Falkirk Council

Annual report on the 2013/14 audit

Prepared for the members of Falkirk Council and the Controller of Audit

October 2014

Contents

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Key messages

Financial statements	•We have given an unqualified audit opinion on the financial statements of Falkirk Council for financial year 2013/14.
Financial position	•The council spent £1.8 million more than was budgeted due to a contribution to funds, approved after the budget was set. •The general fund balance has reduced, but uncommitted funds of £12.3 million exceed the target level. •Maintaining service delivery standards will be a significant challenge with reducing funding settlements and balances. •Capital expenditure was £13.5 million underspent.
Governance & accountability	•Systems of internal control were operating satisfactorily during 2013/14. •A new political decision making struture is in place, a review on its effectiveness is to be concluded. •Concerns remain over not all members participating in the council's decision-making structures.
Best value, use of resources & performance	•The council has a framework in place which aims to support the delivery of best value and continuous improvement. •Targeted best value work is planned on the effectiveness of the performance management framework. •The community planning partnership needs to demonstrate stronger leadership and systematic improvements to fully achieve the benefits of community planning.
Outlook	•Delivering the revenue budget presents a considerable challenge, as demands for services increase alongside funding pressures and managing major reforms in welfare and health and social care. •Effective partnership working will be essential to make the best use of available resources.

Financial statements

1. We have given an unqualified audit opinion that the financial statements of Falkirk Council for 2013/14 give a true and fair view of the state of affairs of the council and its group as at 31 March 2014, and of the income and expenditure for the year then ended.

2. We have also given an unqualified audit opinion on the 2013/14 financial statements of the Falkirk Temperance Trust; a registered charity audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).

3. The general fund balance reduced by £6.6 million during the year. The closing balance is made up of earmarked commitments of £18.5 million and an uncommitted balance of £12.3 million (3.4% of the net cost of services). Despite the fall in general fund balances the uncommitted amount exceeds the Council's reserves strategy target to maintain uncommitted reserves of between £7 million and £10 million.

Financial position

4. The council reported a deficit of £63.6 million on the provision of services in 2013/14. By removing the accounting entries required by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, the deficit on the general fund was £3.6 million and the deficit on the HRA was £3.0 million.

5. The council had budgeted for a deficit of £4.8 million but utilised £1.8 million more than this. This was mainly as a result of contributions to earmarked funds after the budget had been approved.

6. In managing its capital programme, substantial underspends have been reported against planned capital expenditure for several years (£13.5 million or 14.4% in 2013/14). As a result the council may not deliver key projects within planned timeframes.

Governance and accountability

7. The key controls within the council's main financial systems were operating satisfactorily during 2013/14. The council also has an internal audit section that operates in accordance with Public Sector Internal Audit Standards.

8. The council has satisfactory arrangements for the prevention and detection of fraud and corruption although more could be done to investigate blue badge matches identified by the National Fraud Initiative.

9. The ongoing issue of not all members participating in the council's decision-making structures continues to be a cause for concern. The Local Area Network (LAN) of scrutiny partners identified this as an area for targeted best value work, to be reported in spring 2015.

10. In May 2014, the council and NHS Forth Valley agreed to

proceed with health and social care integration on the basis of a body-corporate model. Since then good progress has been made. It is important this is maintained, particularly because there are still significant challenges ahead given the scale and complexity of health and social care integration.

Best value, use of resources and performance

11. The council has arrangements in place for supporting the delivery of Best Value including a dedicated improvement team which supports service reviews and performance self-assessments.

12. Officers recognise that there is scope for further improvements to performance management arrangements and have a number of initiatives in progress including a review of performance measures. Targeted best value work will be carried out to establish how effective the new arrangements are at driving change in services. This will also be reported in spring 2015.

13. The Audit Scotland report on the Falkirk Community Planning Partnership (CPP) (May 2014) concluded that stronger leadership and systematic improvements in several areas are required to fully achieve the benefits of community planning. The CPP needs to develop specific priorities and plans to convert its aspirations into improved outcomes for local people.

Outlook

14. Demands on services continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information.

15. The council faces a significant challenge in delivering services with resources which continue to reduce. The council's revenue budget for 2014/15 identifies the need to make £10.5 million savings. In the medium term (2015/16 to 2017/18) more than £40.4 million of savings will be needed. Officers recognise that the council face difficult decisions over the medium term.

16. Effective working with partners, particularly in the context of health and social care integration, will be required to make the best use of available resources. This will help to encourage innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

17. This report is a summary of our findings arising from the 2013/14 audit of Falkirk Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

18. Our responsibility, as the external auditor of Falkirk Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

19. The management of Falkirk Council is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

20. This report is addressed to the members of Falkirk Council and the Controller of Audit and should form the basis of discussions with the Audit Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

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

22. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. We do not repeat all of the findings in this report, but focus on the financial statements and any significant findings from our wider review of Falkirk Council.

23. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

24. Appendix IV is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed 'management action/response'.

25. We recognise that not all risks can be eliminated or even minimised. What is important is that Falkirk Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

26. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Our comments should consequently not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

27. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements

Net expenditure budget £328.3m	Planned capital expenditure £95.8m	Reducing usable reserves
Net Service outturn £329.6m	Outturn capital spend £82.3m	Planned reduction in General Fund & HRA reserves £5.3m
Service budget overspend £1.3m	Capital underspend £13.5m	Actual reduction in General Fund & HRA reserves £6.6m

Audit opinion

28. We gave an unqualified opinion that the financial statements of Falkirk Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014, and of the income and expenditure for the year then ended.

29. The council has one trading operation - building maintenance. This disclosed a surplus of £0.2 million in 2013/14, and a cumulative surplus of £1.3 million over the 3 year period from 2011/12 to 2013/14. The trading operation thereby achieved its statutory objectives.

Other information published with the financial statements

30. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Legality

31. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

The audit of charities financial statements

32. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.

33. The Falkirk Temperance Trust is covered by the 2006 Regulations and was subject to the full charities financial statements audit for 2013/14.

34. Auditors of registered charities' statement of accounts have responsibilities to:

- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

35. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the Falkirk Temperance Trust.

Group accounts

36. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.

37. Falkirk Council has accounted for the financial results of two subsidiaries, one associate, and the Common Good Fund in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to reduce total reserves and net assets by £1.2 million.

38. The net assets of the group at 31 March 2014 totalled £85.6 million, compared to a net liability position of £195.0 million in 2012/13. The positive movement in the closing net worth balance is mainly due to the transfer of Police and Fire functions to new authorities from 1 April 2013 and the removal

of the pension liabilities of Police and Fire from the group accounts.

Accounting issues arising

Presentational and monetary adjustments

39. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements.

40. In addition, a small number of other unadjusted errors were identified during the course of the audit. If adjustments had been made these would have the effect of increasing expenditure and decreasing net assets by £0.5 million in 2013/14.

Whole of government accounts

41. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council narrowly failed to submit the draft consolidation pack for audit on by the prescribed deadline. The WGA is currently being audited for submission to the Scottish Government.

Report to those charged with governance

42. We presented to the Audit Committee, on 22 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor’s report. The main points are set out in the following paragraphs:

43. **Fixed asset values** – Our testing identified a school revaluation which was incorrectly processed when the asset was split into component elements. This error was corrected in the accounts. We also reported that the method used to value council houses is to be revised in 2015/16 to reflect accounting requirements. This is expected to increase values.

