

Government and Public Sector

September 2006

# Falkirk Council

## Annual Report to the Controller of Audit and to Council Members 2005/06



**PricewaterhouseCoopers LLP**

Kintyre House  
209 West George Street  
Glasgow G2 2LW  
Telephone +44 (0) 141 248 2644  
Facsimile +44 (0) 141 242 7481  
[www.pwc.com/uk](http://www.pwc.com/uk)

Council Members  
Falkirk Council  
Municipal Buildings  
FALKIRK  
FK1 5RS

The Controller of Audit  
Audit Scotland  
110 George Street  
EDINBURGH  
EH2 2QU

29 September 2006

Our ref: CDR/RB

Ladies and Gentlemen

**Annual Report 2005/06**

We have completed our audit of Falkirk Council (the "Council") and its financial statements for the year ended 31 March 2006 and are pleased to enclose our Annual Report for the year.

The Annual Report is primarily designed to direct your attention to matters of significance that have arisen out of the 2005/06 audit process and to confirm what action (Appendix 1) is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

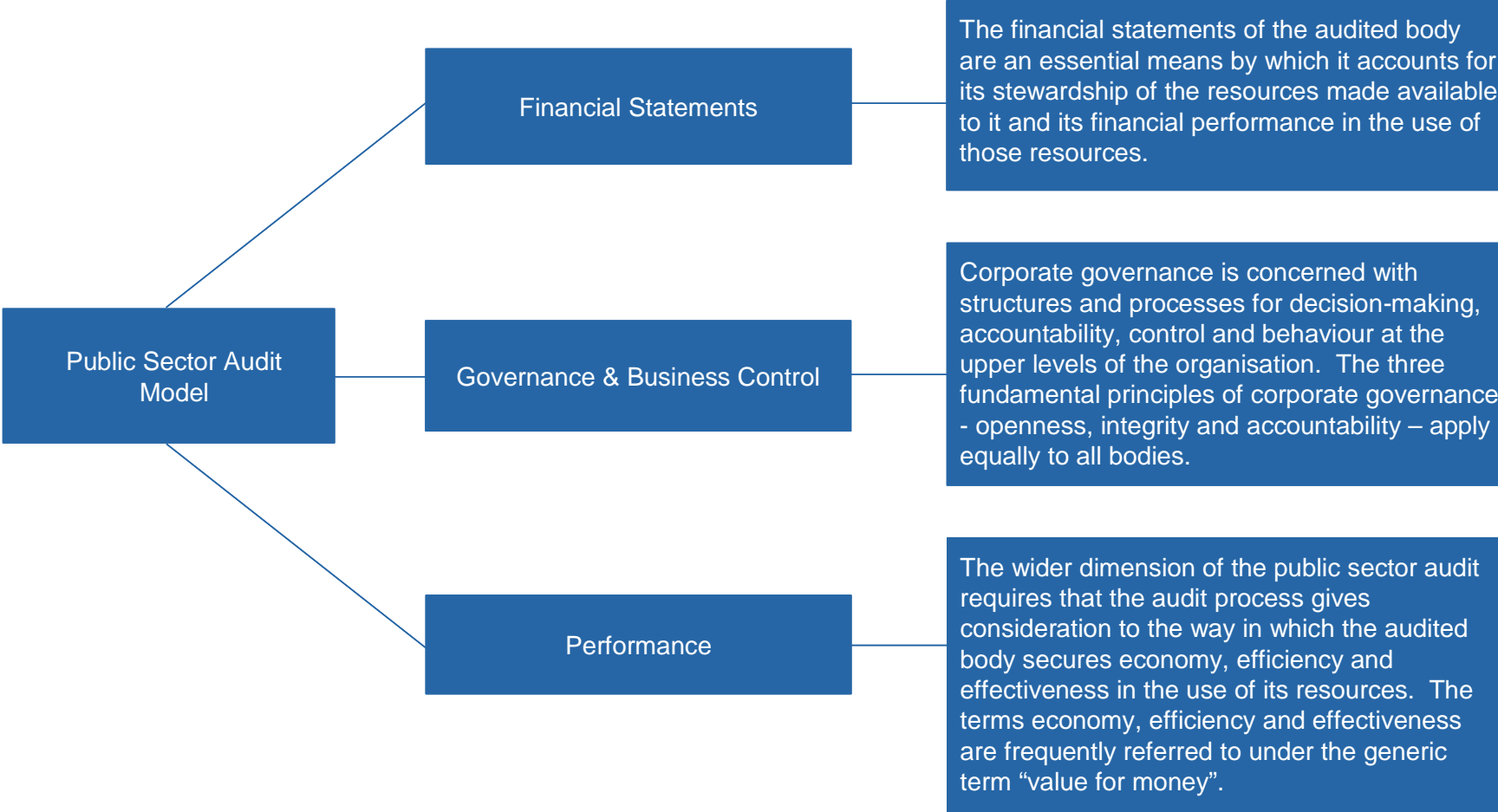
# Our Report Structure

Our report structure reflects our wider public sector audit responsibilities as set out in Audit Scotland’s Code of Audit Practice.

**The Model**

**Areas of Responsibility**

**Explanation**



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# 1. Audit Opinion

## Our Audit Opinion

- 1.1 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion. Our opinion on the accounts states:
- that the audit has been conducted in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Code of Audit Practice;
  - the respective responsibility of management and auditors in relation to the accounts; and
  - whether, in the auditor's opinion, the accounts present fairly the financial position of the Council as at 31 March 2006.
- 1.2 Our audit opinion for the year ended 31 March 2006, which is in the format prescribed by the Accounts Commission, is **unqualified**.
- 1.3 Local authorities have a duty under Section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The Council failed to comply with this statutory requirement for the three year period ending 31 March 2006 in respect of the Roads Maintenance Statutory Trading Operation.
- 1.4 Within page 26, Note 1 of the financial statements, the Council has drawn attention to the fact that had pension costs, required for inclusion by Financial Reporting Standard 17, been excluded from the Roads Maintenance Trading Account, a cumulative surplus rather than deficit would have been reported.
- 1.5 Our audit opinion which is set out in full in Appendix 3 also makes reference to this failure to comply with the statutory requirement.

