

FALKIRK COUNCIL

MINUTE of the MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on MONDAY 21 SEPTEMBER 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: Gary Greenhorn, Head of Educational Planning and Resources
Brian Pirie, Democratic Services Manager
Mary Pitcaithly, Chief Executive
Bryan Smail, Chief Finance Officer
Amanda Templeman, Acting Depute Finance Officer
Isabel Wright, Senior Internal Auditor

ALSO ATTENDING: Trisha Meldrum, Fiona Mitchell Knight and Jim Rundell, Audit Scotland

AC24. CONVENER'S REMARKS

The Convener expressed her dissatisfaction that the papers in regard to item AC29 - Annual Accounts - had been issued on Friday 18 September giving members of the committee an unacceptably short period to prepare for today's meeting. Similarly she noted that the papers in regard to item AC31 - Annual Audit Report - had been issued on Thursday 17 September and again she stated that it was unacceptable that reports should be issued at such short notice.

AC25. APOLOGIES

No apologies were intimated.

AC26. DECLARATIONS OF INTEREST

Provost Reid declared a non-financial interest in item AC29 - Temperance Trust Annual Accounts 2014/15 - as a member of the Trust Board and took no part in the discussion and decision making in regard to this item.

AC27. MINUTE

Decision

The minute of the meeting of the Audit Committee held on 22 June 2015 was approved.

AC28. INTERNAL AUDIT PROGRESS REPORT

The committee considered a report by the Internal Audit Manager summarising the progress of the 2015/16 Internal Audit Plan.

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

Internal Audit performance to date, as measured by 5 key performance indicators, equalled or exceeded 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 of 13 previous recommendations which remained outstanding.

Members sought an update on the implementation of procedures for monitoring the finances of Community Halls (ref AC19) and sought assurance that new procedures would be followed by management. Isabel Wright explained that, as part of the 2015/16 Audit work, resources were allocated for continuous auditing and the implementation of the procedures would be monitored within this allocation. An update would be provided to members on the continuous auditing of the implementation of procedures for monitoring community hall finances.

The committee discussed the 13 outstanding recommendations, set out in appendix 4 of the report, and highlighted that 10 lay with Social Work Adult Services. The Chief Executive summarised the procedures in place to ensure that recommendations are responded to. She advised that corporate support was now in place to support Social Work Adult Services during a transitional period for the Service.

Officers then responded to questions relating to current and completed assignments including:-

- the anticipated start date of the audit of corporate risk management arrangements and the likely remit of the review;
- the impact of reducing staff numbers on the management of the Integra supplier database and the process for making payments;
- the auditing of payments to suppliers and compliance with Financial Regulations; and
- the scope to tighten access privileges in regard to emergency BACS payments.

Officers undertook to provide feedback on the following points which were raised during the discussion:-

- the anticipated start date of the audit of CRM arrangements and the remit of the audit;
- the timescale for reporting the review of Daycare Provision to the Executive; and

- further information on the outstanding recommendations in regard to Social Work Deferred Payments.

Decision

The committee noted:-

- (1) progress with completing planned 2015/16 Internal Audit work;**
- (2) Internal Audit performance, as reported at paragraph 3.1 of the report;**
- (3) the position in relation to recommendations outstanding; and**
- (4) the contents of the 2015/16 Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) Annual Report.**

In accordance with his declaration Provost Reid withdrew from the meeting at this point.

AC29. TEMPERANCE TRUST ANNUAL ACCOUNTS 2014/15

The committee considered a report by the Chief Finance Officer presenting Falkirk Temperance Trust's audited annual accounts 2014/15 for approval.

Decision

The committee recommended approval of the Audited Annual Accounts of the Temperance Trust to its Trustees.

Provost Reid rejoined the meeting following consideration of the previous item.

AC30. ANNUAL ACCOUNTS 2014/15

The committee considered a report by the Director of Corporate and Housing Services presenting the Annual Accounts 2014/15 for approval.