44. **Exit packages** – Our testing identified that the council were recognising exit packages in the year in which payments were made, rather than when they were agreed. The net impact of this incorrect treatment was to understate expenditure by £0.4 million.

45. **Provision for landfill site restoration** – To comply with accounting requirements, the council recognised a provision of £1.3 million in respect of restoration costs for the inactive Kinneil Kerse landfill site. As restoration work is capital in nature this adjustment had no impact on the council's general fund balance.

Outlook

46. The financial statements of the council were prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

47. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. The council's audit committee, at its meeting on 22 September 2014, considered the implications of the new regulations for the council.

Financial position

48. The council reported a deficit of £63.6 million on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, the deficit on the general fund was £3.6 million and the deficit on the HRA was £3.0 million.

49. Taking into account appropriations to the general fund from the devolved schools management reserve (£1.9 million); the economic development reserve (£0.7 million); and appropriations from the General Fund to HRA (and other reserves), the general fund decreased by £4.0 million and the HRA reserve balance decreased by £2.5 million.

50. The council had budgeted for a deficit of £4.8 million in 2013/14, but utilised £1.8 million more than this. Key variations in performance against budget as reported in the Foreword to the Financial Statements include :

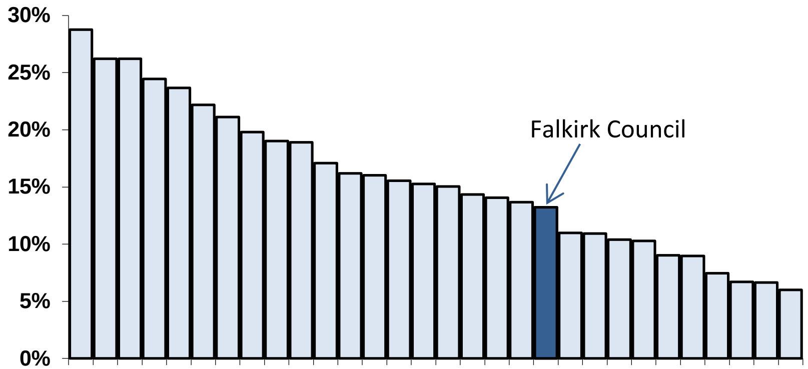
    - a net underspend on general fund services of £1.1 million arising mainly from savings in staff and property costs
    - unplanned expenditure of £2.4 million in respect of transfers to repairs and renewals, capital funded from current revenue, severance payments and capital charges
    - the council collected £0.5 million more in council tax than had been budgeted for
    - the council had net contributions to earmarked reserves of £0.4 million against a budgeted transfer from earmarked reserves of £0.5 million.

51. The 2013/14 budget, approved by the council on 13 February 2014, included a planned contribution from the general fund of £2.3 million and the devolved schools management reserve of £0.5 million. The budget also included a transfer from the housing revenue account reserve of £2.5 million to reduce the level of the rent increase.

52. Usable reserves are part of a council's strategic financial management and councils will often have target levels of reserves. The overall level of usable reserves held by the council decreased by £5.8 million compared to the previous year and totalled £49.2 million.

53. From an analysis of Scottish councils' unaudited 2013/14 accounts, around half of all councils ended 2013/14 with lower levels of reserves than they had at the start of 2012/13. Falkirk Council's position (13%), as illustrated in Exhibit 1 overleaf, is slightly lower than the median level (15%). The council needs to continue to ensure that it strikes a balance between meeting current obligations and preparing for future commitments and possible reductions in funding.

Exhibit 1: Total usable reserves as a proportion of net revenue stream (%)



Source: Scottish councils' unaudited accounts 2013/14

54. The general fund balance reduced by £6.6 million during the year. The closing balance at 31 March 2014 is made up of earmarked commitments of £18.5 million and an uncommitted balance of £12.3 million, or 3.4% of the net cost of services (2012/13: £14.1 million / 4.0%). Despite this reduction, uncommitted reserves exceeded the reserves strategy target of between £7m and £10m.

55. Senior officers have advised that the reserves strategy remains relevant, and that the medium term financial strategy anticipates a reduced level of reserves. Audit Scotland's 'An overview of local government in Scotland 2014' recommends that more needs to be done to provide information on why cash-backed reserves are held, how this fits with the council's overall financial strategy and how they will be used. The report highlights that 'Councillors in particular need good information about movements in earmarked funds, to assist their full understanding of their council's overall financial position'.

Recommendation No. 1

56. As with all public bodies, the council faces a significant challenge in maintaining standards of service delivery and performance within resources which continue to reduce. Management has recognised that the council faces difficult decisions over the medium term.

Capital investment and performance 2013/14

57. Total capital expenditure for 2013/14 was £82.3 million. Investment during the year included £4.7 million on schools, £5.0 million on corporate and neighbourhood services, £5.5 million on roads improvements, £13.9 million on new build housing and £15.4 million on the Helix project. The Helix is a significant project which has transformed unused land into a recreational area with the Kelpies acting as a new tourist attraction. The capital programme was funded primarily from borrowing and government grants as summarised in Exhibit 2 overleaf.

58. The council has reported a substantial underspend against the planned level of capital expenditure of £13.5 million or 14.4% of the total programme for 2013/14. The general fund programme disclosed an underspend of £14.8 million mainly

due to slippage over a number of projects. This included projects in education (£2.4m), economic development (£1.8m) and corporate and neighbourhood (£2.5m).

59. Specific projects where work has been delayed include capital improvements in education (£0.8 million) and the procurement process for larger fleet vehicles (£1.4 million) in corporate & neighbourhood services. This was a similar pattern to 2012/13 and indicates that the profiling of capital projects may not be correct and should to be reviewed. The programme for 2014/15 has been updated to take account of this slippage.

60. There is a risk, however, that the council fails to deliver key projects that would benefit local communities due to sustained slippage against the capital plan. Management should review the capital programme, and consider implementing procedures to redirect funds where possible from projects that are not progressing as planned.

Recommendation No. 2

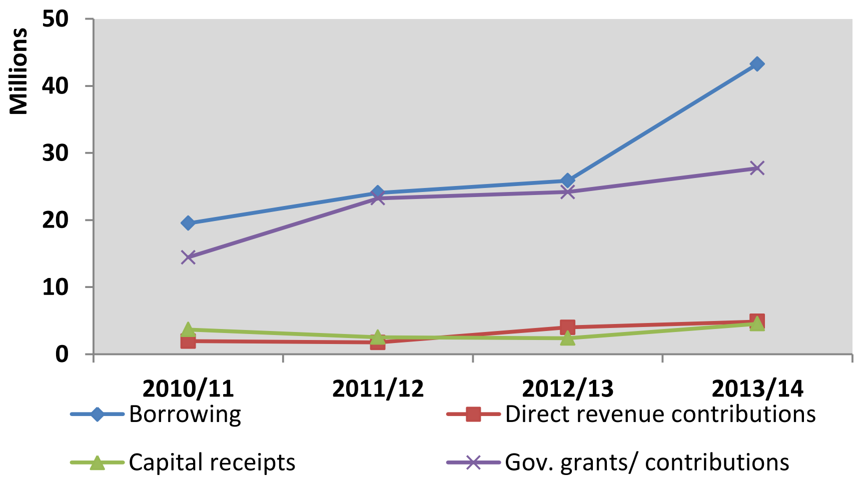
61. The housing revenue account disclosed an overspend of £1.3 million mainly as a result of additional spending of £1.1 million on new house building. Additional grants from the Scottish Government new build scheme funded the overspend.