## Falkirk Pension Fund

- 1.6 Falkirk Council is responsible for the administration of the Falkirk Pension Fund (the "Fund"), which provides pensions and lump sums to pensioners, deferred pensioners and active members. As external auditors of the Council, we audit those disclosures contained within the Council's Financial Statements relating to the Pension Fund, considering regulations pertinent to the Council's financial statements and overall materiality. We have not been engaged to nor do we carry out an audit of the Pension Fund itself.

## 2. Financial Performance and Position

### Revenue Performance 2005/06

2.1 The Council reported an in year surplus of £31,000, resulting in it carrying forward to 2006/07 an overall accumulated surplus of £23.8 million. The figures which follow have been extracted in agreement with management from various reports, supporting papers and other available documentation.

	£m	£m
Gross Expenditure	412.0	
Total Income	(143.6)	
<b>Net Cost of Services</b>		<b>268.4</b>
Other activities including Trading Operation, Asset Management Revenue Account, Interest on Revenue Balances		(0.5)
<b>Net Operating Expenditure</b>		<b>267.9</b>
Transfers to various funds and reserves including Insurance, Repairs and Renewals and Capital Funds		(13.0)
Amount to be met from Government Grants and Council Tax		<b>254.9</b>
Less income:		
Government Grant	(147.0)	
Non-Domestic Rates	(54.6)	
Council Tax	(53.2)	<b>(254.8)</b>
<b>Net General Fund Surplus for the year (Note 1)</b>		0.1
Balance on General Fund Brought Forward		23.7
Balance on General Fund Carried Forward		<b>23.8</b>

*(Note 1: actual surplus for year was £31,000; figure rounded up for presentational purposes).*

### Actual versus Forecast Position 2005/06

2.2 At the start of the 2005/06 financial year, the Council was forecasting an overall general fund deficit of £2.4 million. However, as stated, the actual out-turn for the year ended 31 March 2006 was a surplus of £31,000. The main reasons for the better than planned performance are summarised below:

	£m	£m
<b>Budgeted deficit for 2005/06 as at 1 April 2005</b>		(2.4)
Unbudgeted Equal Pay Compensation Payments		(3.4)
		<hr/>
		(5.8)
<b>In year unbudgeted savings and additional income:</b>		
Increased Council Tax Collection	1.2	
Increased Interest on Revenue Balances	1.1	
Savings in Housing Revenue Account expenditure	0.6	
Savings in Capital Financing Costs	1.5	
General Savings in Service Delivery	1.3	5.7
Year end surplus achieved as at 31 March 2006		<hr/>
		0.1
		<hr/>

### Capital Performance 2005/06

2.3 During 2005/06 the Council completed a general services capital investment programme totalling £21.2 million on areas such as Education, Social Work, Leisure, Economic Development and Roads infrastructure along with a further £13.1 million on Housing. The areas of major investment during the year included:

- £5.4 million on school buildings;
- £1.5 million on information technology equipment for schools;
- a £1 million refurbishment of Cunningham House Old Peoples Home;
- £6.1 million of roads and infrastructure improvements in the Falkirk Area; and
- £1.2 million expenditure on contaminated land.

