

**FALKIRK COUNCIL**

**MINUTE of MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on MONDAY 16 NOVEMBER 2009 at 10.00 a.m.**

**PRESENT:** Councillors Blackwood, Coleman, Gow, Lemetti, Patrick and Kenna.

**CONVENER:** Councillor Gow

**ATTENDING:** Chief Executive; Directors of Corporate and Neighbourhood Services of Finance and of Development Services; Internal Audit Manager, Heads of Accountancy; Business Services and of Educational Resources; Democratic Services Manager and Committee Officer (A Sobieraj).

**ALSO ATTENDING:** Assistant Director, Audit Scotland (M Taylor) and Senior Audit Manager, Audit Scotland (B Crosbie).

**DECLARATIONS**

**OF INTEREST:** None.

**AC14. MINUTE**

There was submitted (circulated) and **APPROVED** Minute of Meeting of the Audit Committee held on 15 June 2009.

**AC15. AUDIT COMMITTEE TRAINING PROGRAMME**

There was submitted Report (circulated) dated 9 November 2009 by the Director of Finance proposing an Audit Committee training programme for 2010 covering the following areas :-

- The role of the External Auditor
- The role of the Internal Auditor
- Understanding the financial statements/financial reporting
- The importance of risk management

**NOTED.**

**AC16. AUDIT COMMITTEE – AN EXTERNAL AUDIT PERSPECTIVE**

Mark Taylor, Assistant Director, Audit Scotland and Bruce Crosbie, Senior Audit Manager, Audit Scotland gave a joint presentation on the external audit perspective on Audit Committees. The joint presentation covered the following :-

- Audit Committees and Local Government Roles and relationships of the Audit Committee, Internal Audit and External Auditor
- Attributes of an effective Audit Committee
- Challenges and solutions
- Advantages

**NOTED.**

#### **AC17. ANNUAL REPORT ON THE 2008/09 AUDIT**

There was submitted Report (circulated) dated 5 November 2009 by the Director of Finance summarising the key issues identified in the 2008/09 Audit. Appended to the Report were:-

- (1) "Report to Members and the Controller of Audit on the 2008/09 Audit" by Audit Scotland.
- (2) "Report to those charged with Governance on the 2008/09 Audit" by Audit Scotland.
- (3) Falkirk Council's Annual Reports and Accounts 2008/09.

An action plan identifying the areas where further improvements could be made was also presented.

**NOTED.**

#### **AC18. GOVERNANCE AND INTERNAL CONTROL**

There was submitted Report (circulated) dated 5 October 2009 by Audit Scotland summarising a review of Falkirk Council's Corporate Governance arrangements.

An action plan identifying the areas where further improvements could be made was appended to the Report.

**NOTED.**

#### **AC19. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN SCOTTISH LOCAL GOVERNMENT**

There was submitted Report (circulated) dated 29 October 2009 by The Director of Finance (a) advising of the requirement on Government bodies to adopt the International Financial Reporting Standards (IFRS); (b) highlighting significant challenges for Councils in adopting the new Reporting Standards and (c) summarising the transition process towards the adoption of IFRS.

**NOTED.**

**AC20. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN SCOTTISH LOCAL GOVERNMENT - IMPACT ASSESSMENT AND PROGRESS REPORT**

There was submitted Report (circulated) dated 29 October 2009 by the Director of Finance (a) highlighting the outcomes of an assessment of the impact of applying International Financial Reporting Standards (IFRS) to financial reporting information of Falkirk Council and (b) detailing progress made to date in adopting IFRS within Falkirk Council.

**NOTED.**

**AC21. FINANCIAL REGULATIONS**

There was submitted Report (circulated) dated 6 November 2009 by the Director of Finance Services (a) advising of a review of the Council's Financial Regulations (b) highlighting proposed key changes to the Regulations and (c) presenting as an appendix, the revised Financial Regulations for approval.

**AGREED** to refer the proposed revised Financial Regulations to Falkirk Council for approval.

**AC22. INTERNAL AUDIT PROGRESS REPORT**

With reference to the minute of the meeting held on 3 April 2009 (paragraph AC4 refers) there was submitted Report (circulated) dated 6 November 2009 by Internal Audit Manager (a) summarising progress made towards the completion of the 2009/10 Internal Audit Plan; (b) providing an update on Services' progress in implementing recommendations identified in the Audit reviews and (c) summarising the performance of Internal Audit as measured against five key performance indicators.

**NOTED.**

**AC23. CORPORATE RISK REGISTER**

There was submitted Report (circulated) dated 10 November 2009 by the Director of Development Services (a) advising of a review of the Corporate Risk Register and (b) advising that a review of all existing Corporate Working Groups detailed in the Register would required to be completed prior to the Register being finalised.

**AGREED:-**

- (1) to approve the proposed Corporate Risk Register as detailed in the Report;
- (2) to note that the Corporate Risk Register would be further revised upon completion of a review of corporate working groups; and
- (3) to request periodic Reports on the Corporate Risk Register and its implementation.

**AC24. FALKIRK COUNCIL INTERNAL AUDIT REVIEW OF EMERGENCY PLANNING AND CIVIL CONTINGENCIES**

There was submitted Report (circulated) dated 10 November 2009 by the Director of Development Services advising that Internal Audit had carried out a review of emergency planning in civil contingencies during 2007/08 and detailing progress made in implementing the main action points as set out in the review action plan.

**NOTED.**

**FALKIRK COUNCIL**

**Subject: INTERNAL AUDIT PROGRESS REPORT**  
**Meeting: AUDIT COMMITTEE**  
**Date: 22 March 2010**  
**Author: INTERNAL AUDIT MANAGER**

**1. INTRODUCTION**

- 1.1 The purpose of this paper is to update Members on progress with completing the agreed 2009/10 Internal Audit Plan (the Plan), as presented to the Audit Committee on 03 April 2009. The report also includes information on Services' progress with implementing Internal Audit recommendations, as well as the Internal Audit Section's performance against established performance indicators.

**2. AUDIT PROGRESS**

- 2.1 Progress with completing 2009/10 Internal Audit work is summarised in the tables below, and set out in more detail at Appendix 1.

Status	Number	%
Final Reports Issued	16	70%
Draft Reports Issued	4	17%
Audits In Progress	3	13%
Audits Not Started	0	0%
<b>Total</b>	<b>23</b>	<b>100%</b>

Adjustments to Plan During 2009/10	
Audits Added During Year	3
Audits Deferred During Year	3

- 2.2 As is normal, and in line with shifting priorities and risks during the year, there have been a number of changes to Internal Audit work planned and undertaken during 2009/10.

- 2.3 In discussion and agreement with management, reviews of Bed and Breakfast Arrangements, Building Maintenance Hired Small Plant, and Social Work Intermediary Bank Accounts have replaced planned reviews of Following the Public Pound, Housing Allocations, and Development Management and Control.
- 2.4 Members should note that the reviews of Following the Public Pound and Housing Allocations will now be undertaken during 2010/11. The review of Development Management and Control has been deferred for a further year to allow self assessment, as part of the Public Sector Improvement Framework project, to be undertaken in this area during 2010/11.
- 2.5 In general, Internal Audit has been able to provide substantial assurance in relation to arrangements for risk management, governance and control in the areas reviewed (see Appendix 2 for definitions and Appendix 3 for key findings arising from each review completed to final report stage).
- 2.6 Where we have identified scope for improvement, in relation to either internal control or best value, action plans have been agreed with management, and we will monitor progress with implementing agreed action on an ongoing basis.
- 2.7 In addition to the 16 audits completed to final report stage, a further 4 reports have been issued in draft and are the subject of discussion with the relevant Services to agree action to address recommendations raised. A summary of key findings arising from these reviews, as well as those where work is in progress, will be included in my Annual Assurance Report to Members at the May meeting of this Committee.

### **3. INTERNAL AUDIT FOLLOW-UP WORK**

- 3.1 Internal Audit continue to follow up recommendations made during 2008/09 and previous years.
- 3.2 At the November 2009 meeting of this Committee I reported to Members that Services were making good progress in implementing recommendations, and that action taken to address recommendations was continuing to have a positive impact on the efficiency and effectiveness of the control framework. I am content that this remains to be the case, and that there are no areas where implementation of recommendations has not been given the appropriate priority.
- 3.3 The follow-up of recommendations made in previous reports is now an embedded part of the audit process, with all Services aware that work to ensure implementation of agreed recommendations will be undertaken by Internal Audit and reported to this Committee, if appropriate.

#### 4. INTERNAL AUDIT PERFORMANCE

- 4.1 Internal Audit continues to monitor its performance against a set of 5 Key Performance Indicators. The table below sets out performance to date.