Treasury management

62. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set-a-side to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.

63. In the current financial climate, many councils have relatively high levels of internal borrowing, utilising available cash balances and deferring external borrowing. Falkirk Council's underlying need to borrow or capital financing requirement (CFR) at 31 March 2014 was £397.4 million. Net external borrowing was £204.6 million, an increase of £22.3 million on the previous year.

Exhibit 2: Sources of finance for capital expenditure 2010/11 – 2013/14



Source: Falkirk Council 2013/14 financial statements (Note 18)

64. As shown at Exhibit 2 on the previous page, capital spending in 2013/14 was funded mainly through borrowing and government grants. Direct revenue contributions and capital receipts make up only a relatively small element of capital funding.

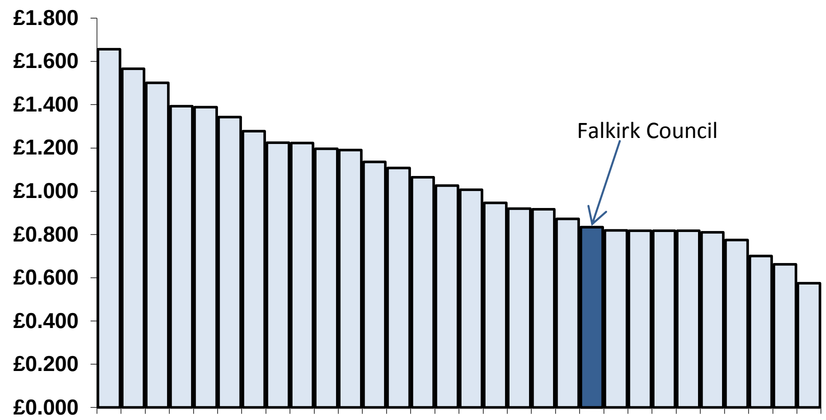
65. Exhibit 3 shows that the council's net external debt as a proportion of net revenue stream continues to remain in the lower range relative to other Scottish councils

66. The council has planned increases in long term borrowing in its Treasury Management Strategy. During 2013/14 long term borrowing increased by £39.0 million. This was in line with the council's Treasury Management Strategy for 2013/14 which identified an increased requirement of £38.8 million. In 2014/15 the council has identified a long term borrowing requirement of £51.6 million.

67. The increasing level of external debt presents increased risks to the council. Officers must ensure that they understand these risks, and must be able to demonstrate to stakeholders that the Treasury Management Strategy represents best value.

68. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. The national report is planned for publication in January 2015. We will provide members with a summary of the key findings as part of our audit progress reports to audit committee.

Exhibit 3: Net external debt as a proportion of net revenue stream (£m)



Source: Scottish councils' unaudited accounts 2013/14

Outlook

69. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Management has recognised that the council will face difficult decisions over the medium term.

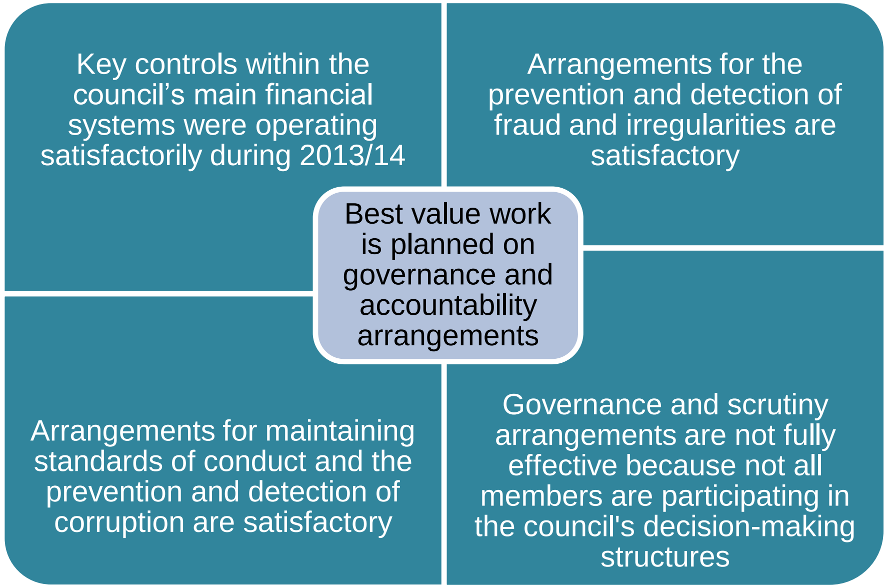
70. The net service expenditure budget set for 2014/15 is £329.4 million and represents an increase of 1.3% on 2013/14 (£325.3

million). To meet this, the council identified the need to make savings of £10.5 million in 2014/15. To address the gap the budget included a review of base budgets (£2.8 million); savings on procurement (£0.9 million); savings on asset management (£0.2 million); savings from services (£4.5 million); savings from the spend to save initiative (£0.4 million); and transfers from reserves (£1.7 million).

71. In the medium term (2015/16 to 2017/18) the council has identified the need to make savings of £40.4 million. The council also recognised the need for a multi-year approach to budgeting.

Recommendation No. 3

Governance and accountability



72. Members of the council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of the council and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

73. The corporate governance framework within Falkirk Council is centred on the council supported by the following committees.

Executive Committee

Education Executive Committee

Audit Committee

Scrutiny Committee

74. As reported last year the council approved a new decision-making structure in March 2013 based on an Executive model. The first meetings under this new structure commenced in May 2013. However, not all members participated in the new structure. These members did not attend executive and scrutiny committee meetings or policy development panels.

75. In 2012/13 we reported that officers planned to carry out a review of the experience of the first year of the new structure by October 2014. Officers advised that, as part of this process, a reflective review involving discussions between the Leader of the Council, the Leader of the Opposition and the Provost (as Convener of the Council) have taken place to establish their views on the new structure and the extent to which agreement could be reached on adjustments that would improve levels of engagement. Officers say while there have been some promising signs of progress being made, no formal conclusion have yet been reached and participation has not yet improved. Officers have advised us that the Council will consider a report on the review at a meeting to take place in November 2014.

76. The ongoing problems with not all members participating in the council's decision-making structures continues to be a cause for concern and the LAN of scrutiny partners has identified this as an area requiring scrutiny. This will be considered as part of planned best value work to be reported in spring 2015.

Internal control

77. As part of our audit we reviewed the high level controls in a number of the council's systems that impact on the financial statements. This audit work covered payroll, trade payables (including procurement cards), council tax billing / collection, housing rents and non-domestic rates billing / collection. We also relied on previous years' audit work in relation to trade receivables, general ledger, treasury management and cash & cash equivalents (specifically bank reconciliations).

78. Our overall conclusion was that key controls within the council's main financial systems were operating satisfactorily during 2013/14 and no significant risks were identified.