The format of the Accounts now incorporated a management commentary. This set out the requirement to produce Annual Accounts and summarised the strategic context and environment within which the Council operates. The statement also highlighted performance in terms of public performance reporting and the Council's financial performance, and set out future plans.

Members of the committee commented favourably on the revised format of the Accounts.

Following questions from members, officers undertook to provide further information on the following:-

- background to the national review of blue badges;
- the number of properties contributing to the losses in regard to void properties;
- the makeup of the Regional Resilience Partnership;

- the makeup of the benchmarking family of Local Authorities used to monitor level of risk maturity; and
- the draw down of TIF Funding.

Decision

The committee approved the Audited Annual Accounts of the Council 2014/15.

AC31. ANNUAL AUDIT REPORT 2014/15

The committee considered a report by the Director of Corporate and Housing Services presenting Audit Scotland's Annual Audit report to members of the Council and the Controller of Audit together with a letter of representation to Audit Scotland on the accounts.

The unaudited accounts had been considered by committee on 22 June 2015 (ref AC22). These had now been audited and the Auditor's certificate was free from qualification. The report set out:-

- the Council's financial position – including the 2014/15 overspend, the reduction in uncommitted reserves and the challenges facing the Council;
- governance and transparency – including the findings of Audit Scotland's Best Value Review of Falkirk Council, the systems of internal control, the National Fraud Initiative (and in particular the Blue Badge Scheme) and progress made in the implementation of adult health and social care and welfare reform;
- Best Value – including areas for improvement; and
- action plan - this set out the Council's response to the 6 recommendations set out in the Auditors' report.

Fiona Mitchell Knight gave an overview of Audit Scotland's report.

Members welcomed the report. Discussion focussed on the Accounts Commission's findings in regard to Audit Scotland's Best Value Review of the Council. The report would be considered by Council on 7 October 2015. The Convener advised that references within the Annual Audit Report would not be discussed at today's meeting. She considered that the Council's response to the Best Value review would however be a matter for the Committee.

In regard to the Annual Audit report, members sought clarity on the significant findings of the Audit - in particular the accounting for the Carbon Reduction Commitment (CRC) and the calculation of Council Tax bad debt provision.

Members also sought information on the position of the Capital Programme and losses on void properties.

Members highlighted the economic climate within which local authorities operate and in particular the impact of the Council's budget gap and on its ability to deliver services and on staffing levels.

Decision

The committee noted the Annual Report on the 2014/15 Audit.

AC32. CORPORATE RISK MANAGEMENT (CRM) WORK PLAN UPDATE

The committee considered a report by the Director of Development Services providing an update on the Corporate Risk Management work plan.

The Corporate Risk Management (CRM) Policy and Framework had been updated in 2013 and in 2015 (ref AC6). The associated CRM work plan was appended to the report which set out progress and future actions in regard to:-

- developing the CRM framework;
- reporting and reviewing risks;
- embedding key themes; and
- reviewing the effectiveness of CRM arrangements.

In response to a question, Rhona Geisler gave detail on the make-up of the RPC. She also provided details on the Risk Management E-Learning module. Mrs Geisler confirmed that a consequence of Council's recent service redesign was that the Governance Division, now within Corporate and Housing Services had not been required to review its risks.

Decision

The committee:-

- (1) agreed to receive a further Corporate Risk Management work plan update in 6 months, including the audit findings;**
- (2) noted the progress outlined in the report as agreed by Corporate Management Team and Corporate Risk Management Group members;**
- (3) noted that good progress has been made and that Corporate Risk Management benchmarking results were improving; and**
- (4) Noted that further work will be undertaken with Corporate Risk Management Group and services to ensure that future risk management arrangements and reports are adapted to reflect the restructure.**

AC33. CORPORATE RISK REGISTER UPDATE

The committee considered a report by the Director of Development Services presenting an updated Corporate Risk Register.

In terms of the Corporate Risk Management Policy and Framework, the Corporate Risk Register is monitored by the Corporate Risk Management Group and the Corporate Management Team and reported to both the Executive and Audit Committee.