## Pension Fund

- 2.4 The Council participates in the Local Government (Scotland) Superannuation Scheme. This is a funded defined benefits scheme, with both employer and employee making contributions, and with the intention of balancing the pension liabilities with investment assets.
- 2.5 To comply with Financial Reporting Standard 17 (Accounting for Retirement Benefits), the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to the pension scheme for its employees.
- 2.6 Liabilities are valued by Hymans Robertson – the independent actuaries of the pension fund. Their valuation of the net Pension Liability as at 31 March 2006 is £141 million compared with £120 million as at 31 March 2005.
- 2.7 Recognising the deterioration in the level of net liability (the difference between what the fund is currently worth and what its liabilities are) should cause the Council to monitor closely this position. In particular budgets should be set to ensure that any future increases in the Council's contributions to reduce the net liability can be met.

Action Point 1

## Revenue Forecast 2006/07

- 2.8 As at 31 August 2006, the Council was forecasting a general fund deficit of £2.9 million compared with an original budgeted deficit of £1.4 million. The main movements and Council's explanations for this worse than anticipated position are detailed below:

	£m	£m
<b>Budgeted deficit</b>		(1.4)
Departmental overspends within Education, Social Work, Commercial, Corporate, Central Support and Community Services	(2.0)	
Departmental underspend within Miscellaneous Services	0.1	
Transfer of funds from Repairs and Renewals Fund	0.6	
Capital financing costs lower than forecast	0.2	
Unbudgeted Equal Pay Payments	(0.4)	(1.5)
<b>Forecast deficit (as at 31 August 2006)</b>		<b>(2.9)</b>

## Capital Programme 2006/07

- 2.9 As part of the 2006/07 budget setting process a capital allocation of £26.3 million was approved for the General Fund and an allocation of £16 million set aside for Housing capital works. The Policy and Resources Committee receive regular updates on actual and forecast expenditure and we understand that the projected expenditure is generally in line with the approved allocation.



# 3. The Financial Statements Audit Process and Accounting Issues

## **Audit Process**

- 3.1 The Financial Statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by Management were of a good standard. Overall, we believe an effective audit process was achieved for the audit and an open working relationship exists with your officers.
- 3.2 The Council achieved the deadline for lodging accounts with the Controller of Audit by 30 June 2006 and co-operation between us as external auditors and the Council has ensured the timely completion of the audit by the due date of 30 September 2006.

## **Audit Adjustments**

- 3.3 A number of adjustments to the format of and figures within the draft financial statements have been made as a result of our audit work. These have been agreed and processed by the Director of Finance in the final set of financial statements.
- 3.4 During the course of the Financial Statements element of our audit we identified a number of issues that we are required to report. Following the introduction of ISA 260 "Communication of audit matters to those charged with governance" we are required to report all unadjusted differences to management and invite them to adjust the accounts as required.
- 3.5 The most significant adjustments made, and those not adjusted by management are summarised within this section of the report.

## **Trading Operations**

- 3.6 During 2005/06 the Council operated two trading operations (Roads Maintenance and Building Maintenance) which under the requirements of the Local Government Scotland Act 2003 (Section 10) have a duty to conduct themselves so that income is not less than expenditure over each three year period. This three year breakeven measure covered the period 2003/04, 2004/05 and 2005/06. Over this period the Council's Roads Maintenance trading operation failed to breakeven returning a deficit of £17,000 – this deficit resulted from the inclusion of £0.448 million of pension costs adjustment, as required by Financial Reporting Standard 17.

3.7 An explanatory paragraph referring to this matter has been included within our audit opinion.

### **Treatment of Deferred Income In Year**

3.8 The Council has included within its financial statements a creditor of £0.866 million in respect of deferred income. This relates to Revenue Support Grant income received during 2005/06 but not spent by the Council in 2005/06. We have been informed that this income is “ringfenced” in that it can only be used to fund specific projects such as those relating to modernising government, quality of life and better neighbourhood services.