Internal audit

79. An Internal Audit Charter was approved by the Audit Committee in June 2014, setting out revised quality arrangements including provision for an independent assessment of the internal audit function. These new arrangements ensured that internal audit fully complied with Public Sector Internal Audit Standards (PSIAS).

80. A progress report on the internal audit plan 2014/15 presented to the audit committee in September 2014 confirmed that internal audit's staffing complement has been reduced. It further advised that adjustments to planned work were inevitable, and that internal audit would work with services to prioritise higher risk areas of work.

81. We will monitor progress towards delivering the 2014/15 internal audit plan, and consider any impact on our own audit when planning the 2014/15 audit.

ICT audit

82. In 2013/14 we carried out a follow-up audit on our ICT service review which we reported in 2012/13. Of 11 improvement actions agreed with management, 9 have been completed. Two actions remain outstanding. These relate to the development of an Information Management Strategy, and a review of the council's Information Security Policy. Revised dates for implementation have been agreed with management. We will follow-up at a future date to confirm implementation.

83. For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions.

84. The council carried out a substantial programme of work in 2013/14 (approximately £0.5 million) to bring its network into a position of compliance with the PSN security requirements and

thereby achieve unconditional PSN accreditation. This required investment in new hardware and software as well as diverting staff resources from planned tasks. Investment is being sustained to maintain compliance and changes to work practices such as home working.

85. Going forward health and social care integration is likely to create new challenges, especially if the NHS continues to be outwith the PSN compliance framework. The council must remain aware of this as data and system sharing discussions progress.

Recommendation No. 4

Arrangements for the prevention and detection of fraud and corruption and maintaining standards of conduct

86. The council's arrangements in relation to the prevention and detection of fraud and corruption, and for maintaining standards of conduct, were satisfactory.

87. Falkirk Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.

88. As part of the current NFI exercise the council has identified three frauds with several more under investigation. These relate to benefits claims. In one area (blue badges) there has been limited progress. There were 867 blue badge matches, of which 795 were considered high quality matches that merited investigation. At the time of our audit only 40 matches had been checked. Blue badges have attracted a lot of media attention because of evidence of abuse.

Recommendation No. 5

89. A revised 'anti fraud and corruption strategy' was approved by the council's audit committee in September 2014. This was in response to comments in Audit Scotland's annual report on the 2012/13 audit. The strategy takes the form of a statement of intent, and the specific operational roles, responsibilities and procedures are being developed following approval by the audit committee. We will monitor the implementation of the revised strategy.

90. Overall, the arrangements for the prevention and detection of fraud and corruption in Falkirk Council appear satisfactory and we are not aware of any specific issues that we need to record in this report.

Correspondence referred to the auditor by Audit Scotland

91. Part of Audit Scotland's duties as external auditors of the council is to consider concerns raised by the public about the council. If appropriate, we may investigate them further.

92. During 2013/14 we were asked to investigate aspects of lighting maintenance contracts awarded by Falkirk Council. In particular we were asked to review alleged preferential treatment in the award of contract work, the robustness of contract monitoring arrangements, costing of additional works and whether these had been properly authorised.

93. We reviewed relevant evidence, including a recently completed internal audit review of a sample of lighting maintenance contracts, and concluded that the allegations were unfounded. Our findings were communicated to the correspondent.

Integration of adult health and social care

94. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The council and NHS Forth Valley agreed to progress the implementation of the Act on the basis of a Body Corporate Model. This was agreed in May 2014 which is relatively late compared to other local authorities.

95. Integration will be complex and challenging and the council will need to engage at the highest level with NHS Forth Valley to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:

- The establishment of a local integrated partnership and related governance arrangements.
- Integrated budgets for health and social care.
- Joint responsibility for strategic and locality planning in the area served.

96. A core group of senior officers drawn from Falkirk Council and NHS Forth Valley have been meeting regularly throughout the summer to co-ordinate and progress the key work streams needed to deliver an integration scheme. The group also has representatives from Stirling and Clackmannanshire councils because some of the integration work requires to be taken forward on a cross partnership (Forth Valley wide) basis.

97. The integration work streams are summarised below. They will have an important role in highlighting the key issues and decision points required to maintain progress

- Governance
- Finance & budgets
- Human resources & organisational
- Clinical & Care governance
- Planning & operational
- Communication & engagement

98. Following the publication of an initial set of regulations in October, it is anticipated that a number of key aspects of the integration scheme will be considered by Council in November 2015 in order to begin consultation, pending the publication of the remaining regulations and the statutory guidance.

99. Given the relatively late start in agreeing an integration model

good progress has been made over the summer months in progressing integration arrangements. The council are now more on track to submit their integration scheme by the prescribed date of 1 April 2015 and implement full integration by 1 April 2016. The complexity of health and social care integration is such that there is always the risk of slippage. It is important, therefore, to continue to monitor the situation closely to ensure progress is maintained.

Welfare reform

100. The council recognises the impact that changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new council tax reduction scheme and the introduction of the Scottish welfare fund. Councils continue to face uncertainties over the roll out of the universal credit and there is the potential for even further reforms following the Scottish independence referendum.

101. Welfare reform has had a significant impact on Falkirk Council. Since the introduction of size criteria restrictions (i.e. so called bedroom tax) in April 2013, 3,583 households across the Falkirk Council area have been affected by a reduction in housing benefit due to size criteria. This has resulted in a £1.1 million reduction in housing benefit in the period 1 April 2013 to 6 April 2014 (i.e. the end of the 2013/14 rent year).

102. The council has been monitoring and planning ahead to militate against the impact of the reforms. Regular updates are provided to the council on welfare reform and the initiatives being taken locally to mitigate the impact of the reforms. This includes, for example, the establishment of a welfare reform governance group and the setting up of a welfare reform hotline for use by the public.

103. Overall, Falkirk Council is well sighted on the welfare reform agenda and is proactive in putting arrangements in place to mitigate the impact of welfare reform locally.

Housing and council tax benefits performance audit

104. A risk assessment of the council's housing benefit service was carried out in February 2014 with the results reported in June 2014. The report noted significant changes and improvements since the last risk assessment in March 2011. Of the original 19 risks identified in 2011 some 15 have been fully completed, one action is ongoing and 3 actions remain outstanding.

105. In order to ensure continuous improvement the council needs to address risks carried forward from 2011 and the new risks identified. In particular, the need to improve performance in areas such as the recovery of benefits overpayments. Management has agreed an action plan to address the issues and we will monitor progress as part of our 2014/15 audit.