Key Performance Indicator	2009/10 Performance to 15 March 2010	2008/09 Performance
Complete <b>85%</b> of main audit programme:	87%	100%
Have <b>90%</b> of recommendations accepted:	100%	99%
Spend <b>75%</b> of time on direct audit work:	75%	79%
Issue <b>75%</b> of draft reports within 3 weeks of completion of fieldwork:	85%	78%
Complete (to issue of final report) <b>75%</b> of main audits within budget:	70%	70%

- 4.2 I am pleased that, in general, performance shows an improvement over 2008/09 and that out-turn performance will meet or exceed target for at least four of the five indicators. In particular, Members should note that Internal Audit are on target to complete all planned audits for the second consecutive year.
- 4.3 In my previous progress report to Members I highlighted examples of how we are working collaboratively with other organisations to improve our efficiency and to maximise the breadth of assurance that can be taken from Internal Audit work.
- 4.4 As Members will note from our 2010/11 Internal Audit Plan, it is my intention to continue to seek and fulfil opportunities for joined up working.
- 4.5 Most recently, this has involved collaboration with the Scottish Crime and Drug Enforcement Agency (SCDEA) in developing an approach for auditing Falkirk Council's arrangements for diverting, disrupting, deterring and detecting serious organised crime. Members should note that Falkirk Council Internal Audit is the first Scottish Local Authority Internal Audit section to seek to undertake such collaborative work with SCDEA.
- 4.6 Updates on current and future collaborative working exercises will be reported to Members throughout 2010/11.

**5. RECOMMENDATIONS**

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

5.1.1 progress being made in completing planned work is as reported at paragraph 2.1;

5.1.2 progress with work on following-up previous year recommendations is as reported at Section 3; and

5.1.3 performance against KPIs is as reported at paragraph 4.1.



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**Internal Audit Manager**

**Date: 15 March 2010**



## 2009/10 Internal Audit Plan – Progress at 15 March 2010

No	Service/Status	Audit	Level of Assurance
<b><i>Final Reports Issued</i></b>			
1.	Law and Administration	Mail Management	Substantial
2.	Community	Land and Asset Disposal	Substantial
3.	Corporate and Neighbourhood	Telecommunications	Substantial
4.	Various	Statutory Performance Indicators	N/A
5.	Social Work	Joint Loan Equipment Service	Limited
6.	Finance	Treasury Management	Comprehensive
7.	Education	Childcare and Early Years Services	Substantial
8.	Corporate and Neighbourhood	Legionella	No Assurance
9.	Finance / All Services	Overtime and Allowance Administration	Substantial / Limited
10.	Corporate and Neighbourhood	Bed and Breakfast Arrangements <sup>1</sup>	N/A
11.	Finance	Revenues IT Systems – Security and Management	Substantial
12.	Corporate and Neighbourhood	Building Maintenance Division Hired Small Plant <sup>1</sup>	Substantial
13.	Various	National Fraud Initiative	N/A
14.	Social Work	Fostering	Substantial
15.	Various	Cash Spot Checks	Substantial
16.	Central Scotland Fire and Rescue Service	Overtime and Allowance Administration	N/A
<b><i>Draft Reports Issued</i></b>			
17.	Education	ICT Governance and Security	TBC
18.	Development	Sustainability Strategy	TBC
19.	Social Work	Direct Payments	TBC
20.	Social Work	Social Work Intermediary Bank Accounts <sup>2</sup>	TBC

<sup>1</sup> Additional reviews undertaken at the request of the Director of Corporate and Neighbourhood Services.

<sup>2</sup> Additional review undertaken in agreement with the Acting Director of Social Work Services.

	<i>Audits In Progress</i>		
21.	Education	Additional Support for Learning	TBC
22.	Community	Community Learning Strategy and Community Education	TBC
23.	Corporate and Neighbourhood	Energy Management	TBC
	<i>Audits Not Started</i>		
None			
	<i>Audits Deferred</i>		
24.	Corporate and Neighbourhood	Following the Public Pound	N/A
25.	Corporate and Neighbourhood	Housing Allocations	N/A
26.	Development	Development Management and Enforcement	N/A

### Definition of Audit Assurance Categories

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

## Final Reports Issued - Summary of Key Findings 2009/10

No	Audit Area and Service	Assurance and Key Findings
1.	Mail Management  Law and Administration	<p><b>Substantial Assurance</b> Covered roles and responsibilities, arrangements for the secure opening, storage, and onward distribution of mail, the use of external couriers, and contingency arrangements.</p> <p>Arrangements were generally sound. Roles, responsibilities and objectives were clear, with various initiatives in place to secure best value. There were issues relating to the opening / storage of mail, and a need for an approved courier list.</p>
2.	Land and Asset Disposal  Community	<p><b>Substantial Assurance</b> Covered the disposal decision making process, roles and responsibilities, policies and procedures, collection of income, and management information.</p> <p>In general, sound systems of control were in place, although there was some scope for improving the accuracy of the Land Register maintained by the Asset Management Unit, and the transparency of the internal asset valuation review process.</p>
3.	Telecommunications  Corporate and Neighbourhood	<p><b>Substantial Assurance</b> Covered policies, procedures, roles and responsibilities relating to fixed and mobile telephony, purchasing and contract management arrangements, budgetary and financial controls, usage monitoring, fault reporting and contingency arrangements, and management information.</p> <p>In general, sound systems of control were in place. Roles and responsibilities were clear, with up to date policies and business continuity arrangements in place.</p> <p>There was, however, a need to ensure that potential savings through smarter use of existing and new telephony are highlighted to Services, and to agree management information requirements.</p>

No	Audit Area and Service	Assurance and Key Findings
4.	Statutory Performance Indicators  Various	Reported on Internal Audit's role in collecting and validating SPI information and returns prepared by Services. For each of the SPIs falling within Internal Audit's remit, we found that the information gathered for publication was accurate and complete.
5.	Joint Loan Equipment Service  Social Work	<p><b>Limited Assurance</b></p> <p>Undertaken jointly with FTF Audit and Management Services. Covered governance arrangements, financial and operational controls, arrangements for securing and demonstrating best value, and the adequacy and accuracy of management information.</p> <p>There was scope for improving governance arrangements, including a need to review the Consortium Agreement, document roles and responsibilities, and develop risk management systems.</p> <p>There were also weaknesses in financial and operational controls. In particular, there was a need to improve stock management controls, including the development of a formal Stock Control Policy, and to agree management information requirements.</p>
6.	Treasury Management  Finance	<p><b>Comprehensive Assurance</b></p> <p>Covered borrowing and investment roles, responsibilities, policies and practices, including risk management and compliance with the CIPFA Code of Practice for Treasury Management. Also covered broker and adviser procurement and contract management arrangements, and the reliability and flexibility of management information.</p> <p>Sound systems of control were in place, in compliance with the CIPFA Code of Practice for Treasury Management.</p>

No	Audit Area and Service	Assurance and Key Findings
7.	<p>Childcare and Early Years Services</p> <p>Education</p>	<p><b>Substantial Assurance</b></p> <p>Covered arrangements for ensuring compliance with legislation, strategy and guidance, the development and delivery of childcare services, the monitoring of childcare provision and associated training, budgetary and financial controls, and management information.</p> <p>Robust arrangements were in place for the development, delivery and monitoring of childcare services, within the context of relevant legislation and local implementation of relevant policies and procedures.</p> <p>There was, however, scope for improving the process for commissioning private partners, and for re-imbursing partners and parents with nursery education costs.</p>
8.	<p>Legionella</p> <p>Corporate and Neighbourhood</p>	<p><b>No Assurance</b></p> <p>Covered policies and procedures, governance, roles and responsibilities, monitoring, risk assessment, maintenance and preventative works, training, continuity planning, and the production of management information.</p> <p>There were weaknesses in relation to the operation of the checking regime and the arrangements established to ensure its operation.</p> <p>In particular, there was a need to ensure that all buildings are subject to survey, that staff responsible for undertaking checks are aware of their role, and for making Services accountable to the Corporate Risk Management Group for ensuring that all Premises Manager responsibilities (including those relating to Legionella) are properly discharged.</p> <p>Significant work has been undertaken by management since the issue of this report to address recommendations made by Internal Audit.</p>

No	Audit Area and Service	Assurance and Key Findings
9.	Overtime and Allowance Administration  Finance / All Services	<p><b>Substantial / Limited Assurance</b></p> <p>Covered arrangements in place within Finance Payroll Section and locally within Services. Specific areas reviewed included rules and guidance, procedures for checking, approving, processing and monitoring claims, arrangements for making payments, and the adequacy of management information.</p> <p>In general, sound systems of control were in place within Payroll Section. There was, however, a need for a standard corporate claim form incorporating appropriate declarations, and the finalisation of the overpayment policy.</p> <p>There was scope within Services for better checking of claims prior to approval and submission to Payroll Section, to ensure validity, accuracy and best value.</p>
10.	Bed and Breakfast Arrangements  Corporate and Neighbourhood	<p><b>N/A – Undertaken as Consultancy</b></p> <p>Covered the management of placements and identification of accommodation, arrangements for monitoring the standard of accommodation, the adequacy of management information, and the validation and approval of invoices from providers.</p> <p>There were a number of areas where further improvement was required. In particular, there was a need to review the need for continuing to use non-framework accommodation providers and for agreeing the approach to client visits and property inspections. There was also scope for improving invoice validation and approval arrangements.</p>

No	Audit Area and Service	Assurance and Key Findings
11.	Revenues IT Systems – Security and Management  Finance	<p><b>Substantial Assurance</b>  Focussed on Council Tax and Business Rates modules. Covered roles and responsibilities, systems documentation, physical and environmental controls, access management arrangements, and business continuity plans.</p> <p>Robust controls were in place, although there was a need to put in place a formal System Security Statement and Access Control Policy, and to further develop business continuity arrangements.</p>
12.	Building Maintenance Division Hired Small Plant  Corporate and Neighbourhood	<p><b>Substantial Assurance</b>  Covered roles and responsibilities, policy and procedures, arrangements for the purchase, hire, allocation and disposal of small plant, storage and security, and budgetary and financial controls.</p> <p>Sound controls were in place, although there was some scope for better monitoring of the internal availability of small plant, and for the checking and processing of invoices.</p>
13.	National Fraud Initiative  Various	<p>The Internal Audit Manager, who is the key contact for NFI work, was responsible for ensuring that all NFI matches (housing benefit, housing rents and rent arrears, payroll, pensions and creditors) were investigated as appropriate.</p> <p>The majority of matches have now been satisfactorily investigated and closed, with only a small number of minor discrepancies found.</p>