3.9 The accounting treatment undertaken by the Council is in line with current local authority accounting guidelines. However, we understand that these guidelines are currently being reviewed by Audit Scotland and the Scottish Executive with a view to ensuring all future deferred income can be supported by detailed documentary evidence to meet two specific criteria.

- The paying agency will require the return of any unspent grant; and
- The paying agency formally notifies an authority that any future grant payable will be reduced by the amount of the underspend.

3.10 From 2006/07 it is recommended that the Council revisits its accounting treatment for deferred income and appropriate action is taken in light of any additional guidance issued by Audit Scotland.

### **Action Point 2**

### **Payroll Costs**

3.11 As reported in prior years, our review of payroll costs identified that an accrual for £1 million, representing 12 of the 14 days of the last fortnightly payroll run of 2005/06, was not included in the 2005/06 annual accounts. As the majority of this expenditure relates to the 2005/06 year, we consider that it should have been accrued in the 2005/06 accounts. This unadjusted difference was reported in our ISA 260 report (“Communication of audit matters to those charged with governance”).

### **Equal Pay Claims**

3.12 The Council is currently in the process of implementing a single status agreement to align the terms and conditions for manual and other workers. Until this process is complete, the amount of any potential obligations in respect of equal pay claims that may arise have not been quantified.

3.13 Additional payments of £0.436 million were paid in May 2006 which should have been provided for in the 2005/06 accounts. This unadjusted difference was reported in our ISA 260 report.

# 4. Arrangements to Prevent and Detect Fraud and Irregularities

## **Fraud and Corruption Reviews**

- 4.1 As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption, we have reviewed the Council's fraud and corruption internal regulations and controls, members and staff conduct.
- 4.2 Two low and two medium risk issues were identified and reported in our Interim Management Letter and the Council has agreed to address these issues in a formal action plan.

## **Audit Scotland – Fraud and Legality**

- 4.3 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2005/06 (Technical Bulletins 2006/3, 2006/2, 2006/1 and 2005/4) and relevant Urgent Issues Notes, and undertaken work accordingly. There are no specific matters to report to the Council from this work.

## **Fraud Submission**

- 4.4 A fraud return has been made to Audit Scotland of all the reported frauds that have occurred within the Council during the year. One first tier fraud (in excess of £5,000) was reported during the year. This fraud was investigated by Internal Audit and a number of recommendations have been made to improve the Council's internal controls to reduce the likelihood of similar frauds occurring in the future.

## **National Fraud Initiative 2005/06**

- 4.5 The National Fraud Initiative ("NFI") is a data matching exercise that helps detect fraudulent and erroneous payments from the public purse. It runs every two years, assisting participants across the UK from Local Government, Central Government and the NHS to identify fraud and error. In total, around 1,500 organisations supply almost 3,500 sets of data in areas such as housing benefits, payroll and occupational pensions. The NFI then cross-matches all of this data to identify inaccuracies or potential fraud and sends matches back to each organisation for investigation where appropriate.
- 4.6 Each organisation is required to submit returns to the Audit Commission during the exercise to show what work has been carried out with the information supplied.

- 4.7 To date the NFI data matching exercise relating to Falkirk Council has identified Pension and Benefit overpayments totalling approximately £112,000. However, Council management have stated that it has taken comfort from this work that pension payments totalling approximately £21 million have been accurately processed.
- 4.8 We understand that Internal Audit will continue to monitor the progress made by both Payroll and Benefits in relation to the data matching exercise, and ensure that there is a record of the work undertaken to investigate each match. The Council needs to ensure that all data matches are investigated within a given timetable and that corrective action is taken where needed. The Council also needs to ensure that adequate documentation is kept concerning these investigations. In particular,
- A documentation policy should be drafted to ensure that all services are recording adequate information concerning the investigations and decision-making process; and
  - An audit trail must be kept for all data matches, to show whether action was taken or not and the reasons for this action.
- 4.9 Management should continue to ensure that they provide the Audit Commission with the required extracted information from all relevant systems, in particular Council Tax, Housing Benefit and Creditors data in accordance with the prescribed NFI timescales.

