benefit Officer (Compliance and Investigation) once the claim has been corrected to allow for the payment and notification letters to be released, as appropriate.

35. In addition to the daily management checks, there is a 100% check of the work of new staff which is reduced incrementally as the officer gains experience, and a 100% pre-payment check of all payments in excess of £1,000 to ensure the accuracy of the payment before it is released.
36. Exhibit 2 illustrates the council's current and previous accuracy performance.

Exhibit 2: Financial accuracy performance		
	Target	Achieved
2013/14	97%	97%
2014/15	97%	96%
2015/16 (31 Oct)	97%	97%

Source: Falkirk Council

37. Despite a number of significant changes within the service the council has maintained a good level of accuracy and continues to actively monitor its financial and non-financial error levels to help improve performance and reduce the level of LA/admin delay errors.

Risk to continuous improvement	
4	The council is not routinely collating and analysing management check outcomes in respect of all its activities. This would provide a holistic view of errors found which could help identify areas for learning and development of staff and the service.

38. Audit Scotland identified one risk to continuous improvement during the previous risk assessment in that, following the benefit IT system issues in 2012/13 and 2013/14, performance in 2013/14 in respect of the number of claims containing non-financial errors had declined to 45%, against a target of 25%.
39. Although the council revised its non-financial error rate target to 32% in 2014/15, we were told that this was to take account of the learning and training requirements for staff around the implementation of two key benefit systems. In view of this, we accept that the change to the non-financial accuracy target is reasonable and consider this risk to be addressed as the service is reporting its non-financial accuracy performance at 28%, at 31 October 2015, which is below target.

Interventions

40. To minimise error in the caseload, councils must encourage customers to report changes of circumstances on time and have a robust intervention programme to identify changes and take appropriate corrective action.

41. To support this, the benefit service notification letters remind customers of the requirement to report any change in circumstances and the council website contains examples of the types of changes that should be reported. The website also provides customers with details of office opening hours and how to contact the benefit service by telephone, letter, or e-mail.
42. The council actively participates in the DWP's Housing Benefit Matching Service (HBMS), Audit Scotland's National Fraud Initiative (NFI), and more recently the DWP's Real Time Information (RTI) data matching services, which all help to identify possible unreported changes of circumstances that require further investigation.
43. In addition, the benefit service makes good use of the benefit IT system diary facility to produce reports that highlight claims where future changes are expected, or known, which could affect the customer's benefit entitlement, for example, a significant birthday or an increase in earnings, and manually checks approximately 74% of changes of circumstances notified through the DWP's ATLAS service.
44. Since our previous visit the council carried out an annual programme of postal intervention activity in 2013/14 and 2014/15. In 2013/14, activity was focused on customers in receipt of earnings and customers in receipt of statutory sick pay while in 2014/15, up to December 2014, interventions were focused on customers in receipt of a state retirement pension. We were told that both of these programmes were successful and helped the council identify approximately £123,000 of benefit overpayments and £20,000 of benefit underpayments.
45. However, since December 2014, when the Senior Benefit Officer (Technical) left the service there has been no proactive intervention activity which means that the council had a reduced level of assurance over the accuracy of its caseload.
46. However, with the introduction of the DWP's Fraud and Error Reduction Incentive Scheme (FERIS), which has been designed to reward councils that proactively identify un-reported changes of circumstances, the council took the opportunity to recommence its proactive interventions activity and applied for, and received, maintenance bid funding from the DWP in May 2015.
47. A new programme of postal interventions activity was subsequently developed and commenced in November 2015 with the first tranche of approximately 200 postal interventions issued to customers that are self-employed. A further tranche of 555 postal interventions was in the process of being issued to working age earners at the time of the site visit.
48. The council told us that the outcomes from these activities will be recorded on the benefit IT system's interventions module, which was implemented in November 2015. This module will allow the service to better manage and report its interventions activity, and to record the outcomes, including the value of underpayments and overpayments identified.

Overpayments

49. To protect public funds, councils should take appropriate steps to ensure that overpayments are minimised and that when they do occur they are correctly classified and rigorously recovered.
50. The council's draft *Corporate Debt Recovery Policy* sets the framework for the recovery of all council debt including HB overpayments. The main aim of the policy is to maximise income collection while minimising the cost, and maintaining and improving the customer experience throughout the process. The policy also outlines a number of general principles which include:
 - ensuring that the action taken is proportionate to the size of the debt
 - encouraging customers to make early contact in respect of debt related matters
 - taking account of the economic climate and individual's financial circumstances to ensure that customers' needs are met.
51. The benefit service has a dedicated HB overpayment team consisting of a permanent senior revenues assistant, supported by two temporary revenues assistants and a permanent revenues assistant who helps the team one day per week. The team has been provided with access to key council systems to help assist in the effective contact of customers and recovery of debt.
52. Where the customer remains in receipt of benefit, the overpayment will be recovered from ongoing deductions using the DWP's prescribed rates or, if appropriate, at a reduced rate following an assessment of the customer's financial circumstances. However if the customer is no longer receiving benefit, the overpayment is transferred to the council's sundry debtor system for further action. The council makes good use of all available recovery options including:
 - issuing an invoice when the customer is no longer in receipt of benefit
 - working with the DWP's Debt Management Unit to recover overpayments from ongoing DWP benefits where appropriate
 - using the DWP's Customer Information System and other commercial products to trace customers who are no longer resident within the local authority area
 - arrestment of earnings, where appropriate
 - working in partnership with Sherriff's Officers to pursue difficult to recover debt.
53. Although the council's fraud investigation function was transferred to the DWP's Single Fraud Investigation Service in November 2014, the council told us that legacy fraud overpayments, and any new fraud overpayments notified to the council by the DWP, are prioritised for recovery and have a separate product code within the benefit IT systems.
54. We were also told that the Benefit Support Team carries out a 100% check of overpayment classifications and, where errors are identified, the relevant AOM is notified to discuss the error with the relevant processor and ensure that appropriate corrective action is taken. This is considered to be good practice.

55. The excellent progress the council has made in its speed of processing performance and continued high levels of financial accuracy has had a positive effect on overpayment recovery performance, which has improved significantly since 2013/14.
56. Exhibit 3 illustrates the council's current and previous recovery performance.

Exhibit 3: Overpayment levels and recovery performance			
	2013/14	2014/15	2015/16 (31 Oct)
Total overpayments c/f	£2,732,236	£3,303,909	£3,770,854
Total overpayments raised in-year	£1,641,327	£2,065,968	£1,184,540
HB debt recovered	£700,110	£1,265,093	£957,373
% of in-year debt recovered	43%	61%	81%
% of total HB debt recovered	16%	24%	28% (projected outturn)

Source: Falkirk Council

57. Audit Scotland identified two risks to continuous improvement during the previous risk assessment in that the council's in-year and all debt recovery performance had been in decline since 2011/12, and that there had been a significant increase in the value of LA/admin error overpayments which had resulted in a loss of subsidy to the council in 2012/13 and 2013/14.
58. We consider that both of these risks have been addressed as:
- the council's performance in respect of its in-year and all debt recovery has improved significantly since 2013/14. The current performance of 81% of in-year debt recovered, at 31 October 2015, and a projected annual performance of 28% of all debt being recovered in 2015/16 is highly commendable
 - the council's improved speed of processing times and proactive caseload management has helped the benefit service to report its LA/admin error rate at below the DWPs lower threshold in 2014/15, and in 2015/16, at 31 October 2015.

Counter-fraud

59. The prevention, detection and investigation of fraudulent claims are important aspects of a secure and effective benefit service. Counter-fraud activities help to protect public funds by ensuring that fraudulent claims are identified and sanctions are applied where appropriate.
60. In 2010, the joint DWP/Her Majesty's Revenues and Customs (HMRC) fraud and error strategy proposed a Single Fraud Investigation Service (SFIS) to address fraud across all benefits and Tax Credits, whether currently administered by DWP, HMRC, or local authorities.