In total 47 risks are identified in the Register. In terms of risk 3 are 'very high', 18 are 'high' and 26 are 'medium'. The Register was appended to the report, highlighting risks by risk category (assets, change, financial, governance, human resources, information, partnerships and by portfolio holder).

Following questions, Mrs Geisler explained the rationale and meaning of the risk 'heat map' set out in the report. She stressed that the important factor is the control

mechanism put in place to mitigate risks. Members sought clarification on the risks and controls around the integration of Health and Social Care functions. The committee highlighted risks associated with change in regard to managing the Council's budget gap, and stressed the need to work with staff to provide support and leadership. Members also highlighted risks around the following:-

- welfare reform;
- regeneration;
- shale gas extraction;
- business transformation; and
- vacancy management.

Decision

The committee noted the report.

AC34. AUDIT COMMITTEE ANNUAL REPORT 2014/15

The committee considered a report by the Convener on the work of the Audit Committee in 2014/15.

In terms of Standing Orders, the Audit Committee is required to report annually to Council on its work. The report summarised the business considered by the committee in 2014/15 and set out its priorities for 2015/16.

Discussion focused on the Council's proposed response to the Accounts Commission report on the Best Value audit of Falkirk Council (which would be discussed by Council on 7 October 2015). Members considered that it would be appropriate for the committee to monitor the Council's progress in implementing its action plan in response to the Commission's findings.

Decision

The committee noted the report on the work of the Audit Committee and approved its submission to Falkirk Council subject to the inclusion of the following at paragraph 6.4:-

- **consider, as a standing item, through to March 2017, the progress of the Council's Best Value action plan.**

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PROGRESS REPORT
Meeting: AUDIT COMMITTEE
Date: 14 December 2015
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 The purpose of this short paper is to update Members on progress with completing the agreed 2015/16 Internal Audit Plan. It also provides information on Services' implementation of 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	9	42%
In Progress	6	29%
Not Started	6	29%
Total	21	100%

- 2.2 Internal Audit work is progressing as planned. A summary of current assignment status is set out at **Appendix 1** along with the assurance level provided (see **Appendix 2** for definitions). Key findings arising from completed assignments which have not previously been reported to Committee are set out at **Appendix 3**.
- 2.3 Performance against our established 5 Key Performance Indicators is as set out in the table below. This is broadly comparable to performance to the same point last year:

Key Performance Indicator	2015/16 - to date	2014/15 (at same time last year)	2014/15 (whole year)
Complete 85% of main audit programme	42%	53%	100%
Have 90% of recommendations accepted	100%	100%	99%
Spend 75% of time on direct audit work	76%	79%	78%
Issue 75% of draft reports within 3 weeks of completion of fieldwork	89%	92%	96%
Complete (to issue of final report) 75% of main audits within budget	100%	100%	87%

3. REPORTING OF RECOMMENDATIONS OUTSTANDING

- 3.1 At the last meeting of Audit Committee in September 2015 a total of 13 recommendations were reported as being outstanding.
- 3.2 Since that meeting, Internal Audit have again engaged with all Services to ensure that appropriate actions are taken to close off recommendations where the original or revised implementation date has lapsed.
- 3.3 As a result of that engagement, the number of recommendations outstanding has reduced significantly. The current position is as follows:
- Integra Supplier Management and Payments (1 Rec).
- 3.4 Details of each of these recommendations are set out at **Appendix 4**.

4. RECOMMENDATIONS

4.1 Members are invited to note:

- 4.1.1 progress with completing planned 2015/16 Internal Audit work;
- 4.1.2 Internal Audit performance, as reported at paragraph 2.3
- 4.1.3 the position in relation to Recommendations Outstanding.

.....