Outlook

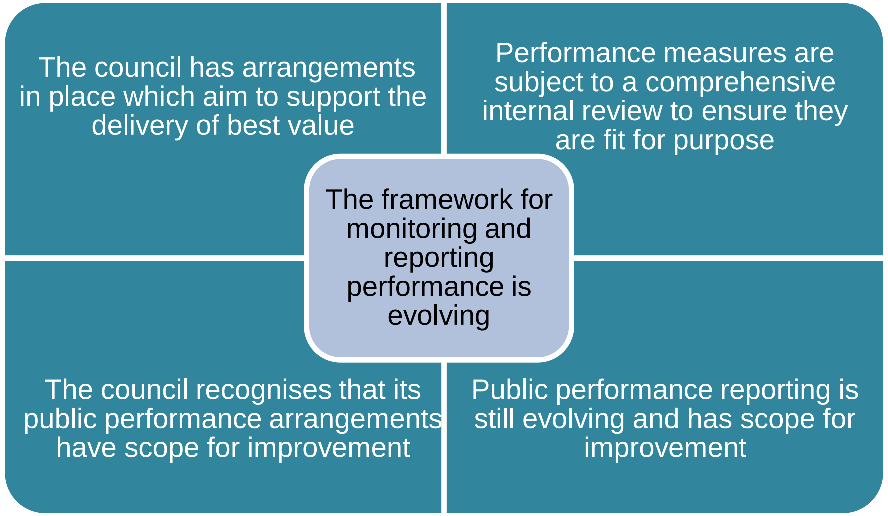
106. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process. The council will need to continue to engage at the highest level with NHS Forth Valley to ensure full implementation of integration arrangements by the statutory date of 1 April 2016.

107. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils.

108. Responsibility for the investigation of housing benefit fraud is currently being planned to transfer to a new Fraud and Error Service (FES) nationally. This will be administered by the Department of Work and Pensions. The roll-out of this new service will be implemented across councils on a phased basis during the period July 2014 and March 2016. In Falkirk Council's case, this will involve the transfer of two of its investigative staff posts, one of which is currently vacant, to the FES from November 2014. The council's arrangements for the prevention and detection of fraud may be weakened due to the loss of experienced investigators to FES.

109. The political context in 2014 has been particularly challenging with the referendum on Scottish independence. Given the outcome of the referendum there is the potential for even further change and discussions are likely on local services, governance and accountability.

Best value, use of resources and performance



110. Local authorities have a statutory duty to provide best value in the delivery of services including those provided through arms length organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance to the public so that they know what quality of service is being delivered and what they can expect in the future.

Arrangements for securing Best Value

111. The council has arrangements in place for securing Best Value as detailed below:

- A best value working group with representatives from across the council. It oversees developments and reports on progress to the corporate management team (CMT). It receives reports on the outcomes of internal service reviews, service performance information and national performance reports published by Audit Scotland.
- A performance panel has been established. Its remit is to scrutinise service performance including progress against service plan and performance measures. The panel reports to the scrutiny committee.
- A dedicated improvement team which supports service reviews and performance self-assessments. The team also have staff who are involved in developing new systems and identifying opportunities for lean processing.
- A rolling programme of peer reviews whereby service directors are held to account for the performance of their service by the chief executive and another director.
- A four year programme of self–assessments based on the public service improvement framework. These are also used to identify services where more detailed reviews are required, for example, fleet management.

112. While the council has arrangements in place to support the delivery of best value, there are still a number of areas where there is scope for improvement such as performance measurement and management.

Use of resources

113. The council's revenue budget for 2014/15 identifies proposed savings from procurement and asset management of £1.1 million. Further savings have also been identified from workforce reduction, while risk management arrangements continue to develop.

Asset management

114. The property asset management plan supports the corporate asset management strategy and is coordinated by the corporate asset management working group. It is also supported by the asset management unit. A close working relationship exists between the council's corporate asset management working group and the capital planning and review officer working group. This is to support the integration of asset management planning and investment decision making. This includes cross representation in both groups by relevant officers.

Workforce management

115. As part of the programme of savings, the council has continued to reduce the workforce through an early severance scheme. This resulted in a 59 applications being approved in 2013/14, a significant increase on the previous year (*2012/13:18*).

116. The decision to approve applications will become more difficult as the workforce shrinks and the potential impact on service delivery is amplified. Intellectual capital is increasingly being retained by fewer staff, and the departure of key staff could adversely impact on the council's ability to function effectively. The council needs to continue to ensure that decisions on workforce reduction not only demonstrate value for money, but carefully consider the impact on service delivery.

Risk management

117. The council continued to take positive steps to improve its risk management arrangements, including the appointment of a corporate risk manager, the introduction of a revised risk policy and framework, and training across services. The Assurance & Improvement Plan 2014-17 confirmed that the LAN is satisfied that the council has made sufficient progress in this area. It concluded that no further scrutiny is required at this stage.

118. However, management recognise that further improvements to risk management arrangements are required. We also note that the corporate risk register does not quantify the likelihood and impact of gross risk and net risk (after taking account of controls) nor does it identify individual risk owners.

119. The corporate risk manager has informed us that the intention is to report improvements in this, and other areas, to the Audit

Committee by the end of the calendar year. Also, while updates of risk management arrangements have been reported to corporate risk management group, the audit committee has received no progress reports since September 2013 even though the review of risk management is within its remit.

Recommendation No. 6

Performance management

120. The council are in the process of reviewing key aspects of its performance management and reporting arrangements.

121. We have noted a number of developments in this area including:

- introduction of a peer scrutiny review process
- establishment of a performance panel to promote challenge and improvement across the council
- the public service improvement framework programme now covers all services over the period 2013 - 2015.

122. Further work ongoing includes a fundamental review of performance measures to ensure they are 'fit for purpose' and a redesigned council website which management believe will allow the public to access relevant performance information more readily. Other initiatives include the roll-out of covalent and reviewing the format and content of performance monitoring reports to ensure that they meet the needs of users.

123. These developments are still in their early stages and the local area network of scrutiny partners identified that scrutiny is required to ensure that all aspects of performance management and scrutiny are working effectively. To be effective the performance management arrangements should drive change in how the council delivers services and targets resources. This targeted best value work is planned for November / December 2014. The results of this work will be reported in spring 2015.

Overview of performance targets in 2013/14

124. The council's corporate scorecard is published on the council's website and updated on a quarterly basis. This reports performance across a range of indicators using a traffic light system. More detailed indicators are also collected for services and these are reported to the performance panel.

125. The corporate scorecard for the quarter to May 2014 reported that in most areas performance targets were being achieved. Improvement is required, however, in a number of areas including staff sickness absence, free school meal uptake in secondary schools, and responding to freedom of information requests.

126. At a more detailed level, services reported that in general performance was on or ahead of target. There were, however, a number of areas where management recognised that improvements could be made. There were also some issues reported by us in previous years that have yet to be fully

addressed. For example, education and social work services continue to report on a number of performance indicators without a specific measurable target. Instead, targets are described as either ‘improve’, ‘reduce’ or ‘maintain’.

127. As part of the forthcoming best value review of performance management arrangements will also consider whether performance measures are sufficiently challenging and support continuous improvement.

Statutory performance indicators

128. The audit of statutory performance indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils’ arrangements for public performance reporting and the completion of the local government benchmarking framework indicators. This focuses on three statutory performance indicators (SPIs) namely :

- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covers a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

129. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish local authorities’ approaches to public performance reporting (PPR) has been carried out by Audit Scotland’s performance audit and best value section, the results of which were reported to the Accounts Commission in June 2014.

130. Individual assessments were also reported to councils’ chief executives, leaders and chairs of audit committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for Falkirk were mixed, with 14% fully, 81% partially and 5% not meeting the criteria. A further evaluation of councils’ approaches to PPR is due to be carried out in spring 2015.

131. We concluded that the council have procedures for collating and reporting performance indicators, but further development is still needed. A number of initiatives are in progress to support this including the creation of a new public performance zone on the council’s website and an internal comprehensive review of performance indicators.