The main objective of the policy was to ensure that all types of social security and Tax Credit fraud would be investigated according to a single set of guidance and priorities.

61. In November 2014, the council's benefit fraud investigation function was transferred to SFIS and, as part of the new SFIS regime, a local agreement has been developed between the council and the DWP which sets out the requirements for the exchange of information between the two organisations. This includes recommended timescales, a single point of contact, and an escalation route should any issues arise that cannot be resolved at the single point of contact level.

Appendix A

Progress against action plan update at October 2015	
The council has not progressed the risk, first identified in March 2009, to develop and implement a benefit-specific overpayment policy.	Outstanding
<p>Although the council has made significant improvements in its speed of processing performance in the last 12 months, further improvement could be affected if:</p> <ul style="list-style-type: none"> • there are issues during year-end when the benefit IT system will be down for approximately one and a half weeks • the temporary staff that were employed to help release experienced staff to address speed of processing performance are not retained after June 2014 • there is a reduction in available overtime. 	Completed
As a result of the benefit IT system issues in 2012/13 and 2013/14 the council's performance in 2013/14 in respect of the number of claims containing non-financial errors has declined to 45%, against a target of 25%.	Completed
The council's in-year and all debt recovery performance have been in decline since 2011/12.	Completed
There has been a significant increase in the value of LA error and administrative delay overpayments, which has resulted in a loss of subsidy to the council.	Completed

FALKIRK COUNCIL

SUBJECT: CORPORATE RISK MANAGEMENT UPDATE
MEETING: AUDIT COMMITTEE
DATE: 18 APRIL 2016
AUTHOR: DIRECTOR OF CORPORATE AND HOUSING SERVICES

1. INTRODUCTION

- 1.1 The purpose of this short report is to provide Audit Committee Members with an update on Corporate Risk Management (CRM) arrangements, and to ask Members to:
 - 1.1.1 note the revised CRM priorities;
 - 1.1.2 note **Appendices 1 and 2:** summaries of very high, high, and medium corporate risks (these are currently under review in conjunction with Services); and
 - 1.1.3 review and approve **Appendix 3:** a revised CRM Policy and Framework (CRM Policy).
- 1.2 I am also seeking Members' agreement:
 - 1.2.1 to provide an update on CRM arrangements to the Executive in May 2016, and to seek its approval of the revised CRM Policy; and
 - 1.2.2 to run an annual Risk Workshop with Corporate Management Team (CMT) and Members in Q4 2016.

2. CORPORATE RISK MANAGEMENT PRIORITIES

- 2.1 The Council's approach to risk management has developed and improved significantly over recent years. This improvement has been recognised by Audit Scotland, and benchmarking against other Councils demonstrates a good level of risk maturity. That said, to further streamline and embed risk management across the Council, CMT agreed in January 2016 that there is scope for refocusing to give priority to ensuring that:
 - 2.1.1 corporate risk reports focus on very high and high risks – those risks with the most significant and material consequences;
 - 2.1.2 there is a clear process for capturing existing, rising, and emerging risks from Services, and reporting these to Corporate Risk Management Group (CRMG), CMT, and Members;

- 2.1.3 arrangements reflect the new Service structures; and include reference to the role of Statutory Officers in relation to risk;
- 2.1.4 Service Risk Management arrangements are ‘owned’ by Services, and that risk becomes part of managers’ ‘way of thinking’;
- 2.1.5 risk reporting and scrutiny arrangements are proportionate and effective; and
- 2.1.6 consideration of risk and opportunity forms an integral part of the decision making process, including performance management, budget / savings, self-assessments, lessons learnt, and change reviews.

3. **PROGRESS IN IMPLEMENTING REVISED CRM ARRANGEMENTS**

- 3.1 Members are invited to note that CMT (via CRMG):
 - 3.1.1 are reviewing Service risk profiles. This will result in a reduction in the number of corporate risks. The current list of corporate risks are provided at **Appendices 1 and 2**, but these will be subject to changes;
 - 3.1.2 will finalise their risk reviews by June 2016 – including details of the risks, ‘worst case’ consequences, key controls, and lessons learnt;
 - 3.1.3 will review corporate risks on a cyclical basis – including 6 monthly reviews of very high and high risks, and medium risks annually;
 - 3.1.4 have updated their Working Groups (WG) list (**at Appendix 6 in the CRM Policy**), and will undertake a more detailed review of WGs in 2016;
 - 3.1.5 have agreed a 2016 CRM Review Schedule, including Statutory Officers’ annual risk reports and Risk Workshops;
 - 3.1.6 have agreed that West Lothian Council’s Internal Audit Team undertake a review of the Council’s CRM arrangements (this is currently underway); and
 - 3.1.7 are embedding flexible Service Risk Management arrangements, which are consistent with their Service Performance Planning processes.

4. RECOMMENDATIONS

4.1 I recommend that Audit Committee Members:

- 4.1.1 note the revised CRM priorities and progress outlined above;**
- 4.1.2 review and approve the revised CRM Policy and Framework at Appendix 3; and**
- 4.1.3 note that further CRM updates will be provided to Audit Committee on a 6 monthly basis.**

.....
DIRECTOR OF CORPORATE AND HOUSING SERVICES

Date: 08 April 2016

Ref: AAD180416 - CRM Update to Audit Committee, March 2016

Contact Name: Karen Algie Ext 6223

LIST OF BACKGROUND PAPERS: NIL

APPENDIX 1: CORPORATE RISK REGISTER – SUMMARY OF VERY HIGH AND HIGH RISKS

Risk Cat.	Risk Title	Current Risk Level	Lead
F	Budget, Economic, and Demographic Pressures	Very High	CHS
C	Corporate Transformational Change	Very High	CMT
C	Health and Social Care Integration	Very High	AS
C	Welfare Reform	Very High	CHS
I	Barriers to Sharing Data	High	CHS
C	Integration of Education and Social Work Services to create Children's Services	High	CS
C	Self-Directed Support Reforms	High	AS
H	Vacancy Management	High	CHS
H	Absence	High	CHS
G	Closing the Gap in Attainment	High	CS
A	Development Projects	High	DVS
G	Getting It Right For Every Child (GIRFEC)	High	CS
G	Harm to Vulnerable People	High	CS/AS
I	Data Protection	High	CHS
I	ICT – PSN Compliance	High	CNS
A	Major Investment: TIF and Regeneration	High	DVS
I	Management Information: Reliability and Fitness For Purpose (including ICT BCP)	High	CHS
I	PCI DSS (Payment Card Industry Data Security Standards) Compliance	High	CHS
I	Public Performance Reporting and Engagement	High	CHS
P	Economy and Training	High	DVS
C	Children and Family Services Review	High	CS
C	Criminal Justice Review	High	CS

Risk Categories:

F -	Failures in proper financial management;
I -	Failures in proper information management (availability, integrity and security);
H -	Failures in human resources management (e.g. recruitment, retention, safety);
A -	Failure to properly manage assets ;
C -	Failure to properly recognise, plan for, and manage significant change , both internal and external;
G -	Failures in governance , leadership, accountability or decision making; and
P -	Failures in partnerships or contracts with external bodies

APPENDIX 2: CORPORATE RISK REGISTER – SUMMARY OF MEDIUM RISKS

Risk Cat.	Risk Title	Current Risk Level	Lead
A	Affordable Housing Need	Medium	CHS
A	Asset Construction and Design (All Asset Types)	Medium	DVS
A	Assets (excluding Housing): Maintenance, Availability, Reliability	Medium	DVS
A	Premises Management	Medium	CHS / DVS
A	Council Housing Standards	Medium	CHS
A	Environmental Risks: Energy, Waste, and Sustainability	Medium	DVS
C	Resilience: Business Continuity Management	Medium	DVS
C	Resilience: Emergency Planning / Civil Contingencies	Medium	DVS
C	Pensions Reform	Medium	CHS
F	Financial Controls	Medium	CHS
G	Equalities	Medium	CHS
G	External Appointments and Conflicts of Interest	Medium	CHS
G	Leadership, Decision Making and Scrutiny	Medium	CE
G	Procurement and Commissioning	Medium	CHS
G	Audit Assurance	Medium	CHS
G	Fraud / Corruption / Organised Crime	Medium	CHS
G	Investment Strategy (inconsistent with Political and Social Policies)	Medium	CHS
G	Prohibitions and Loss of Licences (e.g. Operator Licence for vehicles)	Medium	CHS
G	Regulatory Enforcement	Medium	DVS
G	Legal Advisory Service	Medium	CHS
H	Health and Safety	Medium	CHS
H	HR Management / Workforce Planning	Medium	CHS
H	Payroll and Pension Payment Failures	Medium	CHS
P	Falkirk Community Trust	Medium	CE
P	Following the Public Pound	Medium	CHS
P	Community Planning Partnership	Medium	CHS