Internal Audit Manager

Date: 04 December 2015

INTERNAL AUDIT PLAN 2015/16 – PROGRESS AT 04 DECEMBER 2015

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	Investment (non-Pension Fund)	Substantial
3.	Corporate and Housing	Integra Supplier Data Management and Payments	Substantial
4.	All Services	Corporate Purchasing and Contract Monitoring (Interim Report)	Substantial
5.	Development	Employment and Training Unit	Substantial
6.	Corporate and Housing	Members' Training, Allowances, Expenses, and Civic Events and Receptions	Substantial / Limited
7.	Children's	SEEMIS Security and Management	Substantial
8.	All Services	Continuous Auditing	Not Applicable
9.	All Services	National Fraud Initiative	Not Applicable
<i>Assignments In Progress</i>			
10.	Social Work – Adult Services	Health and Social Care Integration	TBC
11.	Children's	Reducing Bureaucracy in Schools	TBC
12.	Corporate and Housing	Corporate Fraud	TBC
13.	All Services	Financial Regulations – Review and Update	TBC
14.	West Lothian Council	Reciprocal Review	TBC
15.	Falkirk Community Trust	SLAs, Cash Counts, and Follow Up of Previous Recommendations	TBC
<i>Assignments Not Started</i>			
16.	Corporate and Housing	Corporate Risk Management Arrangements	TBC
17.	All Services	Data and Information Security – Governance and Practice	TBC
18.	Corporate and Housing	Revenues IT Systems Security and Management	TBC
19.	Corporate and Housing	Mobile Device Security	TBC
20.	Corporate and Housing	LEADER Funding	TBC
21.	Internal Audit	External Quality Assessment by South Ayrshire Council	TBC

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

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

No.	Assignment Area and Service	Assurance and Key Findings
1.	<p>Members' Training, Allowances, Expenses, and Civic Events and Receptions</p> <p>Corporate and Housing Services</p>	<p>Training – Substantial Assurance We reviewed the control framework in relation to training, including the elected Member induction process; procedures for assessing training needs; the programme of training offered to elected Members; budgetary control; and management information.</p> <p>In general, sound systems of control were in place. All elected Members are invited to participate in an induction course when first elected, with a survey of Members also undertaken during their term of office to identify potential development needs. There is mandatory training for Members prior to appointment to several Boards and Committees, and regular Members' briefing sessions are held.</p> <p>We made recommendations relating to the need for a training programme on the Council's decision making structure and Members' roles within that structure; the development of formal role descriptors for Members; the drafting of Personal Development Plans for all elected Members; and the introduction of annual, formal, one to one meetings to discuss past and future training and development needs.</p> <p>Allowances and Expenses – Substantial Assurance We reviewed rules and guidance on claiming and processing; procedures for checking, approving, processing, and monitoring claims and making payments; and management information.</p> <p>All staff were clear about their roles and responsibilities, with elected Members advised of entitlements and the re-imbursement process. There was some scope for improving the level of detail on completed forms.</p> <p>Civic Events and Receptions – Limited Assurance Focussed on policies and procedures; application, assessment, approval, and organisation arrangements; and budgetary and financial controls.</p> <p>There is a need to improve written policies and procedures, particularly in relation to the criteria against which applications are assessed, the factors to be considered when determining the location / format of events and receptions, and the actions to be taken to organise each element of an event or reception.</p> <p>In addition, a clear audit trail should be maintained in relation to the requesting, authorisation, and organisation of civic events and receptions, including the rationale for approving / rejecting requests.</p>