No	Audit Area and Service	Assurance and Key Findings
14.	Fostering  Social Work	<p><b>Substantial Assurance</b> Covered governance, risk management, and strategic planning arrangements, policies and procedures, application, assessment and approval arrangements, monitoring and quality assurance frameworks, and financial and other administrative controls.</p> <p>In general, sound systems of control were in place. There was, however, some scope for improving elements of training, recruitment and assessment arrangements, and for improving management information. There was also a need to ensure that payments to external fostering agencies are checked to placement agreements as a matter of course, and that all additional expenses are supported by receipts.</p>
15.	Cash Spot Checks  Various	<p><b>Substantial Assurance</b> Internal Audit visited a number of locations to review local cash handling and administrative arrangements. In general we found arrangements to be sound.</p>
16.	Overtime and Allowance Administration  Central Scotland Fire and Rescue Service	As discussed and agreed with CSFRS management and presented to CSFRS Best Value and Scrutiny Sub-Committee.



**FALKIRK COUNCIL**

**Subject: INTERNAL AUDIT PLAN 2010/11**  
**Meeting: AUDIT COMMITTEE**  
**Date: 22 March 2010**  
**Author: INTERNAL AUDIT MANAGER**

**1. INTRODUCTION**

- 1.1 The CIPFA Code of Practice for Internal Audit in Local Government 2006 (the Code) requires the Internal Audit Manager, on an annual basis, to prepare a risk based Internal Audit Plan, taking account of the Council's risk management, performance management, and other assurance processes. In line with this requirement I attach, at Appendix 1, a copy of the proposed Plan for 2010/11.
- 1.2 As part of their responsibilities under CIPFA's guidance on Audit Committee principles, Members are required to consider the Internal Audit Plan. This report, therefore, provides details of the resources available to Internal Audit, the basis of the preparation of the Plan, and the mechanism for reporting on findings arising from Internal Audit work.

**2. INTERNAL AUDIT RESOURCES**

- 2.1 The Code states that Internal Audit should be adequately resourced to meet its objectives, with the appropriate mix of experience, qualifications and personal attributes. The structure of the Internal Audit Section has not changed during 2009/10 (see Appendix 2), and I am content that the structure and mix of staff continues to allow the delivery of planned work in a timely and thorough manner.
- 2.2 The Internal Audit Plan for 2010/11 has been developed on the assumption that the Section will have a full compliment of staff throughout the year. On this basis, and taking account of time spent on indirect activities such as leave, training, and development, the resources available for direct audit activity are as follows:

<b>Activity</b>	<b>Planned Days</b>
Direct Audit Time	900
Contingency / Irregularities	80
Follow up of 2009/10 Recommendations	75
<b>Total Direct Audit Activity</b>	<b>1055</b>

- 2.3 Members should note that while the Total Estimated Resources remains unchanged from 2009/10, the risk based methodology used by Internal Audit in preparing the Plan means that the profile of days allocated to Services varies year on year. Sufficient days have been allocated to each Service, however, to ensure the appropriate breadth of audit coverage and to enable the provision of a balanced opinion on the Council's overall framework of control.
- 2.4 As with previous years, the Plan contains an allowance for investigating any frauds or irregularities that may require Internal Audit input, and to accommodate any other unforeseen work. Time has also been built into the Plan for following-up recommendations made during 2009/10 and previous years.

### **3. DEVELOPMENT OF THE INTERNAL AUDIT PLAN**

- 3.1 In line with the Code, preparation of the Internal Audit Plan has taken account of the outcomes of the Council's risk management processes, as well as Internal Audit's own assessment of risk analysed via our Audit Needs Assessment model.
- 3.2 Consideration of the outcomes of the Council's risk management processes included review of the Corporate Risk Register and subsidiary Service Risk Management Plans. Review of other documentation, such as Service Performance Plans, and discussion with senior staff also helped drive planned coverage. As with previous years, the Plan has been drafted to ensure that appropriate Internal Audit coverage is provided to all Council Services.
- 3.3 Internal Audit will continue to review, on an ongoing basis, emerging and developing risks, and these will be built into our Audit Needs Assessment for consideration in future Internal Audit Plans. Where appropriate, and in consultation with senior management, changes may be made to the 2010/11 Plan to take account of emerging risks or changing circumstances. Any changes to the Plan will be reported to Members at the earliest opportunity.

### **4. PLANNED INTERNAL AUDIT COVERAGE**

- 4.1 As per paragraph 1.1 above, planned 2010/11 Internal Audit coverage is set out at Appendix 1. With regard to the detail of the Plan, Members may wish to note the following:
- 4.1.1 The planned review of Senior Officer Financial Controls (**Audit A2**) will focus on arrangements at Head of Service level and above. As well as assessing compliance with Financial Regulations and other relevant policies and procedures, Internal Audit will review arrangements for the commitment and expenditure of Council monies by senior staff. The focus of the review will be on ensuring the transparency of expenditure decisions and the maintenance of a full and proper audit trail;

- 4.1.2 The 2006 McClelland Review of Public Procurement in Scotland recommended that Internal Audit provide an opinion on key procurement activities on an annual basis. Internal Audit undertook a comprehensive review of Falkirk Council's strategic and operational procurement arrangements during 2007/08, with follow up work carried out during 2008/09. Elements of procurement were also considered within the terms of reference of a number of 2009/10 reviews. During 2010/11, however, Internal Audit intends to undertake a second comprehensive review of strategic and operational procurement arrangements (**Audit A8**), focussing on the achievement of best value and compliance with relevant regulations and legislation;
- 4.1.3 Internal Audit have undertaken work in conjunction with colleagues from the Scottish Crime and Drug Enforcement Agency to identify areas of the Council's business where there may be actual or potential risk from Serious Organised Crime (**Audit A9**). The outputs from this matching exercise will be used by Internal Audit to review the Council's overarching arrangements, and will inform and feed into the terms of reference of each of our other planned reviews, as appropriate;
- 4.1.4 The arrangements for managing and monitoring the condition of Falkirk Council's secondary school estate will be reviewed during 2010/11 (**Audit A16**). Provision of these schools via the PPP/NPDO models gives rise to risks around the identification and prioritisation of repair work, as well as the processes for validating the quality of that work and subsequent payment of contractors undertaking work on Falkirk Council's behalf;
- 4.1.5 Internal Audit plan to undertake two reviews in conjunction with Fife, Tayside and Forth Valley Audit and Management Services (who provide Internal Audit services to NHS Forth Valley), namely Falkirk Community Health Partnership Governance, Risk and Performance Management Arrangements (**Audit A19**) and Forth Valley Sensory Centre (**Audit A20**). This builds on successful collaboration during 2009/10, and allows Internal Audit to provide Members with assurance on areas which have not, traditionally, been subject to Internal Audit scrutiny.
- 4.2 Subject to Members' comments on the Plan, we will develop full terms of reference for all planned reviews following preliminary visits to discuss the risks and controls present, prior to the start of each audit. Before then, Directors will be consulted about the broad timetable for audit reviews in their areas.

## **5. REPORTING ARRANGEMENTS**

- 5.1 Matters arising from each Internal Audit exercise will be communicated to management in the form of a draft report. Each audit report will provide a statement on the level of assurance that can be provided on the systems of risk management, governance and control, as well as an action plan setting out specific audit recommendations. The overall assurance will be provided in line with the definitions set out at Appendix 3, and management will be expected to provide responses to each recommendation in line with timeframes agreed at the outset of the review. The report and completed action plan will form the final record of each audit, and the basis for subsequent follow-up work.
- 5.2 Reports will be provided to the Audit Committee in November and March detailing progress in completing the 2010/11 Internal Audit Plan and highlighting any key findings or themes emerging from work carried out.
- 5.3 Finally, Internal Audit will produce an Annual Assurance Report providing an opinion on the overall adequacy and effectiveness of the Council's control environment. This report will include a summary of work undertaken and a comparison of work completed against work planned.