Risk Categories:

F -	Failures in proper financial management;
I -	Failures in proper information management (availability, integrity and security);
H -	Failures in human resources management (e.g. recruitment, retention, safety);
A -	Failure to properly manage assets ;
C -	Failure to properly recognise, plan for, and manage significant change , both internal and external;
G -	Failures in governance , leadership, accountability or decision making; and
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FALKIRK COUNCIL

**CORPORATE RISK MANAGEMENT
POLICY AND FRAMEWORK**

December 2015

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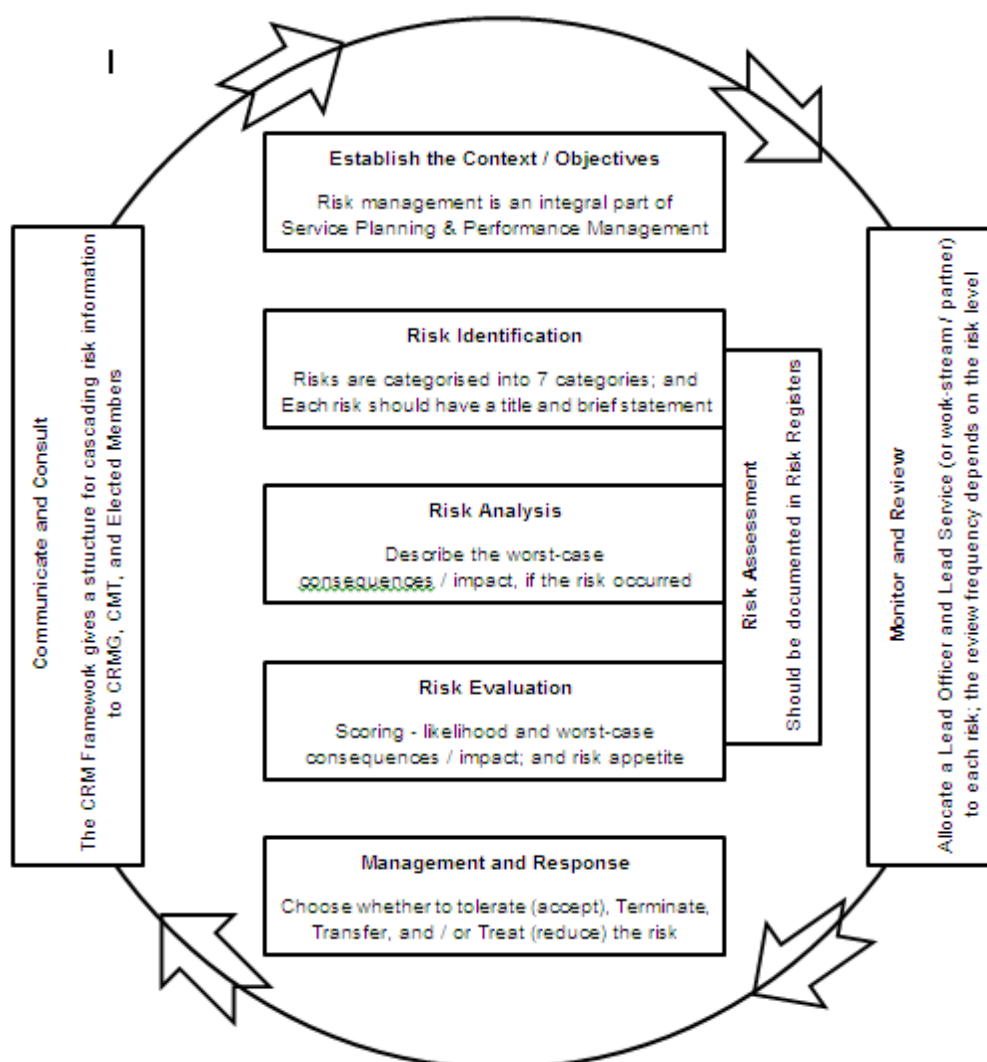
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DOCUMENT HISTORY

Document Title:	CRM Policy and Framework	Lead Reviewer:	CRMG
Owner:	Director of Corporate & Housing Services	Superseded Version:	Dec 2015
Version No:	V2.1, Mar 2016	Next Review Date:	Q1, 2017

1. POLICY STATEMENT – THE COUNCIL’S APPROACH TO RISK MANAGEMENT

- 1.1 The purpose of this Corporate Risk Management (CRM) Policy and Framework is to set out the approach to embedding CRM arrangements across the Council.
- 1.2 Risk means an **uncertainty**, which has a **possibility** of resulting in positive or negative consequences for the Council.
- 1.3 The Council encourages decision makers to be ‘risk aware’ rather than ‘risk averse’. We will support Services and employees who take opportunity risks - where those risks are understood; reasonable controls are in place; anticipated benefits out-weight negative impacts / consequences; and decisions are proportionately documented, monitored, and reviewed.
- 1.4 The diagram below outlines the risk management process:



- 1.5 **Appendices 1-5** provide guidance on assessing, reporting, and recording risks.
- 1.6 Risks may have a variety of consequences / impacts – including financial, reputational, harm (e.g. injury or death to employees or service users), service interruption or delay, and audit / legal issues.

1.7 Risk affects every activity to a greater or lesser degree; failure to manage them can have serious consequences. The Council categorises risk as:

- failures in proper **financial** management;
- failures in proper **information** management (availability, integrity and security);
- failures in **human resources** management (e.g. recruitment, retention, safety);
- failure to properly manage **assets**;
- failure to properly recognise, plan for, and manage significant **change**, both internal and external;
- failures in **governance**, leadership, accountability or decision making; and
- failures in **partnerships**, or contracts with external bodies.

2. RESPONSIBILITIES

2.1 Elected Members

The CIPFA / SOLACE Guidance¹ - and in particular Principle 4 - makes explicit the Elected Member's decision-making role and the need to ensure that risk information contributes to the decision-making process. Risks should be included in all committee papers, where appropriate.

CIPFA Guidance Note 10 (Risk Management Guidance for Elected/ Board Members) also advises that Elected / Board Members should get involved in the identification of high level, corporate risks, and outlines the following responsibilities for them:

- to gain a broad understanding of risk management and its benefits;
- to require Officers to develop and implement an effective framework for risk management, and report significant risks on a regular basis;
- to challenge Officers to ensure risks are considered and recorded in reports; and
- formally consider risks at the start and throughout the life of projects.

2.2 Audit Committee

The Audit Committee's Terms of Reference are to:

- review and seek assurance on the framework of risk management, governance and control;
- review and seek assurance on the system of internal financial control;

¹ Delivering Good Governance in Local Government, CIPFA/ SOLACE, 2012.

- review Assurance Statements to ensure they properly reflect the risk environment,
- produce an annual report to Council on the above to support these statements;
- take account of the implications of publications detailing best practice for audit, risk management, governance, and control;
- take account of recommendations contained in the relevant reports / minutes of:
 - the External Auditor;
 - the Scottish Parliament; and
 - other external scrutiny agencies.

2.3 Chief Executive

The Chief Executive has overall accountability for the Council's CRM Policy and Framework, and ensuring that effective arrangements are in place to manage risk.