### Action Point 3

# 5. System of Internal Control including the Council's Statement of Internal Financial Control

## **Statement on the System of Internal Financial Control**

- 5.1 The "Code of Practice on Local Authority Accounting in Great Britain, a Statement of Recommended Practice" (the "SORP" for 2002) introduced the requirement from 2002/03 onwards for local authorities to include within their financial statements a statement on the system of internal financial control ("SSIFC").
- 5.2 Our responsibility is to consider whether:
- the format of the SSIFC complies with the requirements of the SORP; and
  - the information contained therein is consistent with our knowledge of the Council.
- 5.3 Based on our normal audit procedures, the statement made by the Council is consistent with our understanding and the SSIFC is in the format required by the SORP.

## **Follow Up Report on Previous Control Matters**

- 5.4 As part of our 2005/06 audit work, we have undertaken a follow up review to report on the implementation of the agreed audit recommendations arising from our prior year audits.

5.5 Of the 42 agreed recommendations made in the reports issued in prior years, progress is as follows:

Status	Annual Report to Members 2004/05	Annual Report to Members 2003/04	Interim Management Letter 2004/05	Follow-up Report 2004/05	Total
Fully implemented	3	4	6	3	16
Partly implemented	7	2	9	5	23
Not yet due	-	-	3	-	3
<b>TOTAL</b>	<b>10</b>	<b>6</b>	<b>18</b>	<b>8</b>	<b>42</b>

5.6 It should be highlighted that some of the agreed deadlines within the Annual Report to Members 2004/05 and Final Management Letter 2004/05 have not yet passed, these have been classified as not yet due.

5.7 The Council has made progress in implementing our recommendations from previous audit reports but over half of the recommendations are still only partially implemented. Action should be taken to finalise these recommendations.

5.8 We recommend that Members ensure that appropriate progress is made to fully implement the outstanding recommendations from our prior year audits.

**Action Point 4**

#### **Interim Controls Report – 2005/06**

5.9 An Interim Controls Report was issued to the Council in March 2006. The Council has completed an action plan detailing the individuals responsible for implementing our recommendations and the timetable for completion. Four new recommendations were raised in our report; none of the matters identified were considered business critical in nature.

# 6. Business Issues

## Efficient Government

- 6.1 The Efficient Government Initiative is a five year programme with the aim of attacking “waste, bureaucracy and duplication in Scotland’s public sector”. A key feature of the initiative is that it focuses on the public sector as a whole, rather than individual organisations, with the intention of realising efficiencies through joining up – in purchasing, in accommodation and in support services. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more of better services with the same money.
- 6.2 The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings, and £300 million (rising to £600 million) of time-releasing savings, by 2007/08.
- 6.3 In addition, Audit Scotland required all auditors to submit, together with their audited bodies, an “Efficient Government Diagnostic” – a self assessment tool covering the key themes of the Efficient Government Agenda. The diagnostic outlines the themes as:
- Asset Management;
  - Managing Absence;
  - Procurement;
  - Shared Support Services; and
  - Streamlining Bureaucracy.
- 6.4 Council management completed the Diagnostic and we met with Senior Council officers to discuss the information presented before submitting the returned to Audit Scotland:
- Five main areas of efficiency have been identified by Services and then agreed by the Corporate Management Team which acts as the Project Board for Efficient Government. The five areas of focus are procurement, absence management, asset management, customer services and further integration of previous CCT services. Key developments to date include:

#### *Asset Management:*

- The Council is currently developing an Asset Management Strategy.
- The Council shares accommodation with a number of agencies, in particular NHS Forth Valley. Office accommodation is shared with GP practices in Denny, Bo'ness and the Braes in Falkirk.
- In terms of operational and land assets, the Council did not inherit a great deal of assets following reorganisation in 1996. This has meant that the scope for asset realisation in this area has been limited.

#### *Managing Absence:*

- The Council has in place a sickness absence policy and categorises types of sickness. Sickness absence is reported to the Joint Consultative Committee.
- The Council has recently completed a review of sickness absence which will result in the introduction of a number of new initiatives to reduce absence.

#### *Procurement:*

- The Council has a procurement strategy which was last reviewed in October 2004.
- The Council is part of a purchasing consortium with neighbouring Councils, Central Scotland Fire and Rescue Service and Forth Valley College.