## **6. RECOMMENDATIONS**

### **6.1 Members are invited to note:**

**6.1.1 planned Internal Audit coverage for 2010/11;**

**6.1.2 the resources available to Internal Audit; and**

**6.1.3 that progress against the Plan will be reported to the Audit Committee in November and March, and summarised in an Annual Assurance Report.**



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**Internal Audit Manager**

**Date : 15 March 2010**

## AUDITS PLANNED FOR PERIOD APRIL 2010 – MARCH 2011

Audit No.	Service	Purpose and Scope of Audit
A1	All Services	<b>Statutory Performance Indicators</b> Internal Audit has a role in assisting with the collation and validation of Statutory Performance Indicator information provided by Services. Internal Audit will primarily focus on the validation of financial indicators.
A2	All Services	<b>Senior Officer Financial Controls</b> Internal Audit will review the senior officer financial control framework. Areas of potential coverage include: <ul style="list-style-type: none"> <li>• pre-employment checks and vetting arrangements;</li> <li>• the adequacy of policies, procedures and guidance;</li> <li>• arrangements for controlling and monitoring authority to commit and incur expenditure;</li> <li>• systems of accountability, scrutiny, and performance monitoring / management information.</li> </ul>
A3	All Services	<b>Taxi Contracts</b> Internal Audit will review arrangements for the procurement and use of taxis across Council Services.
A4	Community	<b>Helix: Governance and Finance Arrangements</b> Internal Audit will review controls established to ensure the effective delivery of the Helix project and associated outcomes. Areas of potential coverage include: <ul style="list-style-type: none"> <li>• inter-agency project governance arrangements;</li> <li>• funding and contract management arrangements, including those specifically relating to the monitoring of risks, progress and budgets;</li> <li>• arrangements for ensuring compliance with all relevant legislative requirements;</li> <li>• contingency arrangements.</li> </ul>
A5	Community	<b>Cash and Income Collection Across Community Services</b> Internal Audit will undertake visits to a sample of Community Services sites to review arrangements for income handling, processing and banking. This will include leisure centres, libraries, community education centres and management committees / community associations.

Audit No.	Service	Purpose and Scope of Audit
A6	Corporate and Neighbourhood	<p><b>Corporate and Service Planning and Performance Management</b></p> <p>Internal Audit will review arrangements for developing Corporate and Service Plan objectives, including linkages to national and community level priorities as formalised in the Single Outcome Agreement 2009/11.</p> <p>Consideration will also be given to systems for recording, monitoring and reporting on performance against agreed objectives.</p>
A7	Corporate and Neighbourhood	<p><b>External Funding Unit Including Following the Public Pound</b></p> <p>Internal Audit will review controls established to manage the risks to the efficient and effective allocation, award and distribution of funding to third party organisations. Areas of potential coverage include:</p> <ul style="list-style-type: none"> <li>• policies, procedures and guidance for officers and applicants;</li> <li>• the application, assessment and approval process;</li> <li>• budgetary and financial controls, and arrangements for making payment to recipient organisations;</li> <li>• outcome monitoring and the provision of management information;</li> <li>• arrangements for reporting on activity to elected Members.</li> </ul>
A8	Corporate and Neighbourhood	<p><b>Procurement</b></p> <p>Internal Audit will review controls established to manage the risks to efficient and effective procurement of goods and services. Areas of potential coverage include:</p> <ul style="list-style-type: none"> <li>• the adequacy of the procurement strategy and associated policies and procedures, and their dissemination to staff;</li> <li>• procurement governance arrangements, including roles, responsibilities and ownership;</li> <li>• arrangements for the identification and management of risk throughout the procurement process, and compliance with the Council's policies and procedures;</li> <li>• the production and dissemination of robust management information.</li> </ul>



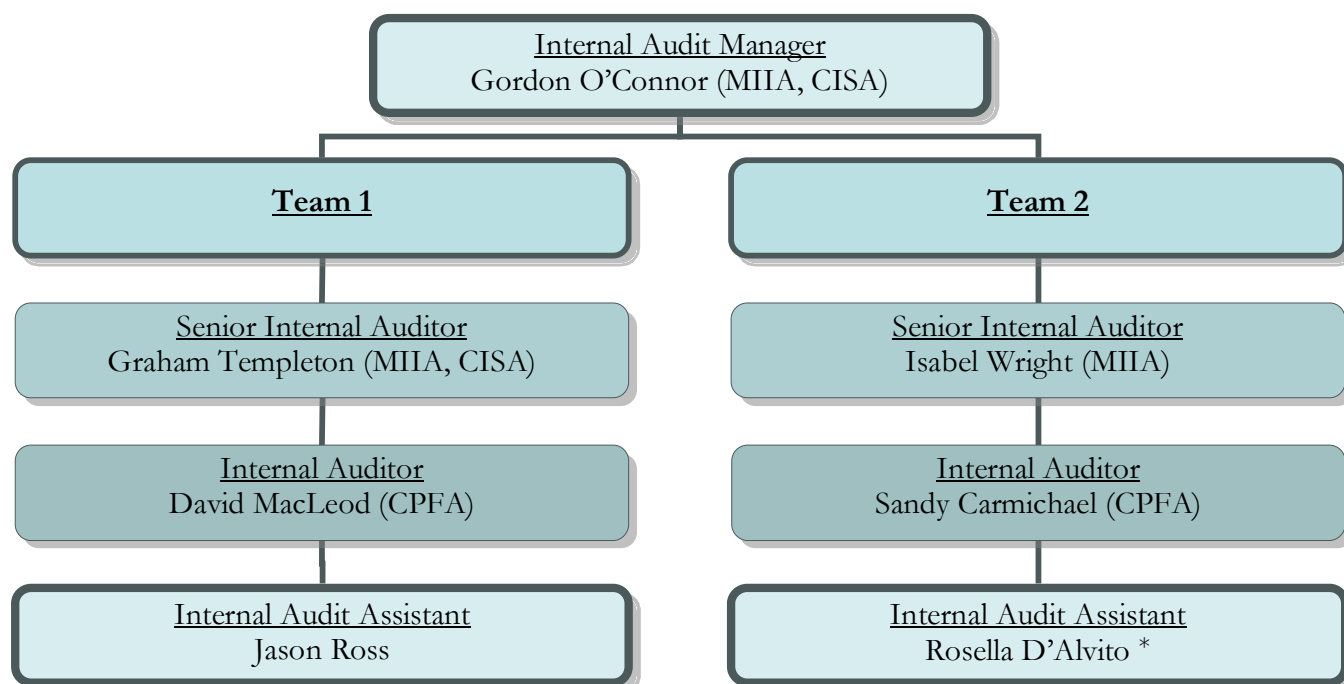
Audit No.	Service	Purpose and Scope of Audit
A9	Corporate and Neighbourhood	<p><b>Serious Organised Crime</b></p> <p>Internal Audit will review arrangements established for diverting, disrupting, deterring and detecting serious organised crime. This work will be undertaken within the context of the Scottish Crime and Drug Enforcement Agency's Strategy for Tackling Serious Organised Crime in Scotland entitled 'Letting Our Communities Flourish'.</p>
A10	Corporate and Neighbourhood	<p><b>Housing Allocations</b></p> <p>Internal Audit will review controls established to manage the risks to the efficient, effective and transparent allocation of Council properties to prospective tenants.</p> <p>This will include roles and responsibilities, policies and procedures, and arrangements for ensuring consistent and evidence based application of the allocations policy.</p>
A11	Corporate and Neighbourhood	<p><b>Customer First – Contact Centre</b></p> <p>Internal Audit will review controls established to manage the risks relating to the secure and efficient operation of the Customer First contact centre. Areas of potential coverage include:</p> <ul style="list-style-type: none"> <li>• pre-employment checks and vetting arrangements for contact centre staff;</li> <li>• ICT and physical access and security arrangements;</li> <li>• objective and target setting and monitoring;</li> <li>• the adequacy of management information.</li> </ul>
A12	Finance	<p><b>IFRS Implementation and Application</b></p> <p>Internal Audit will review elements of Falkirk Council's implementation of the International Financial Reporting Standards. Coverage will be agreed with Audit Scotland and the Director of Finance, and will be completed in line with Audit Scotland's annual reporting timetable.</p>

Audit No.	Service	Purpose and Scope of Audit
A13	Finance	<p><b>Travel and Subsistence Expenses and Allowances</b></p> <p>Internal Audit will review controls established to manage the risks relating to the payment of travel and subsistence allowances to Falkirk Council staff. Areas of potential coverage include:</p> <ul style="list-style-type: none"> <li>• rules and guidance;</li> <li>• arrangements for checking, approving, processing, and monitoring travel and subsistence claims;</li> <li>• payment and recovery arrangements;</li> <li>• the adequacy of management information.</li> </ul>
A14	Development	<p><b>Building Design (Disability Discrimination Act)</b></p> <p>Internal Audit will review arrangements for ensuring that architectural and quantity surveying services provided by the Building Design Unit, on projects including new buildings, alterations, upgrading and restoration work, include appropriate consideration of the requirements of the Disability Discrimination Act 1995. This will include the role and operation of the Disabled Access Working Group.</p>
A15	Development	<p><b>IT Contract Management (Development Services)</b></p> <p>Internal Audit will review controls established to manage the risks to the effectiveness and efficiency of Development Services' IT system and application contracts. Areas of potential coverage include:</p> <ul style="list-style-type: none"> <li>• documented contract management arrangements;</li> <li>• financial control and risk management, including arrangements for ensuring best value;</li> <li>• contingency arrangements.</li> </ul>
A16	Education	<p><b>NPDO / PPP School Maintenance</b></p> <p>Internal Audit will review controls established to manage the risks to the efficient and effective maintenance of the NPDO/PPP school estate. Areas of potential coverage include:</p> <ul style="list-style-type: none"> <li>• the identification and prioritisation of required work;</li> <li>• arrangements for ensuring that work is completed on time, within budget, and to the required standard;</li> <li>• budgetary and financial controls.</li> </ul>