2.4 Director of Corporate & Housing Services

The Director has delegated responsibility for overseeing CRM arrangements; the effectiveness of CRMG; and for bringing risk issues to CMT, Audit Committee, and Executive, including:

- Quarterly reports to CMT – including very high, high, emerging, and rising risks; and
- 6 monthly updates to the Audit Committee.

2.5 Head of Human Resources & Business Transformation

The Director has delegated their responsibilities above to the Head of Service.

2.6 Internal Audit

The Internal Audit Manager is responsible for developing and completing an Annual Risk-Based Internal Audit Plan. The aim is to provide assurance on the Council's arrangements for risk management, governance, and controls.

2.7 Corporate Risk Management

The Corporate Risk Management team will take a 'light touch' approach to monitoring Services' management of risk. However, support can be provided in developing a flexible, yet proportionate and robust, service risk management framework.

Further, as part of the continuous monitoring of risk management arrangements, the Corporate Risk Management and Internal Audit team – with independent assurance from West Lothian Council's Audit and Risk function - will seek on-going assurance on the extent to which these arrangements are embedded at a corporate and Service level.

2.8 Corporate Risk Management Group (CRMG)

CRMG should meet on a quarterly basis, and ensure:

- Corporate risk reports focus on very high and high risks – those risks with the most significant and material consequences – and changes to Services’ risk profile;
- there is a clear process for capturing existing, rising, and emerging risks from Services, and reporting these to CRMG, CMT, and Members;
- Service Risk Management arrangements are ‘owned’ by Services, and that risk becomes part of managers’ ‘way of thinking’;
- risk reporting and scrutiny arrangements are proportionate and effective;
- consideration of risk and opportunity forms an integral part of the decision making process, including performance management, (Service) self-assessments, budget / savings, and transformational change reviews; and
- review of the following assurance reports on a cyclical basis:
 - Service reports on very high and high risks (6 monthly);
 - Service reports on medium risks (annually); and
 - Statutory Officers’ annual reports.

2.9 Service Management Teams

Services’ risk management arrangements should be flexible, and consistent with Service Planning processes, and involve Service Unit Managers. Service Management Teams should support CRMG and implement the following arrangements effectively:

- lessons learnt from incidents, inspections, audits, and (Service) self-assessments;
- Working Groups;
- Service Risk Registers (SRR);
- consider the above when reviewing risks and performance; and
- provide copies of all internal and external inspection reports to the Internal Audit and Corporate Risk Management team – including REFLECT, external audit, and inspection reports.

2.10 Working Groups

Appendix 6 shows the framework of Working Groups tasked with progressing various work-streams. Each of these Working Groups must also take the lead in assessing, managing, and monitoring work-stream risk, and:

- have clear terms of reference and lines of accountability;

- be clearly identified within the CRR;
- review lessons learnt from incidents;
- maintain subject / project specific risk registers;
- undertake an annual self-assessment of their effectiveness and terms of reference; and
- review their effectiveness, and terms of reference, and report to CRMG annually.

2.11 Statutory Officers'

Appendix 7 summarises the role of Statutory Officers' in relation to risk. This covers the the Chief Finance Officer (CFO), Chief Governance Officer (CGO) / Monitoring Officer, and the Chief Social Work Officer (CSWO). Given their role in ensuring the legality of the Council's activity, they will provide annual and exception reports on changes to very high, high, or emerging risks.

2.12 Service Unit Managers and Project / Partnership/ Contract Leads

Managers should:

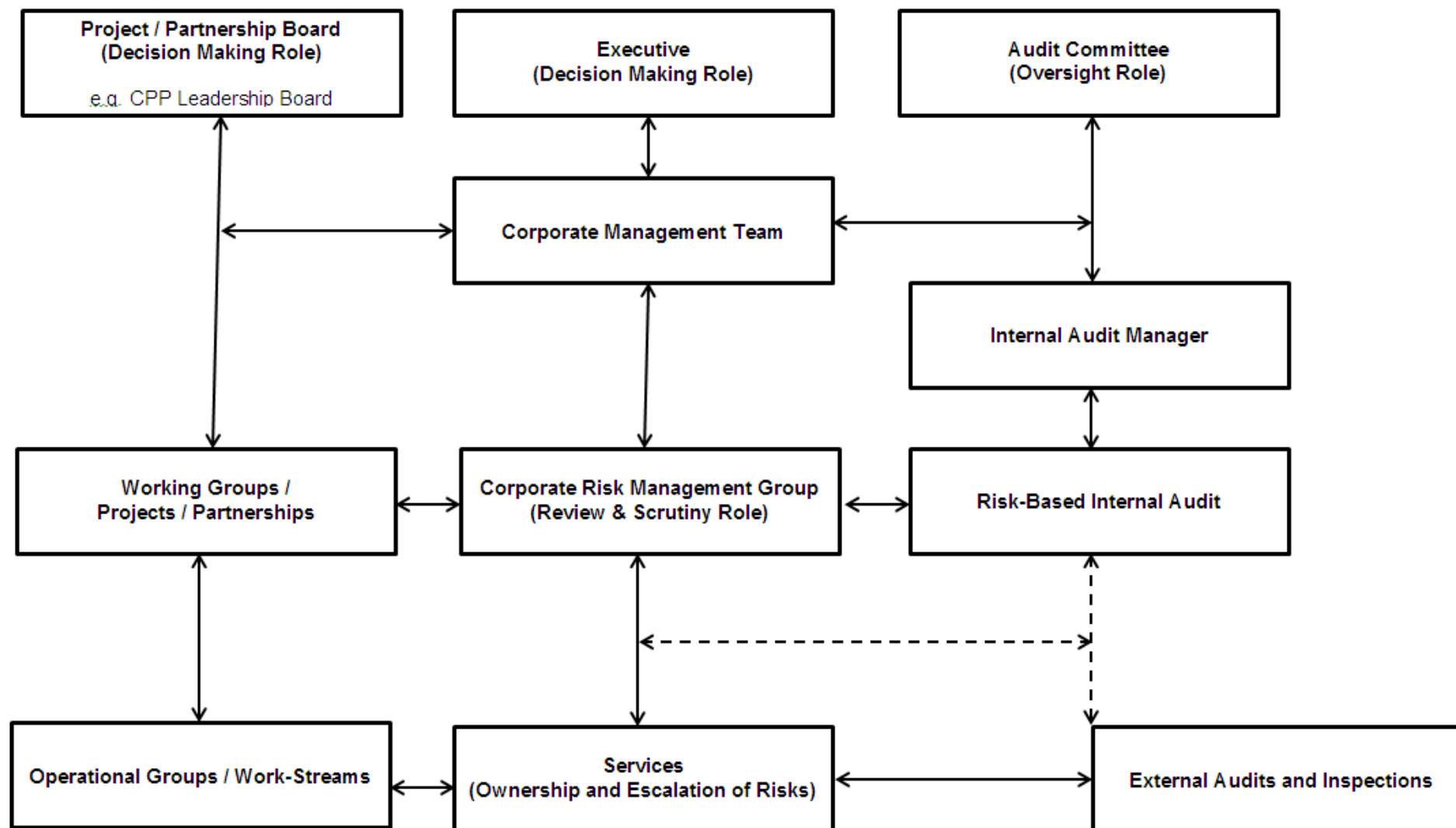
- provide suitable risk information and training to employees;
- maintain risk registers, where appropriate, for their areas of responsibility;
- identify, assess, and report risks – including current, emerging, and rising risks;
- implement proportionate controls and review mechanisms; and
- include risk as a standing agenda item at meetings.

2.13 Employees

Employees should:

- understand the risks that relate to their role, e.g. be involved in risk assessments;
- take steps to protect themselves and others, e.g. follow safety guidance; and
- be encouraged to report concerns.