132. We also identified a number of areas with scope for improvement. In particular, the need to develop meaningful performance measures for assets, procurement and equality & diversity. Management also recognise that improvements are required in these areas.

Assurance and improvement plan 2014-17

133. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 was prepared by the LAN of scrutiny partners. This was published on Audit Scotland's website and was submitted to the Audit Committee on 23 June 2014.

134. The AIP noted some areas of improvement notably risk management arrangements. The LAN was unable to assess progress in implementing health and social care integration. Information subsequently received allowed us to conclude that progress has been made although a risk still exists because of the scale and complexity of changes required.

135. The LAN decided that best value work was required on the council's new decision making structures, as described at paragraphs 74 to 76 and on the effectiveness of performance arrangements in promoting continuous improvement as outlined at paragraphs 121 to 123. This work will be conducted in autumn 2014, with the report scheduled to be published in spring 2015.

Community Planning Partnership

136. An audit of the Falkirk Community Planning Partnership was carried out earlier this year with findings published in May 2014. The report says there is strong culture of collaboration which has helped Falkirk respond quickly to local problems and secure funding for major initiatives such as the Helix project. The report also notes that there has been improvement over the last few years against some performance indicators.

137. The report acknowledges that the partnership has a good understanding of how it can work better and where it needs to improve, but also identifies the need to demonstrate a shift from facilitating to leading partnership working. In particular, the partnership's leadership board needs to show stronger leadership and systematic improvements in several areas to fully achieve the benefits of community planning. These include setting clear priorities to target specific areas of concern, partners holding each other to account for their contributions to agreed outcomes, effective performance management and reporting arrangements, and engaging better with local people.

138. The leadership board has established an improvement group (and several sub-groups) to develop a comprehensive improvement plan that addresses the key issues in the Audit Scotland report. This is encouraging and a positive step going forward but it is still too early to assess progress overall.

Local performance audit reports

139. In 2013/14 we carried out two targeted follow-up audits to assess progress in areas that had ben reported nationally by Audit Scotland:

140. **Arm's-length external organisation (ALEOs):** Our follow-up audit covered the three ALEOs set up by Falkirk Council, the largest of which is Falkirk Community Trust Ltd with a turnover of £16.7 million.

141. Overall, we concluded that governance could be improved if opposition members previously offered places on the Board of the Falkirk Community Trust would take up their positions as vacancies arise. This is important from a scrutiny and decision-making perspective.

142. **Major capital investment in councils:** The Audit Scotland report was considered by the corporate management team and as a result a number of actions were implemented.

143. Our follow-up audit made use of the good practice guide checklist that accompanied the national report to assess the effectiveness of local arrangements for managing the council's general fund capital investment programme.

144. Overall, we concluded that the council has considered Audit Scotland's report *major capital investment in councils* and made improvements as a result although there is still scope for further improvement.

National performance audit reports

145. In our 2012/13 annual audit report we highlighted that there was no formal framework in place for scrutinising national performance audit reports issued by Audit Scotland.

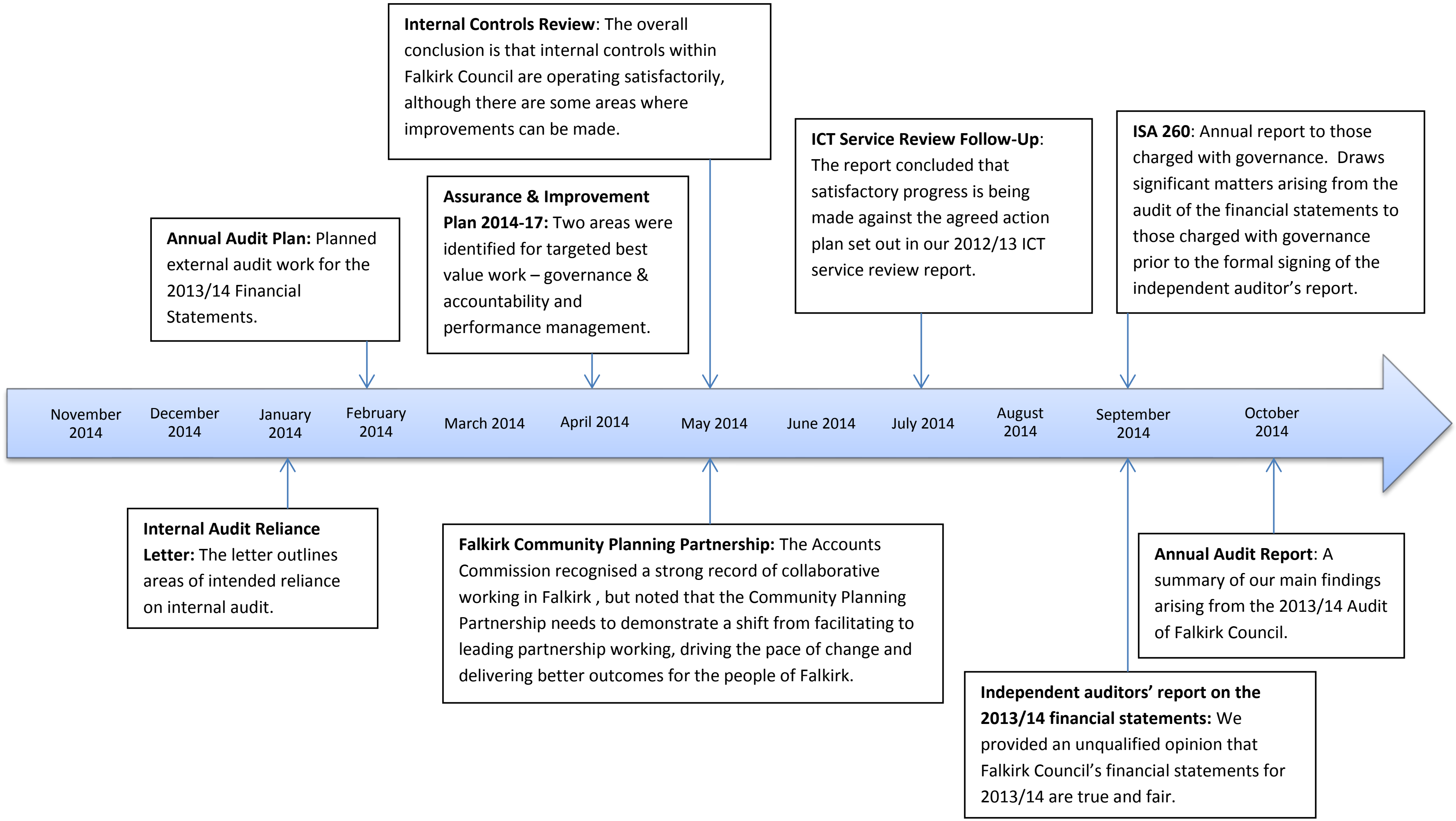
146. The head of policy, improvement and technology has since developed formal arrangements for considering and reviewing national reports. These was reviewed and approved by the corporate management earlier this year. These new arrangements are still bedding in and it is too early to assess their effectiveness. We will continue to monitor the situation review progress.

147. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II.