#### *Shared Support Services:*

- Since 1996, the Council provided a joint information service with two neighbouring Councils. This also provides services to other public sector organisations thus offsetting some of the costs for the three parent Councils.
- The Council also provides pension services to neighbouring Councils and other community and voluntary organisations.
- The new Strategic Transport Authority has contacted the Council to potentially purchase Human Resource services from the Council.
- The Council is also in the process of developing business cases for future shared service provision.



### *Streamlining Savings:*

- The Council has recently established a contact centre to improve customer service and streamline bureaucracy. The Council also participate in a Forth Valley Information Sharing working group that is taking forward data sharing protocols across key public sector organisations.
- Internally, the Council is looking to streamline housing repairs procedures to ensure there is a more efficient and effective diagnosis, works and completion reviews.
- The Council is participating in the Scottish Executive Integrated Service and Modelling project and has put forward three areas for further investigation under stage 2 of this project.

6.5 As part of the Efficient Government agenda, the Council should continue its programme of Best Value reviews to review services to identify opportunities for delivering improved efficiency. This requires an approach which allows for easy or quick wins while simultaneously developing and delivering a strategy for the future. Underpinning this is a need for good baseline information on costs and service outputs and outcomes.

### **Action Point 5**

### **Priorities and Risks Framework**

6.6 To assess the effectiveness by which Local Government bodies are implementing required reforms, Audit Scotland developed with PricewaterhouseCoopers and other partners a "Priorities and Risks Framework" ("PRF") which is designed to identify key business challenges and the main risks which could prevent their achievement.

6.7 As part of our 2005/06 audit, we consulted with numerous officers and reviewed selected documentation within the Council to assess the Council's status in addressing the seven key areas of the PRF, namely:

- Role and Development of Members;
- Strategy for Housing;
- Working Together for Communities and Users;
- Performance Management and Improvement;
- Financial Strategy;
- Workforce Planning; and
- Strategic Planning in Social Services.

- 6.8 As part of the 2005/06 audit process a PRF summary return template was developed for each PRF topic. These enabled auditors to provide summary returns based on the outcome of their own PRF meetings with each Council, using a consistent format. The purpose was to capture contextual information and audit views about the key issues and risks faced in each area.
- 6.9 We followed up the recommendations made in our 2005 PRF Report have and updated previously the Council's progress and position regarding each area. This information was used to complete the returns as part of our 2005/06 audit work and was submitted to Audit Scotland in March 2006. Audit Scotland collated this information and used it to identify good practice models, emerging issues and information to inform their programme of national performance audit studies.

# 7. Performance Audit

7.1 As required by the Code of Audit Practice we have certain performance audit responsibilities. In terms of this responsibility, we have completed and reported our findings in relation to the following studies:

- Statutory Performance Indicators; and
- Following the Public Pound Follow Up

7.2 Separate reports and agreed management action plans have been issued for these reviews. Detailed in the following paragraphs is a summary of the work undertaken and our key findings.

## **Statutory Performance Indicators**

7.3 It is the responsibility of the Council to ensure that, as far as practicable, the information which is published is complete and accurate. There are 56 Performance Indicators ("PIs") in total, all of which have to be graded as either "A", "X", "FTR", or "N/S" as follows:

A The data appears to be reliable in material respects.

X The lack of available systems, and/or reliable data, and/or decision rules has resulted in the Council producing information which, in the auditor's view is unreliable.

FTR The Council has not returned any figures for the indicator as no accurate inventory is maintained. This is classified as a 'Failure To Report'.

N/S No service provided by the Council and therefore not applicable.

7.4 All indicators were graded A, other than the following 2 exceptions which have been reported in prior years:

Indicator	Grade	Reason
Housing Services PI 1: Response Repairs	“X”	The Council's systems were not able to produce the information required for this PI.
Children's Services PI 9: Staff Qualifications - Residential Children's Homes	“N/S”	The Council does not operate residential children's accommodation.

7.5 Overall, the quality of systems used for data collection and analysis, and supporting documentation provided to us was of a good standard, for which Council Management should be commended.

#### **Following the Public Pound Follow Up**

7.6 The original performance study involved two main activities:

- Mapping how much the Council spent on external organisations in the year ended 31 March 2004; and
- Reviewing the Council's level of compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound (published by COSLA and the Accounts Commission).