APPENDIX 1: CRM REPORTING FRAMEWORK



APPENDIX 2: RISK SCORING MATRIX

Likelihood	5						Very High (Score 17-25)
	Almost Certain						
	4						High (Score 10-16)
	Likely						
	3						Medium (Score 7-9)
	Possible						
	2						Low (Score 1-6)
	Unlikely						
	1						Risk Appetite Threshold (Score 16+)
	Almost Impossible						
		1	2	3	4	5	
		Insignificant	Minor	Moderate	Major	Severe	
		Impact / Consequence					

The dotted line above indicates the Council's 'risk appetite'. Risks above this level could have serious consequences – Services should consider terminating the activity, transfer the risk (through e.g. insurance or contracts), and / or implement additional actions to reduce it.

Risk assessment is subjective; but **Appendix 3** provides more guidance on scoring risks, and some practical examples are below:

People Protection v Enablement: We have to balance individual's wishes / rights against the safety of themselves or the community, e.g. self-directed support or housing violent offenders.

Compliance v Pace of Change: What would be the realistic consequences of meeting a deadline for compliance, or delaying implementation, e.g. legal penalties and people / resource impact?

Savings v Investments: Is it more important to reduce costs and make savings now, or are there opportunities to make larger savings in the long-term by investing in, e.g. the economy or assets?

Service Redesign: If e.g. our (minimum) statutory duty is to provide a care review annually, would quarterly reviews and preventative activity reduce harm and long-term care costs? What are the avoidable and unavoidable consequences of each saving(s) option?

Procurement: If buying vehicle assets, is it more important to get the best functionality, service / support package, or price? Would a lower specification lead to increased long-term running costs?

Rent Arrears: When unemployment goes down, rent arrears temporarily go up (as people often have to pay for transport or clothes before being receiving wages). Is it better to accept short-term arrears, or penalise people and risk deterring them from taking up employment opportunities?

Technology: It is cheaper to process online payments. But should the Council insist on this? If we offer different payment methods, is there an opportunity to improve services and income?

APPENDIX 3: RISK SCORING GUIDANCE

Likelihood

1. Almost Impossible: There is little evidence that the risk is likely to occur
2. Unlikely: There is a low chance of the risk occurring
3. Possible: There is a reasonable chance of the risk occurring
4. Likely: There is a strong chance of the risk occurring
5. Almost Certain: It is fairly certain that risk will occur, or has already occurred

Impact / Consequences

Score	Financial	Reputational	Harm to People or Assets	Interruption to Services to Projects	Audit/ Legal/ Compliance
1 Negligible	None or little budget impact; spend is within risk owner's authority	None, or little, media interest; impact is in public domain, but managed	None or very minor injury and / or damage	None or little disruption to one service, or project delay	No or little query from audit body / regulator; but no criticism or action required
2 Minor	Minimal budget impact; spend is within risk owner's authority	Local media interest and / or customer complaints	Minor injury and / or damage	Minor disruption to multiple services, or project delay	Action required; but unlikely to result in criticism and / or penalty
3 Moderate	Manageable budget impact; spend exceeds risk owner's authority	Regional media interest and / or multiple complaints	Moderate injuries and / or damage	Some disruption to service, or project delay	Action required; and may result in criticism and / or penalty
4 Major	Major impact, but within budgets	National media interest and / or serious loss of confidence	Major injury, death, and / or assets destroyed	Major service disruption, loss of multiple services, or project delay	Major legal action, penalty, and / or criticism
5 Severe	Extensive; spend exceeds available budgets	Sustained media interest, complaints, and / or loss of confidence	Multiple deaths and / or assets destroyed	Extended disruption or loss of service, or project delay	Severe penalty, criticism and / or legal action

To ensure this guidance is relevant to many situations, the measures above are subjective and flexible. Services, Partnerships and Projects can tailor it to suit their objectives, e.g.:

1. Committee Reports and Budget / Savings monitoring reports could include an assessment of risk (including avoidable and unavoidable consequences) arising from each option or proposal;
2. Project Board's may define 'risk appetite' as a deviation from agreed costs, time, quality, e.g.
 - Negligible: less than 2% over budget, 3 months' delay, and / or NIL defects;
 - Moderate: less than 5% over budget, 6 months' delay, and / or less than 5 moderate defects;
 - Severe: more than 5% over budget, 6 months' delay, and / or 1 or more serious defects;
3. Services may align it with subject-specific professional guidance, e.g. Children's Services and the Health & Social Care Partnership (HSCP) may align it with on people protection and enablement; and
4. The HSCP may align it with national or local targets for reducing waiting times or disease outbreak.

APPENDIX 4: RISK REPORTING / REVIEW GUIDANCE

Risk Rating	Action to be taken
Very High Risks	Very High: above the Council's risk appetite; must have a Target Risk Level;
High Risks	High: are within the Council's risk appetite; a Target Risk Level is optional . Very High and High risks could impact on Corporate / Strategic objectives: <ul style="list-style-type: none"> • CMT and Elected Members must be made aware of the risk; • Services' must implement robust action plans to manage the risk; and • Services' should provide reports to CRMG, 6 monthly cycle and by exception.
Medium Risk	Medium risks are within Council's risk appetite, but could increase without effective monitoring of controls and actions. They could affect the achievements of the Corporate or Service Plan(s). Services must: <ul style="list-style-type: none"> • implement effective monitoring arrangements; • consider additional controls, actions and a Target Risk Level; and • Services' should provide reports to CRMG, annually and by exception.
Low Risk	Risks are well within the Council's risk appetite and pose no real threat to achieving the Corporate or Service Plan objectives. Existing processes and procedures are adequate, but monitor controls and consider additional actions.

Distinguishing between Corporate and Service risks

Corporate Risks:

- risks rated as High and Very High (or medium, but affecting 2 or more Services); and
- threats and / or opportunities to achieving Corporate or Strategic Plans.

Service Risks:

- risks rated as Low (or Medium, but affecting only one Service or Unit); and
- have potential to impact on Service, Project, or Partnership Plans.

If you are unsure if a risk is 'Corporate' or 'Service', then ask:

- Is it Very High or High? If Yes, it's a Corporate Risk;
- Is it Low? If Yes, it's a Service Risk;
- If Medium, does it:
 - Impacts one Service? If Yes, it's a Service Risk; or
 - impacts multiple Services? If Yes, It's a Corporate Risk.

Partnership / Project Risks:

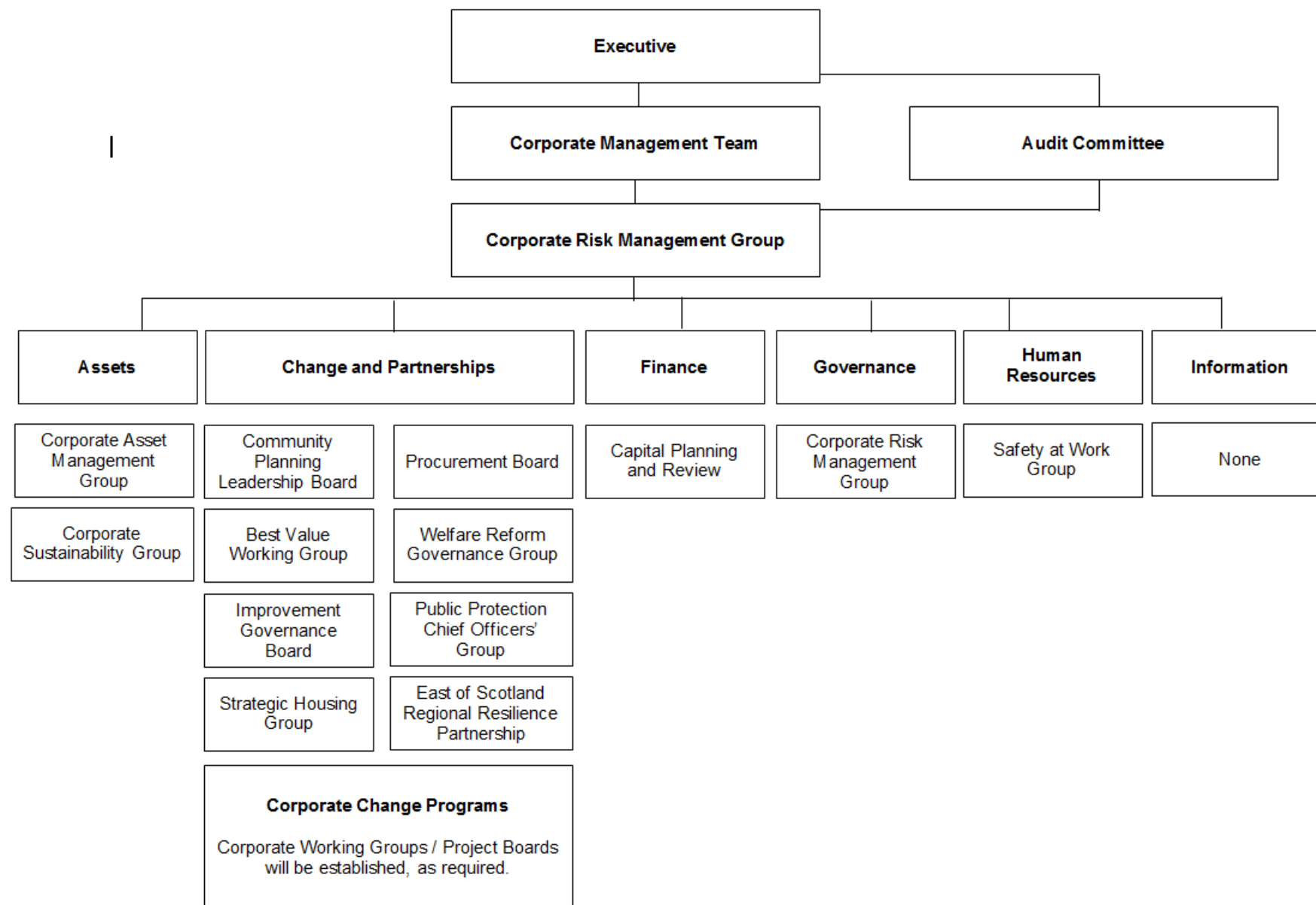
Where a risk relates to one or more partners or project work-streams, it needs to be included in a Program or Partnership (Shared) Risk Register. Partners may have different perceptions of risk, but the Partnership need to agree the risk score and approach to managing risks.

APPENDIX 5: DOCUMENTING RISKS - RISK REGISTER TEMPLATE

This template can be used to capture risk information from, e.g. workshops or reviews.

Risk Assessment								
Risk Type	Assets, Change, Financial, Governance, HR, Information, or Partnerships							
Risk Register Type	Corporate, Service, Project and / or Partnership Risk Register							
Risk Title	e.g. Welfare Reform, Financial Controls, or Premises Management							
Risk Statement	Context and 'worst case' consequences / impact, and opportunities?; e.g. death due to abuse – such as a Baby P or Rotherham incident; a major project failure resulting in material financial loss; significant reputation damage – such as the Edinburgh Trams project; and / or avoidable / unavoidable consequences from Change / Budget / Savings Options.							
Service (Sub) Risk Title (optional)	Optional – Services may choose to record more context, e.g.: Devolved school budgets could be a sub-risk to 'Financial Controls'							
	Current Risk Rating (including current controls)				Target Risk Rating (after additional actions – if applicable)			
Likelihood Score								
Consequence Score (if risk occurs)								
Risk Score								
Risk Level								
Key controls and review mechanisms (i.e. what are we doing about it?)								
Recommend a maximum of c5- including reference to working groups.								
Additional Actions (i.e. what more can we do about it?)							Owner	Target Date
Recommend, where possible, link these to measurable Actions on Covalent.								
Performance Indicators							Owner	Target Date
Recommend, where possible, link these to measurable PIs on Covalent.								
Monitoring and Review								
Lead Service								
Lead Officer								
Lead Partner or Project Work-Stream								
Other(s) Impacted	CHS		CS		DVS		CE	
Additional Notes								
Note: This might include, for example, context or rationale for scoring.								

APPENDIX 6: CORPORATE WORKING GROUPS CHART



APPENDIX 7: THE ROLE OF STATUTORY OFFICERS' IN RELATION TO RISK

Statutory Officers have specific duties as set out in legislation, and discharge this role as part of their wider responsibilities within the Council. They have an important, independent, role in promoting and enforcing good governance and for making sure the Council complies with legislation. Statutory Officers' responsibilities include highlighting where a Council Policy may break the law or breach Financial Regulations. These Officers must have direct and regular access to the Chief Executive, Elected Members, and Senior Officers.

The roles of each Statutory Officer is summarised below (based on a review of Audit Scotland², CIPFA³ and Scottish Government⁴ guidance).

Chief Governance Officer (CGO) / Monitoring Officer

The Local Government and Housing Act 1989 (Section 5) established this role. The Monitoring Officer is required to prepare a report for the consideration of the full Council if they believe that any proposal, decision, or omission by the Council, or by any Committee or sub-Committee, contravenes any legislation or code of practice.

Chief Financial Officer

The Local Government (Scotland) Act 1973 established this role, and **Section 95 states that:**

"Every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs."

In addition, CIPFA sets out the following principles in relation to risk:

Principle 1: The CFO should contribute to the effective corporate management of the authority, including strategy implementation, cross-organisational issues, integrated business and resource planning, risk management, and performance management.

Principle 2: The CFO must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.

Chief Social Work Officer (CSWO)

The Social Work (Scotland) Act 1968 established this role.

The overall objective of the CSWO post is to ensure the provision of effective, professional advice to Elected Members and Officers of the Council in relation to Social Work Services. This includes advice in relation to particular issues such as corporate parenting, child protection, adult protection, and the management of high-risk offenders; and the key role Social Work plays in contributing to the achievement of national and local outcomes. The CSWO also has a role to play in overall performance, improvement and the identification and management of corporate risk in relation to Social Work Services.

² 'How Councils Work: An Improvement Series for Councillors and Officers: Roles and Working Relationships: Are You Getting It Right?' Audit Scotland, 2010.

³ 'The role of the CFO in Local Government', CIPFA, 2010.

⁴ 'Changing Lives', Scottish Government, 2011.

FALKIRK COUNCIL

Subject: LOCAL CONSIDERATION OF NATIONAL AUDIT REPORTS
Meeting: AUDIT COMMITTEE
Date: 18 APRIL 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report provides Audit Committee with a summary of the National Audit Reports produced by Audit Scotland during 2015 -16 and where these reports have subsequently been considered.

2. NATIONAL REPORTS

- 2.1 Reports are produced by Audit Scotland to provide findings of work undertaken in areas of national interest. These include reports relating to procurement, major capital investment and finance.
- 2.2 The reports are aimed at determining areas of best practice which can be considered by Local Authorities when developing or reviewing their policies and practice.

3. LOCAL CONSIDERATION OF THE NATIONAL REPORTS

- 3.1 The Council has a clearly defined process for dealing with all National Audit Reports provided by Audit Scotland to ensure the reports are dealt with effectively. The process was developed with the support of the Council's External Audit Manager.
- 3.2 A summary of the reports received from Audit Scotland and details of the Committee where each report was considered is attached at Appendix 1 for information.

4. RECOMMENDATIONS

- 4.1 Members of the Audit Committee are asked to note the reports provided by Audit Scotland and which Committee the reports have been presented to.