Audit No.	Service	Purpose and Scope of Audit
A17	Education	<b>School Fund Accounts</b> Internal Audit will review arrangements at a sample of schools for the preparation, maintenance and audit of school fund accounts.
A18	Law and Administration	<b>Printworks Falkirk</b> Internal Audit will review controls established to manage the risks to the efficient and effective operation of Printworks Falkirk. Areas of potential coverage include: <ul style="list-style-type: none"> <li>• governance arrangements, including roles, responsibilities, and accountability;</li> <li>• financial and operational management and control;</li> <li>• arrangements for securing and demonstrating best value;</li> <li>• the adequacy and accuracy of management information.</li> </ul>
A19	Social Work	<b>Falkirk Community Health Partnership: Governance, Risk, and Performance Management Arrangements</b> This review will be undertaken in conjunction with NHS Forth Valley's Internal Audit Team (FTF Audit and Management Services). Areas of potential coverage include: <ul style="list-style-type: none"> <li>• arrangements for governance and accountability;</li> <li>• objective setting and performance and outcome monitoring;</li> <li>• budgetary, financial and operational controls;</li> <li>• public performance reporting.</li> </ul>
A20	Social Work	<b>Forth Valley Sensory Centre</b> This review will be undertaken in conjunction with NHS Forth Valley's Internal Audit Team. Areas of potential coverage include: <ul style="list-style-type: none"> <li>• governance and accountability arrangements, including the respective roles and responsibilities of each funding partner;</li> <li>• financial and operational management and control;</li> <li>• arrangements for securing and demonstrating best value;</li> <li>• the adequacy and accuracy of management information.</li> </ul>

Audit No.	Service	Purpose and Scope of Audit
A21	Social Work	<b>Child Protection – Key Processes</b> Internal Audit will work with Social Work Services staff to review key processes. Internal Audit's work will focus on areas such as investigation and case conference arrangements.
A22	Social Work	<b>Social Work Services Budgetary and Financial Control</b> Internal Audit will review controls established to facilitate the efficient and effective operation of Social Work Services budgetary and financial controls. Areas of potential coverage include: <ul style="list-style-type: none"> <li>• arrangements for setting and agreeing budgets, and for monitoring and reporting on expenditure against those budgets;</li> <li>• officer and Member roles, responsibilities, and accountabilities;</li> <li>• the system of delegated authority for incurring and approving expenditure;</li> <li>• the adequacy of local procedures and compliance with corporate policies and Financial Regulations;</li> <li>• the production and dissemination of robust management information.</li> </ul>
A23	Social Work	<b>Tremanna / Braes Residential Childcare Units</b> Internal Audit will undertake visits to the Tremanna and Braes Units to review and assess local controls. This will include areas such as staff, client and general building security, budgetary, financial and administrative controls (including the ordering and receipt of goods and services), and compliance with corporate and local policies and procedures.
A24	All Services	<b>Cash Spot Checks</b> Internal Audit will undertake a programme of visits to cash-handling sites across Council Services to ensure that systems are in place to protect Council and client funds/valuables, and the staff responsible for handling any such cash/valuables.
A25	Central Scotland Fire and Rescue Service	<b>Central Scotland Fire and Rescue Service</b> Internal Audit coverage will be agreed in discussion with CSFRS management.

## INTERNAL AUDIT ORGANISATIONAL CHART 2010/11



**Responsible for providing  
Internal Audit coverage to  
the following Services:**

- Corporate and Neighbourhood Services;
- Community Services;
- Education Services;
- Central Scotland Fire and Rescue Service.

**Responsible for providing  
Internal Audit coverage to  
the following Services:**

- Law and Administration Services;
- Finance Services;
- Development Services;
- Social Work Services.

\* – on secondment to Social Work Services as Senior Finance / Clerical Officer, initially until 31 March 2010.

## DEFINITION OF AUDIT ASSURANCE CATEGORIES

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

# Falkirk Council

Annual Audit Plan  
2009/10

**March 2010**



 **AUDIT SCOTLAND**





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# Summary plan

## Summary of planned audit activity

Based on our analysis of the risks facing Falkirk Council, our planned work in 2009/10 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the financial position of Falkirk Council as at 31 March 2010 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 2009 SORP
- reporting the findings of a shared risk assessment process, in conjunction with other scrutiny bodies, in an assurance and improvement plan (AIP), highlighting the key risks being faced by the council and the planned scrutiny response to these risks across the main scrutiny bodies
- a review and assessment of Falkirk Council's governance and performance arrangements in a number of key areas including the review of: internal controls; the adequacy of internal audit; Statutory Performance Indicators; the Annual Governance Statement and NFI
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts

## Introduction

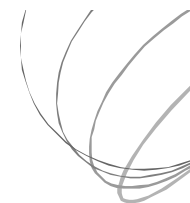
1. Our audit is focused on the identification and assessment of the key challenges and risks to Falkirk Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in Falkirk Council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of Falkirk Council, and sets out the audit work that we propose to undertake in 2009/10 to address these. Our annual audit plan reflects:
  - the risks and priorities facing Falkirk Council
  - current national risks 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 Accounts Commission and Auditor General for Scotland
  - issues brought forward from previous audit reports.
2. In addition to this annual audit plan and in conjunction with other scrutiny bodies, we will report the findings of a shared risk assessment process in an assurance and improvement plan (AIP), highlighting the



key scrutiny risks being faced by the council and the planned scrutiny response to these risks across the main scrutiny bodies. The risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland, outcome performance monitoring reports and a joint risk assessment process undertaken with the other scrutiny bodies.

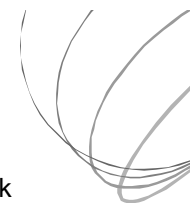
## **Our responsibilities**

3. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources and in doing this, we aim to support improvement and accountability. The shared risk assessment approach is proportionate and enables us to focus our scrutiny activity to provide support in areas of higher risk.
5. In carrying out our audit, we seek to gain assurance that Falkirk Council:
  - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
  - has systems of recording and processing transactions which provides a sound basis for the preparation of financial statements and the effective management of its assets and interests
  - prepares financial statements which give a true and fair view of the financial position at 31 March 2010 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2009 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
  - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulations
  - proactively manages and reviews its performance in line with its strategic and operational objectives
  - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.



## Our approach to the audit of the accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of Falkirk Council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the business of Falkirk Council 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, understanding how Falkirk Council will include these in the financial statements and developing procedures to audit these
  - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
  - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2009/10 includes:
  - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for provision of accounts and working papers being agreed
  - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
  - completion of the internal audit programme for 2009/10.
8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the Internal Audit Section within Falkirk Council. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.



9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.
10. At the completion of the audit we will provide the Members with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit. We will also share the annual report on the audit with the Chief Executive and the Director of Finance.

## **Responsibility for the preparation of accounts**

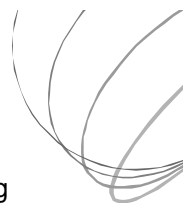
11. It is the responsibility of Falkirk Council and the Director of Finance as Proper Officer to prepare the financial statements in accordance with the SORP. This means:
  - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
  - maintaining proper accounting records
  - preparing financial statements timeously which give a true and fair view of the financial position of Falkirk Council as at 31 March 2010 and its expenditure and income for the year then ended
  - preparing an explanatory foreword.

## **Format of the accounts**

12. The financial statements should be prepared in accordance with the SORP which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
13. Falkirk Council prepares a 'Whole of Government Account' (WGA) consolidation pack annually for the Scottish Government. The legislative authority for WGA is contained in the *Government Resources and Accounts Act 2000*, and although the Act is not applicable in Scotland, the Scottish Government has agreed to provide Treasury with the equivalent information in respect of Scotland. Under this agreement Falkirk Council is required to prepare its accounts using common accounting principles and standard formats for summarisation.

## **Audit issues and risks**

14. This annual audit plan focuses on governance and other risks specific to the financial statements of Falkirk Council. The AIP will provide a broader analysis of wider risks and issues your council faces and will set out the planned scrutiny activity for Falkirk Council for the period from April 2010 to March 2013, based on a shared risk assessment with other scrutiny bodies.



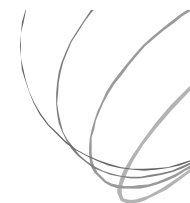
15. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the main financial statements risk areas for your organisation.

## Financial management

16. The council's approved reserve strategy requires unallocated reserves of between £5.5 million and £7.5 million to be held by the council. In the current economic climate, significant pressure is being placed on reserves levels held by councils.
17. In line with most other local authorities the council faces a number of financial pressures, including reduced revenue funding, ongoing costs of single status and equal pay, a reduction in the scope for asset disposals and increasing demand on services, particularly in relation to an increasingly elderly population, looked after children and homelessness. Services are also required to make on-going efficiency savings as part of the Concordat agreement with the Scottish Government. It will be very challenging to maintain current levels of public services and meet new demands when resources are under these pressures.
18. The council's unallocated reserves as at 31 March 2009 totalled £5.6 million. The most recent information on the council's financial position has identified a projected overspend of over £0.7 million in 2009/10. This sum is a reduction from earlier projections of £3 million and is a result primarily of a one off £1.4 million VAT recovery following a Court of Appeal judgement. A significant factor in the council overspend is additional pressure on the social work services budget resulting in a projected overspend of some £3.7 million in the service. This overspend increases the pressure on uncommitted reserves, which were already towards the lower end of the approved range in 2008/09.
19. We intend to monitor the steps taken by the council to manage these financial pressures and their impact on the council's financial position. This will include a review of the council's budget assumptions and its financial activity throughout the year.