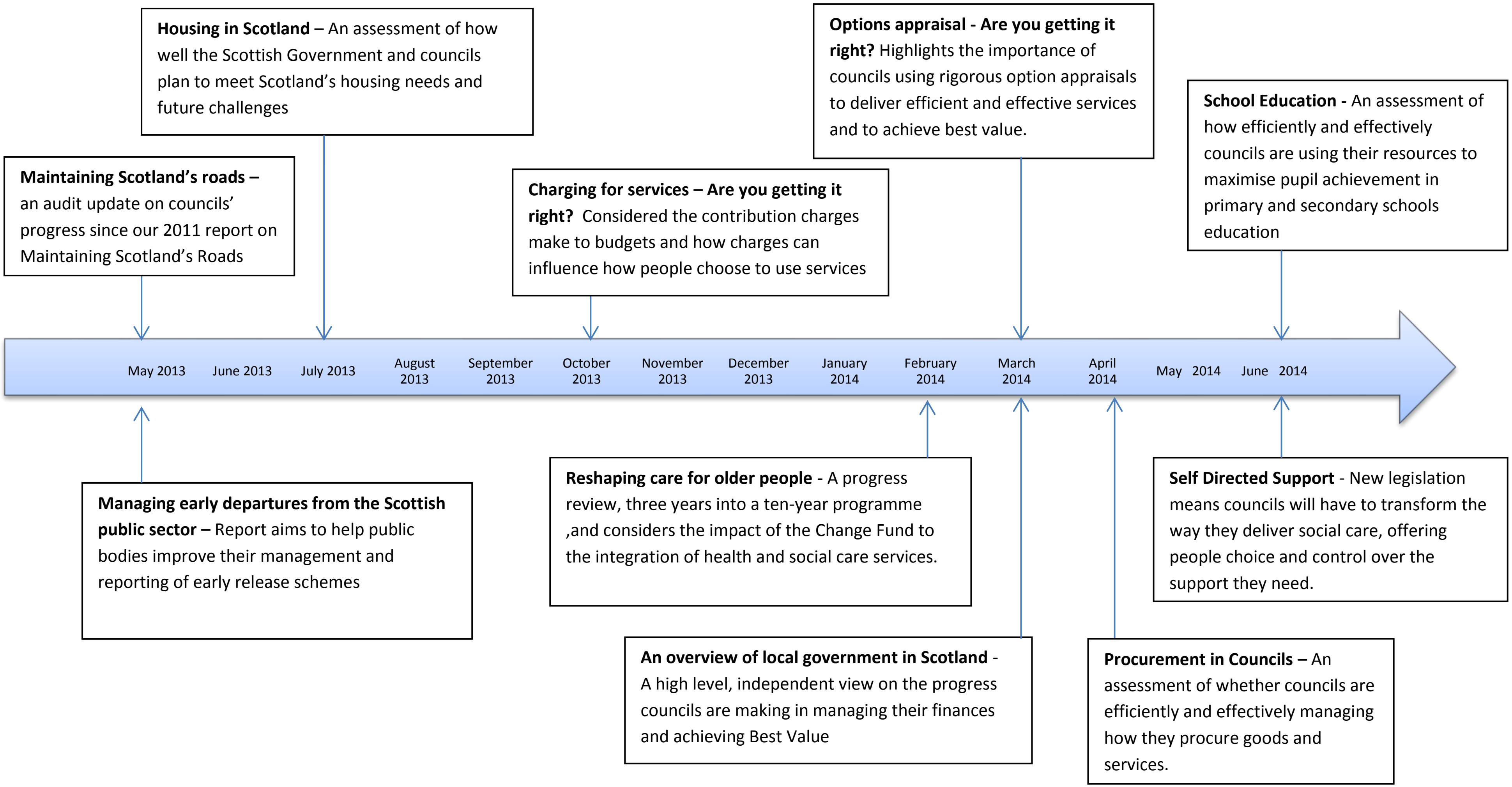
Outlook

148. As choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the best use of available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities.

Appendix I – Summary of Falkirk Council local audit reports 2013/14



Appendix II – Summary of Audit Scotland national reports 2013/14



Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and it describes the assurances that we have received on completing our audit work in these areas.

Audit Risk	Assurance
Financial management and sustainability The council's general fund balance increased by £5.194 million in 2012/13. This represented an underspend of £11.216 million against budget. It will be a significant challenge for the council to identify recurring savings going forward. *Risk: significant over or under spends may undermine effective financial management and sustainability in the future.*	The general fund balance reduced by £6.6 million in 2013/14. This was £1.8 million higher than planned, mainly as a result of transfers to earmarked reserves.
	Management has recognised the need to move to a multi-year approach to budgeting which they believe will help to plan and manage finances more effectively.
	Management are aware that difficult decisions will need to be made going forward, and will continue to monitor and scrutinise progress against savings targets.
Governance and accountability Not all members are participating in the new decision-making structure that has been approved by council. *Risk: governance and scrutiny arrangements are not effective.*	Group members met on several occasions to try and resolve the issue of non-participation in decision-making structures but without success to date. The process though is still ongoing.
	A 'reflective' review of decision-making structures has been ongoing.
	A target best value review of the council's governance and accountability arrangements is scheduled for November / December 2014 with findings due to be reported in spring 2015.

Audit Risk	Assurance
Performance management There is evidence that performance management arrangements have improved but many developments are still at an early stage in their development and it is difficult to gauge their effectiveness to date. *Risk: performance management and scrutiny arrangements are not effective.*	The council has re-designed it website to make performance information more readily accessible to the public Service performance is reviewed and scrutinised on a regular basis by the council's Performance Panel. A targeted best value review of the council's performance management arrangements is scheduled for November / December 2014 with findings due to be reported in spring 2015.
Depute Chief Finance Officer post The Depute Chief Finance Officer plays a key role in co-ordinating the final accounts process. The current post holder is due to retire at the end of May 2014 and succession planning arrangements have yet to be agreed. *Risk: the final accounts process is not managed effectively and comprehensive working papers, in support of the draft 2013/14 accounts, are not provided to audit on time.*	Two experienced officers were appointed on acting up basis to cover the post of Depute Chief Finance Officer. A comprehensive set of working appears (of good quality) was presented to audit in accordance with the timetable agreed with external audit. Regular meetings with the Acting Depute Chief Officer responsible for managing the final accounts process to ensure that audit points were discussed and cleared promptly thereby allowing the 2013/14 financial statements audit to be completed on time.

Audit Risk	Assurance
The Helix project The Helix will be operational at the year end. The operational assets will need to be transferred to their rightful owners per the project partnership agreement, resulting in a change in accounting treatment for the council. *Risk: there is a risk of material misstatement in the financial statements given the unique nature and high values associated with the Helix project.*	Assets costing £23.538 million were transferred to Scottish Canals as at 31 March in line with the project partnership agreement.
	The transfer of assets to Scottish Canals was correctly treated as a disposal in the council's balance sheet and an acquisition in Scottish Canals' accounts.
Tax Incremental Finance (TIF) The 2013/14 Code has been amended to reflect arrangements under the TIF scheme where the council is likely to be acting as principal rather than agent. The council will need to ensure that these changes are reflected in the NDR income account. *Risk: the council does not have appropriate processes in place to accurately identify the income to be retained by the council.*	There is a designated TIF catchment area within Falkirk Council. The council have identified those properties and their associated post codes that fall within this area and where the council can legitimately retain TIF income.
	The council have set up specific ledger accounts to record TIF income to be retained by the council. These are monitored on a regular basis by an Accounting Services Manager.
	TIF income of £751,000 has been disclosed in the Non-Domestic Rates Account. This income was deducted prior to determining the contribution to the Non-Domestic Rate Pool.