.....
DIRECTOR OF CORPORATE & HOUSING SERVICES

Date: 08 April 2016

Ref: ABB160321AS – Local Consideration of National Audit Reports

Contact Name: Allan Stewart

Local Consideration of National Reports 2015/16

Report title	Published	Report formally considered and reported to committee
An overview of Local Government in Scotland 2016	March 2016	The report will be presented to Scrutiny Committee on 16 June 2016
Procurement in Council – Impact Report	February 2016	The report will be presented to Scrutiny Committee on 16 June 2016
Major Capital Investments in Council – Follow-up	January 2016	The report will be presented to Scrutiny Committee on 16 June 2016
Health & Social Care Integration	December 2015	Report was presented to Council in December 2015
Borrowing and Treasury Management in Councils	March 2015	Report was presented to Scrutiny Committee on 20 August 2015; and to Executive on 29 September 2015

FALKIRK COUNCIL

Subject: BEST VALUE IMPROVEMENT PLAN
Meeting: AUDIT COMMITTEE
Date: 18 APRIL 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. PURPOSE

- 1.1 The purpose of this report is to inform the Audit Committee of how the Council is monitoring the implementation of our Best Value Improvement Plan arising from Audit Scotland's best value audit of the Council.
- 1.2 Members will recall the previous report to this Committee in December last year which set out the Improvement Plan and the decision of Council on 7 October 2015 on how the plan would be monitored i.e.
 - i. further discussion among the Leader of the Council, Leader of the Opposition and the Provost regarding its implementation; and
 - ii. a report on progress with the actions set out in the Plan will be submitted to Council in March 2016 (see appendix A).

2. PROGRESS TO DATE

- 2.1 In accordance with the decision of Council in October last year, a progress report was considered by Council at its meeting on 9 March 2016.
- 2.2 A copy of the progress report submitted to Council is attached to this report.
- 2.3 Council agreed:
 - i. to note the progress made in our Improvement Plan;
 - ii. to note the expected timescale for the return of Audit Scotland to review progress;
 - iii. for progress on implementation of the Improvement Plan to be reviewed by the Provost, the Leader of the Council and the Leader of the Opposition; and
 - iv. to request a further progress report to the meeting of the Council on 21 September 2016, on implementation of the Best Value Improvement Plan.
- 2.4 A meeting was held on 22 March with the Members noted above to review progress on implementation of the Plan. Members noted good progress and agreed to review the Plan again in May 2016.

3. RECOMMENDATION

- 3.1 Audit Committee is invited to note the decision of Council on 9 March 2016 in relation to the Best Value Improvement Plan as set out in paragraph 2.3 of this report.**

.....
Director of Corporate and Housing Services

Date: 08 April 2016

Ref: AAD 230316 – Best Value Improvement Plan

Contact – Brian Pirie; tel 01324 506110

BACKGROUND PAPERS

Nil

FALKIRK COUNCIL

Subject: BEST VALUE IMPROVEMENT PLAN
Meeting: FALKIRK COUNCIL
Date: 9 MARCH 2016
Author: CHIEF EXECUTIVE

1. INTRODUCTION

- 1.1 Members will recall that the Accounts Commission published a Best Value Report on Falkirk Council in August 2015. The report and the findings of the Commission were considered at the Council meeting in October.
- 1.2 To remind Members, the findings of the Commission were:
1. While Falkirk Council provides generally good services, it has identified the need to make savings of £46 million over the next three years[since October it has become clear that the gap for the 3 year period 2016-19 will be considerably more than £46m]. The Commission has significant concerns that the Council's approach to this challenge is inadequate to ensure that service standards are maintained and improved.
 2. The Council needs to make a step-change in its pace of improvement. A continuing reliance on small-scale savings projects, service reductions and service charge increases is not sufficient. The Council needs to be more ambitious, coherent and clearer in its savings plans. These plans need to reflect its priorities and what impact they will have on services. The Business Transformation Project needs to be more strategic and stronger leadership is needed for this to happen. Councillors need to provide strategic direction for the project, and senior managers need to ensure that options on the future delivery of services are clearly articulated to Members. Members' decision making also needs better support from the Council's performance management system.
 3. The Commission welcomes that, after an unacceptable and protracted period of ineffective scrutiny in the Council, Members are participating in new arrangements. The Council needs to demonstrate that scrutiny is now effective.
 4. The Council has a great deal to do to provide assurance that it can deal with the financial challenges ahead. The Commission therefore requires the Controller of Audit to report back on progress by the end of 2016.
- 1.3 My report to Council in October last year noted that many of the improvement areas in our own Best Value Report were similar to the comments made by The Accounts Commission about Local Government across Scotland and that the Council's Scrutiny Committee had considered this national report at its meeting on 20 August 2015.

1.4 In October last year Council agreed the following response to The Best Value Report:

- (1) to note the recognition by the Commission that the Council provides generally good services;
- (2) to acknowledge the need to find savings of c. £46m over the next 3 years as set out in more detail in the report on the revenue fund framework which was also under consideration at the meeting [since October it has become clear that the gap for the 3 year period 2016-19 will be considerably more than £46m];
- (3) to adopt the Improvement Plan, as appended to the report, and note that there would be further discussion among the Leader of the Council, the Leader of the Opposition and the Provost regarding its planned implementation.
- (4) that the terms of reference for the Cross Party Budget Working Group would be determined by the Group at its first meeting, with the composition of the Group being as follows;
 - (i) Labour Group - 3 members
 - (ii) SNP Group - 3 members
 - (iii) Conservative Group - 1 member
 - (iv) Non-Aligned Independent Group - 1 member
 - (v) Independent - 1 member
- (5) that the Leaders of the Council and the Opposition would provide political leadership on the Business Transformation Board;
- (6) that a report on progress with the actions set out in the Improvement Plan would be submitted to Council in March 2016; and
- (7) that the review of Standing Orders would be the subject of a report to Council in December 2015.

1.5 The purpose of this report is to update Members on the progress of our Improvement Plan.

2. PROGRESS TO DATE

2.1 As noted, Members agreed in October 2015 that the Provost, Leader of the Council and Leader of the Opposition would monitor implementation of the Improvement Plan.

2.2 Two update reports have been provided to this group of Members since the Council meetings in October. One report was provided in November and the most recent report at the beginning of February 2016. Progress within the Improvement Plan has also been monitored by the Council's Corporate Management Team. Appendix 1 to this report provides commentary against each of the individual actions included in our Improvement Plan.

- 2.3 There are two general issues that Members may wish to reflect on when considering the progress of our Improvement Plan:
- The first is that progress is being made in each specific action of the Improvement Plan.
 - The second is the context of time constraints since the Council meeting last October. The pressures facing Members and Officers particularly in the two month period between mid December and mid February have been very significant. A significant amount of time required to be devoted to understanding and bridging the increased budget gap following the announcement of our financial settlement on 16 December 2015. This could not have been anticipated in October and the reality is that much of our time in that two month period has been focussed on budget matters.
- 2.4 There are some other actions points where I would take this opportunity to comment. In relation to our action to develop medium and long term financial plans, it has not been possible to make the progress we had expected. This is directly related to the work required to bridge our budget gap in 2016/17 together with the single year grant settlement provided by the Scottish Government. A three year grant settlement is anticipated to be provided for 2017/18 onwards and this will make the preparation of a medium and long term financial plan more realistic and worthwhile.
- 2.5 The provision of training for Elected Members was an area featured in our Improvement Plan. It is recognised that this will be an ongoing issue, however it is considered that good progress has been made on this with individual Elected Member PDPs being refreshed before 31 March 2016 and specific training being provided on training in media skills and performance management. Specific training on scrutiny, public performance reporting and financial planning is programmed for the next few months.
- 2.6 Finally, there is full participation in the Council's governance arrangements by Elected Members. Councillors will recall that the Council needs to demonstrate that scrutiny is now effective.

3. AUDIT SCOTLAND REVIEW OF IMPROVEMENT

- 3.1 Members will recall that the Accounts Commission requires the Controller of Audit to report back to them on our progress by the end of 2016. We have been advised that provisionally, Audit Scotland will undertake their review of our progress at some point during April/May 2016. This is likely to involve further meetings and focus groups with Elected Members. Precise details of the content of their review and the timing are awaited.
- 3.2 The timetable of the review has been brought forward by Audit Scotland to allow commentary on their review of our progress to be included in the final Audit Report which is expected in September. Members will be aware that from October 2016, Audit Scotland will no longer be the Council's External Auditors and this responsibility will pass to private sector Auditors. Details have not yet been made available on who this will be.