## Equal Pay

20. In 2008/09, the council increased its provision for outstanding equal pay claims to £5 million. There remains a risk that the liability to the council may increase further, however the council has recently received consent to borrow for some of the amount required to settle the outstanding claims, which could alleviate some of the pressures on the council's reserves. Settlement negotiations are still ongoing and the final liability for the Council remains uncertain.
21. We will be re-evaluating the provision in respect of Equal Pay for the 2009/10 accounts, following consideration of any developments which have occurred during the year. We will also review the borrowing activity during the year to ensure that any borrowing for equal pay costs is in line with the borrowing consent and is properly accounted for.



## Accounts presentation and disclosure

22. A number of changes are required by the 2009 SORP which are not expected to present a significant challenge to the council. These include:
- amendments in respect of accounting for non-domestic rates
  - clarification that authorities should follow FRS 2 and FRS 9 when accounting for investments in subsidiaries, associates and joint ventures
  - a number of other disclosures have been removed.
23. Matters arising from our 2008/09 audit of the financial statements are reported to relevant officers at the end of the audit. The reported 2008/09 matters arising should be reviewed by the council as part of the preparatory work for the preparation of the 2009/10 financial statements. We have agreed to meet with Finance Services officers to discuss the requirements for the preparation and the audit of the 2009/10 financial statements. The proposed action in relation to the 2008/09 matters arising will form part of these discussions.
24. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Local government has already adopted some aspects of IFRS and we expect this to assist the transition.
25. It is important that the council starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required and the whole of government accounts return will also be required on an IFRS basis from 2009/10.
26. The council has entered into a contract with a CIPFA/PricewaterhouseCoopers partnership to assist in the early identification of issues and the smooth transition to fully IFRS compliant financial statements within the agreed IFRS timetable. We will monitor the council's progress in relation to IFRS adoption during 2009/10.

## Falkirk Community Stadium Limited Reconstruction

27. With effect from 28 May 2009, Falkirk Community Stadium Limited was reconstructed through a solvent liquidation pursuant to Section 110 of the Insolvency Act 1986. In effect the assets and liabilities of the company were split between Falkirk Football & Athletic Club and the council and the loans advanced by the council were replaced by other assets. We will carry out a detailed review to ensure that the reconstruction is properly reflected in the 2009/10 financial statements.

## Fixed Assets

28. The council values its council dwellings on the Existing Use (Social Housing) basis, which results in a lower valuation in comparison to other recognised valuation methods. This approach also results in a



residual value for council houses close to the carrying value of the asset. The council does not charge depreciation on its council houses on the grounds that any depreciation, which is based on the gap between carrying value and residual value, would be immaterial. As in previous years we will seek assurances over the materiality of depreciation of council houses in our review of the treatment of depreciation in the council's financial statements.

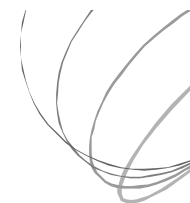
## Public Finance Initiative (PFI)

29. The council has two schools projects under the Private Finance Initiative (PFI), which have provided new secondary schools within the Falkirk area. The most recent PFI project is being delivered through a Non-Profit Distributing Organisation (NPDO) and the final two schools under this project became operational during 2009/10.
30. The 2009 SORP requires councils to review their treatment of PFI projects to determine whether the assets used to deliver PFI services will require to be recognised on the council's balance sheet and a liability created for the financing provided by the PFI operator. This change is required as a result of PFI treatment now being based on an interpretation of IFRIC 12 *Service concession arrangements* rather than in accordance with FRS 5. The council will need to ensure that these projects are reviewed in 2009/10 and are properly accounted for in accordance with the 2009 SORP. We will review the action taken in this area during 2009/10.
31. As part of the agreement for the NPDO project, the council has agreed to make an up front 'capital injection' of £24 million in 2011. The council has earmarked part of its reserve balances to fulfil this requirement, with the balance held as at 31 March 2009 amounting to £19 million. This balance has accumulated as a result of savings in principal repayments which were funded from a Capital Fund, having previously been budgeted for as service expenditure. Given the current economic climate there is a risk that earmarked reserves may not be sufficient to meet the capital injection in 2011.

## Common Good Assets

32. In accordance with LASAAC guidance, a separate common good account is disclosed in Falkirk Council's financial statements. Although a separate common good fixed asset register is not maintained, common good assets are separately classified in the council's fixed asset register. The council has disclosed Kilns House as the only fixed asset held by the common good.
33. The origins of the Common Good go back hundreds of years and there is a risk that over time, some common good assets may have been subsumed into the authority's single-entity balance sheet. In disposing of assets, assets properly belonging to the common good could be inadvertently sold and accounted for as council assets. We plan to review the effectiveness of controls put in place by the council to mitigate this risk.





## Corporate Governance

34. Following the publication of CIPFA/SOLACE's '*Delivering Good Governance in Local Government*', the council chose to produce an Annual Governance Statement within the 2008/09 financial statements. The Annual Governance Statement is a more wide ranging statement than the previous Statement on the System of Internal Financial Controls and provides for a review of the governance arrangements of the council and its group.
35. While the 2008/09 Annual Governance Statement covered the governance arrangements of Falkirk Council it did not extend to the arrangements of other group entities which continued to focus on internal financial controls only. We have been advised that other group entities will be encouraged to provide information on their arrangements for 2009/10.
36. The council introduced a revised political structure in 2009, which included the introduction of an audit committee. In our 2008/09 Annual Report on the Audit we identified some scope for improvement in the operation of the audit committee. The council should keep the effectiveness of the new arrangements under review.

## Information Systems

37. Information and Communications Technology (ICT) is central to the financial accounting and management information systems of the council. We have previously undertaken a computer service review at the council which examined the arrangements in place for the management of ICT services. We have also reported on our overview of the council's website. Reports were submitted for each which contained agreed action plans to improve the management of the service. We plan to follow up the action taken since the submission of our reports.

## National Fraud Initiative (NFI)

38. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies. A national exercise is continuing in 2009/10 to help identify and prevent a wide range of frauds against the public sector. We will continue to monitor the Council's participation in this initiative.

## Summary assurance plan

39. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.



## Materiality

40. 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.
41. International Standard on Auditing 320 states that, *“information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*
42. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
43. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

## Reporting arrangements

44. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned audit committee dates and audit resources.
45. 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 four weeks of submission.
46. A copy of all final agreed reports will be sent to the Chief Executive, Director of Finance, relevant senior managers, Internal Audit and Audit Scotland's Performance Audit Group.



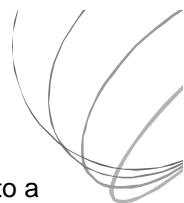
47. We will provide an independent auditor's report to Falkirk Council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the controller of audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about Falkirk Council's management of key risks.
48. All annual reports produced by Audit Scotland are published on our website: ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).
49. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
<b>Governance</b>	
National Fraud Initiative questionnaire (return)	28 February 2010
Assurance and Improvement Plan (AIP) and Shared Risk Assessment (SRA) summary *	30 April 2010
Internal controls management letter	30 July 2010
Fraud returns	As required
<b>Performance</b>	
Impact assessment questionnaires on national reports (six to eight returns expected during year)	As required
<b>Financial statements</b>	
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	28 September 2010
Independent auditor's report on the financial statements	30 September 2010
Audit opinion on Whole of Government Accounts	30 September 2010
Financial Information Data return	30 September 2010
Annual report to the Members and the Controller of Audit	29 October 2010
<b>Grants examples</b>	
Audit opinions on Education Maintenance Allowance, Criminal Justice Social Work Services, Non Domestic Rates and Housing Benefit & Council Tax Benefit Subsidy	As required

\* jointly with other scrutiny bodies under Single Risk Assessment process

## Quality control

50. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Falkirk Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your



case this is, Mark Taylor, who is responsible for ensuring that our work is carried out on time and to a high quality standard.

51. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

## **Fees and resources**

52. Our agreed fee for the 2009/10 audit of Falkirk Council is £383,000 comprising a local audit fee of £247,300 and a fixed charge of £135,700. Our fee covers:

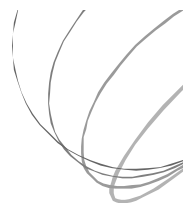
- all of the work and outputs described in this plan
- a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
- attendance at the Audit Committee
- access to advice and information on relevant audit issues
- access to workshops/seminars on topical issues
- travel and subsistence costs.

53. In determining the agreed fee we have taken account of the risk exposure of Falkirk Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2010. If the draft accounts and papers are late, agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.

54. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity e.g. any detailed IFRS work requested by the council. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.

55. Lynn Bradley, Director, Audit Services (Local Government) is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For Falkirk Council the Assistant Director is Mark Taylor.