No.	Assignment Area and Service	Assurance and Key Findings
2.	SEEMIS Data Security and Management Children's Services	<p>Substantial Assurance</p> <p>Work focussed on review of the roles and responsibilities of those accountable for the management of SEEMIS data and security; procedures, guidance, and training; physical and environmental controls; access management arrangements; the quality and continuity of service provision; and contract management and monitoring arrangements.</p> <p>In overall terms we found controls to be sound. User set up and administration controls were working effectively, and there was regular dialogue and close working between Children's Services, the SEEMIS service provider (SEEMIS Group LLP) and the wider SEEMIS community.</p> <p>There was, however, some scope for enhancing the existing framework of control.</p> <p>For example, there is no agreement between the Council and SEEMIS Group LLP in relation to the retention and disposal of the Council's data. In addition, there is a need for a System Security Statement formalising management administration and data security responsibilities, and for an Access Control Policy clarifying and documenting arrangements for managing users' access to the SEEMIS system.</p>
3.	Continuous Auditing All Services	<p>Not Applicable – Ongoing Reporting and Assurance</p> <p>Work has focussed on creditors duplicate payments. To date 38 duplicate payments, with a total value of c£36k have been identified.</p> <p>All identified duplicate payment amounts have been, or are being, recovered.</p>
4.	National Fraud Initiative All Services	<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, 810 (of a total of 1,271 recommended matches) have been reviewed and investigated, with no material fraud or error detected.</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), 154 frauds or errors have been detected, totalling c£110k, with recovery action taken or underway.</p>

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 October 2015	Corporate and Housing	Integra Supplier Management and Payments	Substantial	Management checks on the validity and accuracy of reissued payments should be introduced.	Accountancy Services Manager	Options to be explored for introducing checks.	N/A	Action Remaining Outstanding Options are being considered to work within system functionality. Procedure to be finalised.

Falkirk Council

External Audit Update



Prepared for Falkirk Council Audit Committee
December 2015

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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Audit appointment

1. The procurement process for the next round of appointments is currently underway and the firms employed by Audit Scotland have been advised of those audits that are being made available to them. It is proposed that the audit of Falkirk Council will be carried out by a firm for the five year period 2016/17 to 2020/21. The council will be notified of their new auditor in spring 2016 following completion of a tendering exercise. The current Audit Scotland team will remain in place until the 2015/16 accounts are signed off.

Annual Audit Plan 2015/16

2. We are currently updating our planning files to determine those areas where we will focus our attention in 2015/16. The Annual Audit Plan (AAP) for 2015/16 will be available for the next meeting of the Audit Committee in April 2016. It will set out the planned outputs for the year and the timescales for delivery. It will also set out the audit fee for the year. We have had preliminary discussions with the Chief Finance Officer on fee levels. We have indicated that fee levels are likely to be held at the same level of last year which in effect is a 1.6% reduction in real terms.

Governance work

3. **Review of internal audit.** An early priority for us was to undertake a review of the adequacy of internal audit in terms of *International Standard on Auditing 610 (Using the work of internal auditor)*. On the basis of work carried out we concluded that internal audit operates in compliance with the Public Sector Internal Audit Standards and has appropriate documentation and reporting procedures in place. Consequently, we plan to place formal reliance on aspects of internal audit's work to support our audit opinion.
4. Relying on internal audit work avoids duplication of effort and allows us to focus on other areas of risk. We also met with the Internal Audit Manager on a regular basis throughout the year to discuss audit issues and share information and intelligence.
5. **Internal controls and governance work:** We are currently updating our audit files and carrying out high level testing on the key internal controls systems within financial systems. As part of this work we are following on previously agreed audit recommendations to ensure that they have been implemented. In the final year of our audit appointment we plan to carry out more substantive testing of transactions in advance of receipt of the unaudited accounts. This will enable us to complete our financial statements audit timeously and efficiently.
6. **National Fraud Initiative (NFI).** NFI is a computerised biennial data matching exercise that compares and matches information about individuals held by various public bodies on their financial systems to identify potential fraud or error. Presently, we are assessing the

arrangements put in place by the council for reviewing and investigating data matches. Our conclusions will be reported through the medium of our Annual Audit Report.