4. CONCLUSION

- 4.1 Progress has been made against each of the actions in our Improvement Plan.
- 4.2 It is expected that progress will continue to be made in each of the areas over the course of the remainder of 2016.
- 4.3 Audit Scotland expects to return to the Council in April/May 2016 to review our progress. Precise details are awaited.

5. RECOMMENDATIONS:

Members are invited to:

- 5.1 **Note the progress made in our Improvement Plan;**
- 5.2 **Note the expected timescale for the return of Audit Scotland to review our progress;**
- 5.3 **Consider if they are content for progress on implementation of the Improvement Plan to continue to be monitored by the Provost, the Leader of the Council and the Leader of the Opposition; and**
- 5.4 **Agree a suitable date for a further progress report on implementation of our Best Value Improvement Plan to be considered by Council.**

CHIEF EXECUTIVE

Date: 18 February 2016

Ref: AAA090316 – Best Value Improvement Plan

Contact Officer: Stuart Ritchie, Director of Corporate and Housing Services ext 6005

Appendix 1 – Best Value Improvement Plan comments






LIST OF BACKGROUND PAPERS

none


Best Value Audit 2015 Improvement Plan





Generated on: 29 February 2016


1. Scale and Pace of Change

Action	Progress		Due Date	Responsible Officer
BVA15SPC0001 The Council will update its Workforce Strategy for approval by Members.	A revised Workforce Strategy has now been drafted and will be submitted to Members in March 2016.		31-Mar-2016	Head of Human Resources & Business Transformation
BVA15SPC0002 A new Business Transformation Board will be established to enhance the governance of this programme with the Leader of the Council and the Opposition providing political leadership. Minutes will be made available to the Cross Party Budget Working Group.	Business Transformation Board now includes both the Leader of the Council and the Leader of the Opposition as members of the Board. They both attended their first Board meeting on 9 November 2016. The most recent meeting was held in January and the next meeting is scheduled for late March.		30-Nov-2015	Head of Human Resources & Business Transformation
BVA15SPC0003 A Cross Party Budget Working Group will be established.	This is now up and running and first met on 22 October 2015. The Groups has met fortnightly.		31-Dec-2015	Chief Finance Officer
BVA15SPC0004 Officer involvement in the Business Transformation project will be realigned to support the new Board.	Officer involvement has been amended to reflect the concerns of Audit Scotland.		30-Nov-2015	Head of Human Resources & Business Transformation
BVA15SPC0005 The Council will prepare a short term financial plan (2 years) and medium term financial plan (5 years) and a long term financial plan (10 years).	The Council is working towards this however the one year financial settlement for 2016/17 mitigates against this. Going forward, the expectation is for a 2/3 year settlement which will facilitate greatly the Medium Term Plan.		31-Mar-2016	Chief Finance Officer





2. Scrutiny

Action	Progress		Due Date	Responsible Officer
BVA15SCR0001 All Councillors will continue to participate constructively in the Council's governance arrangements.	All members of the Opposition are now participating formally and constructively in the scrutiny process e.g. attending committee meetings, policy development/scrutiny panels and working groups.		31-Dec-2016	Chief Governance Officer

Action	Progress		Due Date	Responsible Officer
BVA15SCR0002 Council considers that its scrutiny arrangements meet best practice principles and that holding the Performance Panel in private while making its reports and minutes public is appropriate for our circumstances and enhances the effectiveness of the Panel.	Both Scrutiny and Scrutiny External Committees are chaired by Opposition Members and all Opposition places on both Committees have now been taken up. No action required.		30-Oct-2015	Chief Governance Officer
BVA15SCR0003 Training and development opportunities will be made available to councillors to enhance their scrutiny skills and guidance will be drawn up to assist constructive engagement with the scrutiny process.	A workshop, for all Members, on performance management and scrutiny was held on 2 February. Scrutiny and Financial Planning training have been added to all 32 Members' Personal Development Plans (PDPs) with a deadline date of 31 March 2016. Discussion is ongoing with the Improvement Service regarding the delivery of scrutiny training. Treasury Management training has been scheduled for 15 and 31 March (same programme delivered on both occasions). All Members have been invited to attend one session.		31-Mar-2016	Chief Governance Officer
BVA15SCR0004 The Council will continue to hold its Performance Panel in private but publish on its website the reports submitted to the Panel and the minutes of the meetings.	The minutes and agenda for the meeting of the Performance Panel held on 16 November 2015 were published on-line for public access. The reports and minutes for future meetings will continue to be published.		31-Dec-2016	Chief Governance Officer
BVA15SCR0005 The Council will consider the information and training needs of Members through the Personal Development Plan process and by providing specific training and development opportunities on scrutiny, budgeting and performance management.	Members' PDPs have been expanded to include scrutiny and financial planning/budgeting training. 1-1 meetings with all Members are being arranged for March 2016 to allow Members' Training Needs Analyses (TNAs) to be refreshed before 31 March 2016 and their PDPs updated accordingly. Training is currently being explored in relation to scrutiny. Training on treasury management will be held on 15 and 31 March 2016. All Members have been invited to attend one session. A workshop, for all Members, on performance management was held on 2 February. Training on media and presentation skills was held on 17 December 2015 in the form of an Improvement Service Masterclass and was attended by five Falkirk Council Members amongst others from a range of local authorities. This met training needs previously		31-Mar-2016	Chief Governance Officer

Action	Progress		Due Date	Responsible Officer
BVA15SCR0006 A review of other Councils' experience with local protocols will be carried out to establish how effective they are deemed to be with a report back to Council on the outcome of that review.	identified through earlier TNAs. The possibility of a similar session being held again for those Members who were unable to attend in December is currently being explored. A "round robin" survey of other Scottish local authorities has been undertaken, using the Scottish Members' Services Development Network and SOLAR Admin Group distribution lists, to ascertain the types of local protocols developed and implemented elsewhere. A good response has been received, including a range of samples of protocols. These are now being analysed with a view to being reported to the Leaders' Group in the first instance.		31-Mar-2016	Chief Governance Officer

3. Performance Management and Reporting

Action	Progress		Due Date	Responsible Officer
BVA15PM0001 A programme of reviews and self-assessments will be submitted to the Performance Panel by March 2016.	An Officer workshop was held in January 2016 to help prepare the draft programme. The draft programme will be submitted to the Performance Panel in March 2016.		31-Mar-2016	Head of Policy, Technology & Improvement
BVA15PM0002 A systematic programme of service reviews and self-assessments will be undertaken to influence the Council's budget strategy and improvement agenda.	Following discussion at Performance Panel in March 2016 a programme of self assessments and service reviews will be taken forward by Services. The outcomes of this work will be reported to Members through Performance Panel reports.		31-Mar-2019	Head of Policy, Technology & Improvement
BVA15PM0003 The Council's new guidance on Performance Management will be rolled out.	A high level summary framework prepared and circulated. This will be further developed over the coming months to supplement existing guidance.		31-Dec-2015	Head of Policy, Technology & Improvement
BVA15PM0004 Take forward actions agreed by Scrutiny Committee in October 2015 on public performance reporting.	Arrangements for PPR across the Council are being reviewed in line with the feedback from Audit Scotland's 2015 review of PPR arrangements in Councils and discussions at the Scrutiny Panel and Best Value Working Group. Service content is being reviewed to ensure it covers the areas identified by Audit Scotland and is presented in a way that is accessible to the public. In particular, reporting needs to include more narrative context and benchmark and trend information rather than simply relying on using traditional PIs. Specific areas being looked at currently include what is being reported by Services and how		31-Mar-2016	Head of Policy, Technology & Improvement

Action	Progress	Due Date	Responsible Officer
BVA15PM0005 Performance reports will be developed through the Performance Panel to reflect the good practice outlined. These reports will in turn, be published on the Council's website.	<p>information submitted to the Performance Panel under the revised framework will be presented on the Council's website.</p> <p>A new reporting template has been developed based on the format used by Corporate & Housing Services. This is now in use by all Services to report to the Performance Panel.</p> 	31-Mar-2016	Head of Policy, Technology & Improvement