56. The local audit team will be led by Bruce Crosbie who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.



## Independence and objectivity

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



**March 2010**

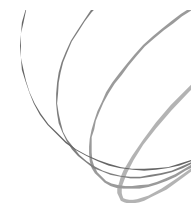
# Appendix A - Summary assurance plan

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

Risk	Source of assurance	Planned audit action
<b>Financial management</b>		
<p>The council anticipates a significant real terms reduction in the resources available to it over the medium term and has forecast that it will need to identify savings of around £10 million in 2010/11, followed by a further estimated 4% per annum real term reductions over 2011-14. Achieving the level of savings required will require continuing review across all of the council's activities and effective coordination of the council's efforts.</p> <p><i>Risk: if planned savings are not realised, this may threaten current spending plans and restrict the scope for further investment to support corporate priorities and objectives.</i></p>	<ul style="list-style-type: none"> <li>Development of a Financial Planning &amp; Management Framework that seeks to address the considerable financial challenges the Council faces over the next four years.</li> <li>Savings specifically identified in the revenue budget are monitored</li> <li>Reflect/business improvement team</li> <li>Performance Monitoring and Management Framework</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing monitoring.</li> </ul>
<p>Latest projections have identified a £0.7 million overspend on the Council's 2009/10 budget. This is after a one off receipt of £1.4 million for the recovery of VAT, following a Court of Appeal judgement. The main source of the overspend is Social Work Services which is projected to overspend by some £3.7 million in 2009/10. These services are largely demand led and place significant pressure on the Council's financial position.</p> <p><i>Risk: Revenue budget pressures may impact on the financial security of the council.</i></p>	<ul style="list-style-type: none"> <li>On-going review of budgets.</li> <li>All services advised to incur only essential expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor the council's financial position through review of Policy &amp; Resources Committee reporting and meetings with officers.</li> </ul>



Risk	Source of assurance	Planned audit action
<b>Equal Pay</b>		
<p>The council included a provision of £5 million in its financial statements for 2008/09, based on its best estimate of outstanding liabilities. Work is ongoing to conclude on these outstanding claims but it is anticipated that the liabilities will increase. Government consent has been received to borrow to pay for the settlement of some of these claims.</p> <p><i>Risk: the council's 2009/10 provision may be inadequate.</i></p>	<ul style="list-style-type: none"> <li>▪ Negotiations for settlement are at an advanced stage.</li> <li>▪ The provision will be re-assessed for the 2009/10 financial statements.</li> <li>▪ Consent given to borrow for settlement of outstanding equal pay claims.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor the council's progress in settling claims.</li> <li>▪ Review of provision for 2009/10.</li> <li>▪ Review of borrowing to ensure that any borrowing to meet equal pay liabilities meets the requirements of the consent.</li> </ul>
<b>Accounts presentation and disclosure</b>		
<p>The 2009 SORP sets out the requirements for the proper presentation of the financial statements. There have been a number of changes to the SORP for 2009/10 which should be reflected in the 2009/10 financial statements.</p> <p><i>Risk: the council's final accounts procedures may not reflect changes to the SORP requirements.</i></p>	<ul style="list-style-type: none"> <li>▪ Review of SORP in advance of final accounts closedown procedures (including completion of disclosure checklist).</li> <li>▪ Meeting with external audit to discuss requirements.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial statements planning meeting with council officers.</li> <li>▪ Review as part of financial statements audit.</li> </ul>
<p>Local government moves to International Financial Reporting Standards (IFRS) with effect from 2010/11.</p> <p>It is important that the council starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required and whole of government accounts will also be required on an IFRS basis from 2009/10.</p> <p><i>Risk: the council's progress in adopting IFRS in its financial statements may not be adequate.</i></p>	<ul style="list-style-type: none"> <li>▪ Planning for adoption of International Financial Reporting Standards (IFRS) through working with CIPFA and PwC.</li> <li>▪ Opening balance sheet 2009/10 (IFRS).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ongoing monitoring.</li> <li>▪ Review of WGA return (IFRS based).</li> <li>▪ Any additional work in relation to IFRS to be agreed with the Director of Finance.</li> </ul>



Risk	Source of assurance	Planned audit action
<b>Falkirk Community Stadium Ltd reconstruction</b>		
<p>Falkirk Community Stadium Limited was reconstructed in May 2009. In effect the assets and liabilities of the company were split between Falkirk Football &amp; Athletic Club and the council and the loans advanced by the council were replaced by other assets.</p> <p><i>Risk: the reconstruction may not be properly accounted for in the 2009/10 financial statements.</i></p>	<ul style="list-style-type: none"> <li>▪ The impact of the reconstruction will be fully reflected in the 2009/10 financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed review as part of the financial statements audit.</li> </ul>
<b>Fixed assets</b>		
<p>The council does not depreciate its council dwellings on the grounds that any depreciation is considered to be immaterial.</p> <p><i>Risk: circumstances may change which results in depreciation being material in 2009/10.</i></p>	<ul style="list-style-type: none"> <li>▪ Depreciation calculation will be reviewed to determine materiality for 2009/10.</li> <li>▪ Valuer will be asked to consider position.</li> <li>▪ Issue will be further considered during revaluation of council dwellings in 2010/11.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review 2009/10 calculation of level of depreciation to determine whether it satisfies treatment as immaterial.</li> <li>▪ Obtain representations from management on treatment of depreciation.</li> </ul>
<b>Private Finance Initiative (PFI)</b>		
<p>The council has two PFI projects which have provided new secondary schools in the area. The final two schools became operational in 2009/10. In light of changes to financial reporting requirements, PFI projects will need to be reviewed to determine whether or not they should be accounted for on the council's balance sheet. Transactions will also require to be properly accounted for under the 2009 SORP.</p> <p><i>Risk: the accounting treatment may not be in line with 2009 SORP requirements.</i></p>	<ul style="list-style-type: none"> <li>▪ Review of accounting requirements as part of financial statements closedown procedures.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed testing at year end</li> </ul>
<p>The council has agreed to make a 'capital injection' of £24 million for the NPDO project in 2011 and has earmarked part of its reserve balances for this requirement. The amount earmarked as at 31 March 2009 was £19 million.</p> <p><i>Risk: In the current economic climate there is a risk that reserves will not be sufficient to meet the payment in 2011.</i></p>	<ul style="list-style-type: none"> <li>▪ Regular Reports are submitted to CMT/ Members on the NPDO project.</li> <li>▪ Committed funding is anticipated to be on target.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor progress</li> </ul>

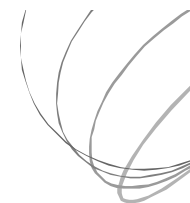




Risk	Source of assurance	Planned audit action
<b>Common Good assets</b>		
<p>The common good's fixed assets consist of only land and buildings at Kilns House. In the absence of an assurance regarding the completeness of common good assets, there may be some common good assets which are currently included within the council's asset base.</p> <p><i>Risk: assets properly belonging to the common good may be inadvertently sold and accounted for as council assets, exposing the council to legal challenge.</i></p>	<ul style="list-style-type: none"> <li>Finance Services has been liaising with the Property Team within Community Services in connection with all revenue producing assets held by the Common Good.</li> <li>Title deeds are reviewed for ownership when the asset is identified for disposal.</li> </ul>	<ul style="list-style-type: none"> <li>Review of fixed assets as part of financial statements audit.</li> </ul>
<b>Annual Governance Statement</b>		
<p>It is considered good practice that an Annual Governance Statement (AGS) be disclosed in the financial statements. In 2008/09 the council's financial statements included an AGS which reported on the governance arrangements of the council, but only the internal financial control arrangements of other entities within the group. We were advised that other group entities would be requested to prepare a statement on governance for inclusion in the AGS in 2009/10.</p> <p><i>Risk: other group entities may not provide adequate information or evidence to support statements on their governance arrangements.</i></p>	<ul style="list-style-type: none"> <li>Other group entities have been requested to prepare Annual Governance Statements and this will be progressed in conjunction with their internal audit staff.</li> </ul>	<ul style="list-style-type: none"> <li>Review AGS as part of financial statements audit.</li> </ul>
<b>Audit Committee</b>		
<p>The council introduced an audit committee in April 2009. The committee is chaired by the council leader which is contrary to good practice and could impede its effectiveness. There is also scope to undertake a self assessment exercise to assess the effectiveness of the Audit Committee.</p> <p><i>Risk: the audit committee may not be effective in monitoring and improving the council's risk management and internal control systems.</i></p>	<ul style="list-style-type: none"> <li>A report will be presented to the next audit committee.</li> <li>Self assessment will be considered in 2010/11.</li> <li>Ongoing training programme for the Committee.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing monitoring.</li> </ul>



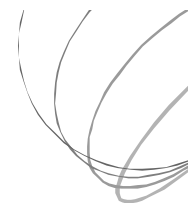
Risk	Source of assurance	Planned audit action
<b>Information systems</b>		
<p>Previous reports on our review of computer services and a website overview contained action plans aimed at improving the arrangements in place for the management of ICT services. Progress in these areas requires to be monitored.</p> <p><i>Risk: action may not have been taken in line with the agreed action plans.</i></p>	<ul style="list-style-type: none"><li>▪ Action plans progressed.</li></ul>	<ul style="list-style-type: none"><li>▪ Follow up review of action plans.</li></ul>
<b>National Fraud Initiative (NFI)</b>		
<p>NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies. A national exercise is continuing in 2009/10 to help identify and prevent a wide range of frauds against the public sector.</p> <p><i>Risk: fraud may remain undetected.</i></p>	<ul style="list-style-type: none"><li>▪ Ongoing participation in the NFI process.</li></ul>	<ul style="list-style-type: none"><li>▪ Review NFI investigation and monitoring processes.</li><li>▪ Reporting any detected fraud.</li></ul>



# Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January – June 2010
Provision of closedown procedures to audit	31 March 2010
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2010
Planned committee approval of unaudited financial statements	TBC
Latest submission of unaudited financial statements with working papers package	30 June 2010
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with Director of Finance or other senior officers	17 September 2010
Agreement of unsigned financial statements for Governance & Audit Committee agenda, and issue of report to the Governance & Audit Committee on the audit of financial statements (ISA 260)	28 September 2010
Audit Committee date	TBC
Independent Auditors Report signed	30 September 2010
Latest date for submission of unaudited whole of government accounts return to external audit	31 August 2010
Latest date for signing of WGA return	30 September 2010
Annual report and certified accounts presented to Council	November 2010

# Appendix C - Audit team



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

## **Lynn Bradley BSc CPFA CA Director**

Lynn took up post as Director of Audit in January 2005. Originally trained as an auditor with National Audit Office, Lynn has worked in various senior posts in the public and private sectors in Scotland and England. She spent several years working with local authorities on housing and regeneration projects. Before joining Audit Scotland, she was the Section 95 officer in a Scottish Council. Lynn was the co-author of CIPFA guidance on audit committee principles. She is currently the vice chair of LASAAC and a former CIPFA council member and the past chair of CIPFA in Scotland.