Performance

National Performance Studies

7. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. One report has been published since our last progress report to the Audit Committee in June 2015. This is summarised in the following paragraph.
8. **Scotland's public sector work force: impact report (June 2015).** This report looked at whether the devolved public sector had improved its approach to workforce planning. Some progress has been made including:
 - A number of public sector bodies have developed organisation-wide workforce plans and service level plans with a consistent structure and content, to assist with scrutiny and monitoring.
 - Some councils have provided organisation-wide workforce information including savings from early release schemes and reported this to members.
 - The report has also prompted a number of public sector bodies to review the terms of their early departure packages to help assess value for money.
9. In the current year, auditors have been asked to carry out some follow-up work at the local level. This will cover workforce plans, partnership working arrangements (in terms of staff resources), and challenge and scrutiny arrangements. The findings from this local work will be collated nationally to provide an overall picture of progress.
10. **Future publications.** There are a number of performance audits that Audit Scotland plan to do over the next year that are of interest to local authorities, as summarised below.

Topic	Scope of the study	Planned Publication Date
Health & social care integration	This audit looked at the new arrangements that councils and NHS boards are putting in place to integrate adult health and care services. The audit also looked at the governance and financial arrangements put in place by integrated joint boards and the risks /challenges they face.	December 2015

Implementing the Scotland Act 2012: an update	From this year, the new Scotland Act 2012 introduces new financial powers for the Scottish Parliament that will change the public finances environment in Scotland. The audit looked at how the Scottish Government is developing its financial management and reporting arrangements in response to these new powers.	December 2015
Major capital investment in councils: targeted follow-up	In March 2013, the Accounts Commission reported on major capital investment in councils. This report will provide an update on what councils have achieved to date, provide an opportunity to share good practice and help identify common weakness where improvement actions are still needed.	January 2016
Changing models of health and social care	NHS boards and councils face increasingly difficult financial challenges at the same time as there is a growing demand for services. The report will highlight the main challenges facing councils and health boards, identify good practice for sharing and use modelling to identify what changes could be made to improve service delivery.	March 2016
Maintaining Scotland's roads : a follow-up audit	Audit Scotland has conducted three previous audits on roads maintenance performance to assess progress being made. This report will provide an update against previous recommendations by us. It will also evaluate progress with the shared service approach, identify any good practice and highlight any challenges to collaborative working and how these might be mitigated.	June 2016
Social work in Scotland	Councils' social work departments provide essential services to some of the most vulnerable people in society. This report will look at the scale of the financial and demand pressures facing social work and the strategies adopted to address these challenges. Additionally, the report will look at governance arrangements and how councils involve users and carers in service design.	Summer 2016

Financial statements

11. **Financial statements audit 2015/16.** We plan to formally commence our financial statements audit work on 20 June 2016 when the unaudited accounts are due to be presented to the Audit Committee. The plan is to substantially complete the financial statements audit by the end of August 2016 and have a draft Annual Audit Report available by early September 2016. This will allow us to report to the Audit Committee meeting scheduled for 22 September 2016.
12. In order to complete the audit efficiently and effectively we plan to carry out testing in a number of areas in advance of receipt of the unaudited accounts including:
 - verification of assets
 - council house valuations
 - year end bank reconciliations
 - substantive checking of payroll costs
 - substantive checking of trade payables
 - Review of arrears levels and debtors' reconciliations.
13. The timescale for completing and reporting on the financial statements audit is relatively tight given the requirements of the 2015 Accounts Regulations. Consequently, we will be relying on the Chief Finance Officer and his team to provide a comprehensive working papers package in support of the financial statements.
14. Also, it is important that good quality control arrangements are in place to ensure that requested audit adjustments and typographical errors are processed timeously so as not to delay the signing of the financial statements.

Note: We will perform the audit of Falkirk Temperance Trust in parallel with the audit of the council's financial statements and issue a separate audit opinion by 30 September 2015.

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

18 November 2015

Dear Bryan

**Falkirk Council and Falkirk Council Pension Fund
Review of Internal Audit 2015/16**

Audit Scotland's Code of Audit Practice (the 'Code') sets out the wider dimension of public sector audit. The Code requires the external auditor to undertake an annual assessment of the adequacy of the internal audit function. Also, based on this assessment we plan to rely on areas of internal audit in terms of International Standard on Auditing 610 (*Using the work of internal auditors*).