7.7 At the time of our initial review, we found that Falkirk Council had significantly improved its arrangements for funding and monitoring external organisations. Following internal reviews which identified shortfalls in the existing processes, the Council implemented a new single process for applications for resources by external parties during 2005/06. A number of other procedures were also enhanced, for example the risk assessment process for applications, and the service agreements with external bodies. We found that the majority of the new procedures were in line with best practice.

7.8 As a result of the significant progress made by the Council, only two recommendations for improvement were made in our report relating to additional training to be provided to Members and the need to continually review the effectiveness of the central grants register. We are pleased to report that both these actions have been completed by Council management.

# Appendix 1: Action Plan

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
Action Point 1	<p><b>Pension Fund</b></p> <p>The Council in conjunction with the appointed Actuary, should continue to monitor closely the Pension Fund Deficit. In particular, budgets should be set to ensure that any required increases in contributions can be met.</p>	Director of Finance	This will be done at the next actuarial valuation and appropriate action will be taken at that time.
Action Point 2	<p><b>Deferred Income</b></p> <p>The accounting treatment of deferred income should be reviewed during 2006/07 to take account of the SORP and guidance received from Audit Scotland. Consideration should be given to recognise deferred income in the Revenue Account where necessary.</p>	Director of Finance	Appropriate action will be taken on receipt of guidance.
Action Point 3	<p><b>National Fraud Initiative</b></p> <p>Management should continue to ensure that they provide the Audit Commission with the required extracted information from all relevant systems, in particular Council Tax, Housing Benefit and Creditors data in accordance with the prescribed National Fraud Initiative timescales.</p>	Director of Finance	Information will be provided in accordance with Audit Commission timescales.
Action Point 4	<p><b>Follow Up Report on Previous Control Matters</b></p> <p>Members should ensure that appropriate progress is made to fully implement the outstanding recommendations from our prior year audits.</p>	Various Directors	Progress to be reported to the Best Value and Audit Forum in Spring/Summer 2007.

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
Action Point 5	<p><b>Efficient Government</b></p> <p>As part of the Efficient Government agenda, the Council should continue its programme of Best Value reviews to review services to identify opportunities for delivering improved efficiency and plan for efficiency gains every year while continuing to improve and make best use of resources in the longer term. This requires an approach which allows for easy or quick wins while simultaneously developing and delivering a strategy for the future. Underpinning this is a need for good baseline information on costs and service outputs and outcomes.</p>	Various Directors	Initial services Performance Reviews planned for 2006/07. Findings will be reported thereafter.

# Appendix 2: Responsibilities of External Audit

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within the Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Council and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Council regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Council and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Council or any other person.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Council. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Council and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Council to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. As external auditors we have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;

- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the Council to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources.

We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Council during the year and as listed at **Appendix 4**.



# Appendix 3: Audit Opinion

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

We certify that we have audited the financial statements of Falkirk Council [and its group] for the year ended 31 March 2006 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Consolidated Revenue Account, the Housing Revenue Account, the Council Tax Income Account, the Non-Domestic Rates Income Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2005 - A Statement of Recommended Practice (the 2005 SORP) are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly the financial position of the local authority in accordance with applicable laws and regulations and the 2005 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects the authority's compliance with the SORP. We report if, in our opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risk and controls. Neither are we required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Introduction to the Accounts, Foreword by Director of Finance and Statement of Responsibilities for the Statement of Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Finance Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the local authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2005 SORP, the financial position of the local authority [and its group] as at 31 March 2006 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

### **Failure to comply with a statutory requirement**

It has not been necessary to qualify our opinion in respect of the following matter.

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2006 in respect of the Roads Maintenance Statutory Trading Operation.

Within page 26, Note 1 of the financial statements, the Council has drawn attention to the fact that had pension costs, required for inclusion by Financial Reporting Standard 17, been excluded from the Roads Maintenance Trading Account, a cumulative surplus rather than deficit would have been reported.

PricewaterhouseCoopers LLP  
Glasgow

29 September 2006

## Appendix 4: PwC Reporting in 2005/06

Output	Date	Financial Statements	Governance and Business Control	Performance
Annual Service Plan	January 2006	✓	✓	✓
Follow up report prior year recommendations	February 2006	✓	✓	✓
Interim Management Letter	March 2006	✓	✓	-
Priorities and Risks Framework Data Returns	February 2006	-	✓	✓
Efficient Government Returns	May 2006	-	✓	✓
Annual Report to Council Members	October 2006	✓	✓	✓
Final Management Letter	November 2006	✓	✓	-

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