## **Mark Taylor BCOM(Hons) CPFA Assistant Director**

Mark took up his current post as Assistant Director in early 2005, having previously undertaken a number of audit roles with Audit Scotland, and, before that the Accounts Commission, transferring from the Scottish Office Audit Unit in 1995. During this time he has gained extensive experience in local government audit, and led the introduction of our modernised audit approach. Currently Mark divides his time between a portfolio of local government audits and leading work to better integrate the annual and best value audit processes. He is part of the team leading the development of BV 2 for the Accounts Commission.

## **Bruce Crosbie FCCA Senior Audit Manager**

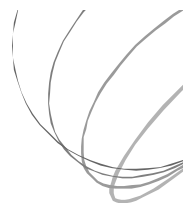
Bruce joined the Accounts Commission as a trainee auditor in December 1978, where he remained until 1986 when he took up the position of Chief Internal Auditor at Glenrothes Development Corporation. Bruce subsequently returned to the Accounts Commission as a Senior Auditor, later progressing to Senior Audit Manager. In his time with the Accounts Commission and subsequently, Audit Scotland, Bruce has been involved in the audit of many clients in the local government, central government, health and further education sectors.

## **Alan Pow CPFA Senior Auditor**

Alan took up post as Senior Auditor in December 2004. Alan originally trained as an accountant with Lanark County Council, qualifying in 1974. After local government re-organisation in 1975 he worked as both a Senior Accountant and Assistant Chief Accountant with Strathclyde Regional Council until the 1996 local government re-organisation when he joined South Lanarkshire Council as Accounting Manager. Alan worked for Audit Scotland as a self employed contractor from April 2002 until his appointment as Senior Auditor in December 2004. As Senior Auditor, he has been involved in the audit of a number of Scottish Councils.

## **Gillian McCreadie CPFA Senior Auditor**

Gillian has 15 years public sector audit experience with Audit Scotland. Gillian has worked on a range of local government, central government and NHS audits.



**Jim Dyer ACMA  
Auditor**

Jim joined the National Audit Office in 1998 having previously worked as an accountant in the construction industry. Jim transferred to Audit Scotland in 2000 and since then has been involved in a number of audits in the local government, central government and further education sectors.

**Neil Robb  
ICT Senior Auditor**

Neil has 17 years experience of public sector audit with Audit Scotland, covering local government, health and the central government sectors. Prior to this, Neil spent 19 years in various IT management, security and operational roles in financial services.



# Appendix D - Reliance on internal audit

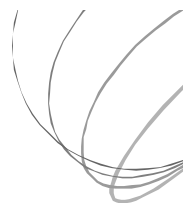
Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit service concluded that the Internal Audit Section in Falkirk Council operates in accordance with the CIPFA code of practice for internal audit in local government. We therefore plan to place reliance on the work of internal audit in relation to our financial statements work for the following areas:

- Treasury Management
- Overtime and Allowance Administration
- Cash Spot Checks
- Social Work Direct Payments

For the wider governance and performance audit work, under our Code of Audit Practice, we plan to place reliance on the work of internal audit in the following areas:

- Land/ Asset Disposal
- External Funding Unit Including Following the Public Pound
- Education Services ICT Governance and Security
- Revenues IT Systems

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



# Appendix E - Independence and Objectivity

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

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

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance & Audit Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

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

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

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





**FALKIRK COUNCIL**

**Subject:           AUDIT COMMITTEE – AUDIT SCOTLAND  
RECOMMENDATION AND APPOINTMENT OF  
LAY MEMBER**  
**Meeting:          AUDIT COMMITTEE**  
**Date:             22 March 2010**  
**Author:          CHIEF EXECUTIVE**

**1.     INTRODUCTION**

- 1.1     Falkirk Council's Audit Committee was established in 2008, with its role and remit agreed by Council in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) entitled 'Audit Committee Principles in Local Authorities in Scotland (2004)', and 'Audit Committees: Practical Guidance for Local Authorities (2005)'.
- 1.2     In accordance with its Standing Orders, Council agreed the membership of the Committee and appointed its Convener.
- 1.3     Since its first meeting in April 2009, the Audit Committee has become an established element of the Council's corporate governance framework, contributing to the scrutiny of the Council's risk and control arrangements through review of reports on Internal and External Audit activity, the Council's annual accounts, and on risk management arrangements.
- 1.4     In its 2008/09 Report on the Council's Governance and Internal Control arrangements, Audit Scotland made a number of recommendations on areas for further improvement. In noting Audit Scotland's Report in November 2009, the Audit Committee requested a Report on the following recommendation relating to the operation of the Audit Committee:
  - The Audit Committee is chaired by the Leader of the Administration. CIPFA recommends that the Committee chair should, expressly, not be a member of the executive.
- 1.5     In addition, Committee discussed the potential for including external representation on the Audit Committee, and asked that a Report be prepared for its consideration.

## **2. RECOMMENDATION ARISING FROM AUDIT SCOTLAND'S 2008/09 REPORT ON GOVERNANCE AND INTERNAL CONTROL**

- 2.1 In its Report, Audit Scotland noted that the Convener of the Committee is also the Leader of the Administration. This is in conflict with CIPFA guidance, which states that the Committee chair should not be a member of the executive (CIPFA defines 'executive' as including the Leader / Chief Executive / mayor or equivalent). Further, Audit Scotland states that under current arrangements there is a risk that the Audit Committee may not be seen to be fully independent and objective.
- 2.2 The agreed response to the recommendation, included in the Management Action section of the Action Plan, was that 'Members have considered this issue and made their decision'.
- 2.3 Information gathered from colleagues in 29 Scottish Local Authorities in relation to arrangements for chairing their Audit Committee (or equivalent) showed that:
- in **8** Authorities the Audit Committee (or equivalent) is chaired by a Member of the Administration;
  - in **12** Authorities the Audit Committee (or equivalent) is chaired by a Member of the Opposition; and
  - in **9** Authorities alternative arrangements are in place (eg independent Councillors).
- 2.4 On the basis of the above information, Committee may wish to consider the guidance, and whether any recommendations should be made to Council in relation to the Convenership of the Audit Committee.

## **3. EXTERNAL (LAY) MEMBERSHIP OF AUDIT COMMITTEE**

- 3.1 CIPFA guidance on Audit Committee Principles states that, to be fully effective, Audit Committee Members must:
- have a good understanding of how the Council works and a broad understanding of the controls which exist or should exist;
  - be able to distinguish between serious control weaknesses and those which are relatively minor; and
  - be confident about discussing audit findings with auditors and management.

- 3.2 In addition, it is recommended that members of the Audit Committee should be financially aware and have a broad understanding of the financial, risk, control, and corporate governance issues facing their Authority and the wider sector.
- 3.3 To supplement Members' skills, knowledge and experience, CIPFA suggests that co-opting external members onto the Audit Committee may bring 'a new approach and flavour to Committee discussions'.
- 3.4 The vast majority of Scottish Local Authorities have not co-opted external members to their Audit Committees, although a small number have chosen to do so. Interestingly, of those Authorities which have made external appointments to their Audit Committees (or equivalent), the Accounts Commission's appointed auditors have commended this as going beyond best practice, but recognised that this strengthens governance and scrutiny arrangements.
- 3.5 Examples of models implemented by Scottish Local Authorities are as follows:
- Argyll and Bute Council: The Chair and Vice-Chair of the Audit Committee are lay members, appointed through a formal public recruitment process. The time commitment for each is between four and ten days per year with no remuneration, other than travel and subsistence costs;
  - Scottish Borders Council: The Audit Committee includes 2 external members, appointed through a formal public recruitment process. No remuneration, other than travel and subsistence costs, is payable, and time commitment is restricted to attendance at four meetings each year as well as any relevant training events.
- 3.6 Members may wish to consider the benefits of utilising external members by co-opting individuals to the Committee. Should Committee choose to do so, it would be a matter for Council to make any appointments in terms of its Standing Orders.

## **4. RECOMMENDATIONS**

### **4.1 Members are invited to:**

- (1) **Consider CIPFA'S guidance on the Convenership of Audit Committees and make recommendations to Council as appropriate and**

- (2) Consider whether to co-opt additional Members to the Audit Committee and to make recommendations as appropriate.



.....

Chief Executive

Date: 15 March 2010