We have now completed our review and assessment of the internal audit function. This included a review of the range and quality of work carried out by internal audit including reporting arrangements. We 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.

We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion:

- Investment (non-pension)
- Integra Finance System - supplier data management and payments.

The reliance on internal audit work in the areas outlined above will allow us to direct resources to the financial systems and governance areas that we have assessed as being of higher audit risk.

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.

Falkirk Council Pension Fund

Internal audit also provide the internal audit function for Falkirk Council Pension Fund. The 2015/16 internal audit plan now includes specific work on Pension Fund systems. In terms of our financial statement responsibilities we plan to place formal reliance on aspects of internal audit in the following area:

- Pensions administration and pension fund - governance arrangements.

We note that internal audit work in the above area used transactions relating to financial year 2014/15. Our audit approach allows us to place reliance on testing carried out in the previous year.

We will continue to monitor and review completed internal audit assignments to ensure that work on which we are placing reliance has been delivered. Any failure to complete areas where formal reliance has been agreed could impact on our plan and result in an additional audit fee.

Finally, I would like to thank the Internal Audit Manager for his co-operation during our review.

Yours sincerely

James Rundell
Senior Audit Manager

By e-mail: Gordon O'Connor, Internal Audit Manager
Stuart Ritchie, Director of Corporate and Housing Services

FALKIRK COUNCIL

Subject: BEST VALUE AUDIT 2014/15
Meeting: AUDIT COMMITTEE
Date: 14 DECEMBER 2015
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. PURPOSE

- 1.1 The purpose of this report is to inform the Audit Committee of how Council will address issues arising from Audit Scotland's best value audit of Falkirk Council.

2. BACKGROUND

- 2.1 Audit Scotland carried out a best value audit of Falkirk Council between November 2014 and May 2015. The report on the audit by the Controller of Audit was considered by the Accounts Commission which published its findings on 27 August 2015.
- 2.2 Council was required to consider the findings within three months of receiving them. Council did so on 7 October 2015. Members considered a report by the Chief Executive which set out the Commission's findings together with a proposed response. A draft Improvement Plan was also included. This details out how the Council will address issues raised in the best value audit.
- 2.3 The Audit Committee will be interested in particular in the mechanism in place to both implement and monitor the progress of the Improvement Plan. In this regard Council agreed –
- (i) to adopt the Improvement Plan which was appended to the report and that there will be 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.

3. RECOMMENDATION

- 3.1 The Audit Committee is invited to note how the Council intends to address issues raised in the best value audit of Falkirk Council and that further reports will be provided as appropriate.

.....
Director of Corporate and Housing Services

(Contact – Brian Pirie; tel 01324 506110)

Date: 4 December 2015

BACKGROUND PAPERS

Nil

**FALKIRK COUNCIL
BEST VALUE AUDIT REPORT 2015
DRAFT IMPROVEMENT PLAN**

APPENDIX 1

Action Plan

Issue/Recommendation	Proposed Action	Responsible Officer	Target Date
<p>SCALE AND PACE OF CHANGE</p> <ul style="list-style-type: none"> • The Council cannot afford to continue spending at its current level and it needs to make substantial savings over the next few years. It should develop clear and detailed plans for how it will make these savings, supported by good analysis, options appraisals and strong business cases. It should also set out how it will significantly increase its scale and pace of change in transforming and improving services. - The Council should ensure staff reductions are planned within the context of comprehensive workforce strategies and plans to minimise any adverse impact of services. - The Council should ensure that Councillors are properly involved in the Business Transformation project, that they provide clear strategic direction and that they have the necessary skills and knowledge to challenge appropriately. 	<p>The Council will update its Workforce Strategy for approval by Members.</p> <p>A new Business Transformation Board will be established to enhance the governance of this programme with the Leader of the Council and Leader of the Opposition providing political leadership to the Board. The minutes of the Business Transformation Board will be made available to the Cross Party Budget Working Group.</p>	<p>Director of Corporate & Housing Services</p> <p>Chief Executive</p>	<p>March 2016</p> <p>November 2015</p>

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<ul style="list-style-type: none"> - The Council should consider if a cross-party forum or budget working group, bringing Councillors from different groups together, would be appropriate to help deal with some of the financial challenges and service delivery decisions that are needed. It would also involve them in redesigning and improving services to make savings. - The Council should ensure that the role of the Internal Audit Manager in its Business Transformation is appropriate, with no risks to an effective role for internal audit in providing independent assurance. 	A Cross Party Budget Working Group will be established.	Chief Executive	December 2015
	Officer involvement in the Business Transformation project will be realigned to support the new Board.	Director of Corporate & Housing Services	November 2015
	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).	Director of Corporate & Housing Services	March 2016

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<p>SCRUTINY</p> <ul style="list-style-type: none"> • All Councillors need to participate in the Council's governance arrangements, as implemented in 2015, including the Executive and Scrutiny Committees. They need to take collective responsibility for decisions, the scrutiny process that will strengthen these decisions and ensuring agreed decisions are implemented. • The Council should ensure that all its scrutiny arrangements, in particular its Performance Panel, meet best practice principles. It should ensure that: <ul style="list-style-type: none"> - Scrutiny involves constructive challenge, regardless of political allegiances. - All aspects of the scrutiny arrangements, including the work of the Scrutiny Panels and the Performance Panel, are open, transparent and support public accountability. 	<p>All Councillors will continue to participate constructively in the Council's governance arrangements.</p> <p>Council considers that its scrutiny arrangements do meet best practice principles and that holding the Performance Panel in private while making its reports and minutes public is appropriate for Falkirk Council's circumstances and enhances the effectiveness of the Panel.</p> <p>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.</p> <p>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.</p>	<p>Chief Executive</p> <p>Director of Corporate & Housing Services</p>	<p>Ongoing</p> <p>March 2016</p>

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<ul style="list-style-type: none"> • The Council faces tough decisions in a difficult financial environment to plan and deliver services to meet the needs of local communities. All Councillors need to understand their role in making these decisions, and in the scrutiny process that supports them. The Council should do more to support Councillors by: - Providing information and training to make sure that Councillors and Officers have a shared understanding of the new structures that were implemented in May 2015, and how they operate in practice. - Providing information that makes it clear how Councillors can contribute most effectively. • The Council should consider developing a local protocol that sets out clear expectations for how Councillors should work together and with Officers. 	<p>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.</p> <p>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.</p>	<p>Director of Corporate & Housing Services</p> <p>Chief Executive</p>	<p>March 2016</p> <p>March 2016</p>

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<p>PERFORMANCE MANAGEMENT AND REPORTING</p> <ul style="list-style-type: none"> The Council should integrate its various strands of performance management, service improvement and business transformation to ensure it has a coherent approach. It should use this to target its resources, focus on delivering its priorities and drive continuous improvement. It should: <ul style="list-style-type: none"> Coordinate its activities such as service reviews, self-assessments and business transformation and show how these will lead to specific improvement. Regularly and systematically carry out self-assessment of services, including comparison with other Councils and use this information to identify areas for improvement in its Service Plans. Ensure its programme of service reviews focuses on its strategic priorities and objectives and is based on areas for improvement identified through performance information. 	<p>A programme of reviews and self-assessments will be submitted to the Performance Panel by March 2016.</p> <p>A systematic programme of service reviews and self-assessments will be undertaken to influence the Council's budget strategy and improvement agenda.</p>	<p>All Directors</p> <p>All Directors</p>	<p>March 2016</p> <p>From April 2016</p>

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<ul style="list-style-type: none"> - Performance indicators that include a baseline figure to show where services have improved or otherwise; they should also include contextual information or an explanation when using trend arrows or traffic light indicators to help readers interpret the data, for example whether an indicator increasing indicates performance is better or worse. - Performance indicators that are SMART, and have a clear target for what is to be achieved or what is expected. 	<p>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>	<p>All Directors</p>	<p>March 2016</p>