<table>
<tr><th>Audit Risk</th><th>Assurance</th></tr>
<tr><td rowspan="3">Welfare reform
The council are responsible for administering the council tax reduction scheme and officers need to ensure that there are robust controls in place to effectively carry out this duty.
Risk: under/over recovery of council tax income in the absence of an effective system of internal control.</td><td>The council has increased its budget in 2014/15 to take account of irrecoverable rent arrears.</td></tr>
<tr><td>There is a programme of early engagement with tenants who fall behind with their rent, offering advice and assistance.</td></tr>
<tr><td>The Scottish Government announced in February 2014 that they would provide additional funds to Councils, with the aim of fully mitigating the impact of size criteria across Scotland in 2014/15.</td></tr>
<tr><td rowspan="2">Health and social care integration
The council and NHS Forth Valley have yet to agree an appropriate model for taking forward integration.
Risk: plans to support health and social care integration are not sufficiently developed to support effective implementation of new arrangements by 1 April 2016.</td><td>Falkirk Council and NHS Forth Valley agreed in May 2014 to progress health and social care integration based on a body corporate model.</td></tr>
<tr><td>A Core Group of Senior Officers drawn from Falkirk Council and NHS Forth Valley meets on a regular basis to co-ordinate the development of an integration scheme. This group is supported in its work by a number of working groups covering a range of issues such as finance & budgets, governance and clinical & care governance.</td></tr>
</table>

Audit Risk	Assurance
Public Services Network The council received Public Services Network (PSN) certification in November 2013 although some improvements still require to be made to further strengthen ICT security arrangements. *Risk: the council may not be able to access key information from other public sector bodies (e.g. benefits) leading to significant service disruption.*	Working practices have been changed to comply with PSN security requirements including removal of the use of personal devices; homeworking has been changed / curtailed; removal of Outlook Web Access from the council network and set up interfaces with (non compliant) third parties.
	The council have engaged an independent firm of ICT specialists (Pentest Partners) to carry out a health check of its PSN compliance arrangements in October 2014.
ICT Our 2012/13 CSR identified a number of areas for improvement. In particular, the lack of progress in finalising the council's ICT strategy. *Risk: the provision of effective ICT systems and infrastructure is undermined.*	Management have taken action to address nine out of eleven actions identified in the 2012/13 Computer Services Review (CSR) report. The council has agreed a revised action plan to address the two remaining outstanding actions.
	The council has approved an ICT strategy which takes account of the requirements of Public Services Network security.

Audit Risk	Assurance
Equal pay claims The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases. *Risk: the cost of the equal pay claims is greater than that provided for by the council.*	The council has included a provision of £4.165 million in its 2013/14 financial statements in respect of potential expenditure arising from outstanding equal pay claims.
	A legal judgement (Bainbridge) on pay protection means that the council could be at risk in respect of further potential equal pay obligations. This is dependent on case law development and cannot be quantified at this point in time. The council have, therefore, included an unquantified contingent liability, for this element of equal pay, in its 2013/14 accounts
Non-depreciation of council house dwellings The council does not charge depreciation on its council dwellings on the grounds that any depreciation, which is based on the gap between the carrying value and residual value, would not be material. *Risk: circumstances change and the depreciation becomes material.*	The District Valuer's Office confirmed that council housing stock does not require to be depreciated. This is on the basis that housing assets are continually being maintained.

Audit Risk	Assurance
Provision for landfill site restoration costs To comply with IAS37 Provisions, contingent liabilities and contingent assets the council should recognise landfill site restoration and aftercare costs as a provision on the balance sheet. *Risk: the 2013/14 financial statements do not comply with accounting standards as interpreted by the Code.*	The council made a prior year adjustment in the 2013/14 accounts to reflect a provision for the Kinneil Kerse landfill site. The provision is based on the restoration costs of the site as advised by the District Valuer.

Appendix IV – Action plan

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/55	**Financial position** The general fund balance reduced by £6.6 million during the year. The closing balance at 31 March 2014 is made up of earmarked commitments of £18.5 million and an uncommitted balance of £12.3 million. This position is not in line with the council's reserve strategy which is to maintain uncommitted reserves of between £7- £10 million. **Risk** The council may not be achieving value for money by maintaining unnecessarily high levels of uncommitted reserves whilst planning further increases in the level of external borrowing. **Recommendation** Management must ensure that their financial strategy represents best value and the most efficient use of resources, and should review the information provided to members on reserves to ensure it is consistent with good practice.	• From the £12.3m balance, £1.5m was deployed in the 2014/15 Budget and in August Members approved a further transfer of £0.6m for Spend to Save. • It is noted that the Accounts Commission in their 2013 overview stated "A number of Councils have non-earmarked General Fund reserves greater than the level set out in their policies which may be prudent in the current environment." • The Council is keeping its Reserve position under close review with projections indicating that they are gravitating to the floor in the range. • A report to Special Council in November 2014 puts a marker down that a review of the reserves strategy will take place in January 2015.	Chief Finance Officer (Bryan Smail)	Ongoing January 2015

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/60	**Capital slippage** The council reported a substantial underspend against the planned level of capital expenditure of £13.5 million. This was a similar pattern to 2012/13 and indicates that the profiling of capital projects may not be correct **Risk** There is a risk that the council fails to deliver key projects that would benefit local communities and facilitate economic development due to sustained slippage against the capital plan. **Recommendation** Management should review the capital programme, and develop procedures to redirect funds where projects are not progressing as planned.	The capital programme is a three year programme which will inevitably ebb and flow throughout the life of the programme, therefore slippage is an inherent part of it. We monitor progress of the capital programme throughout the year to mitigate the level of slippage and take the following steps to accelerate projects where progress slips: • Meeting every 6 weeks of Capital Planning Review Working Group to discuss progress of programme, slippage and projects that can be brought forward. Note that all Services are represented at this group. • Regular reports to CMT to advise of slippage and detail projects that can be accelerated to mitigate slippage. Last report 27th October 2014. • Report to Executive Committee to update Members on level of slippage and proposals for addressing the	Capital Manager (Carole McGee)	Ongoing

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
		issue i.e. acceleration of approved budgets. Last report 30 September 2014. • These regular meetings and reporting structures will continue throughout the life of the current three year programme. It's important to note that whilst we make every effort to identify other projects to replace those projects that have slipped, we can only accelerate projects that have been approved as part of the three year capital programme, we cannot increase overall capital expenditure.		

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/71	**Efficiency savings** The council has identified the need to make savings of £10.5 million in 2013/14, and a further £40.4 million of savings in the medium term (2015/16 to 2017/18). **Risk** The council is unable to achieve required efficiency savings and maintain existing standards of service delivery within reduced resources. **Recommendation** The council should ensure that robust medium term financial plans, with nominated lead officers, are produced covering all the required savings.	• The Council is well aware that this level of savings on top of an aggregate budget gap of £60m over the past 6 years represents an unprecedented challenge. • To manage this situation the Council is operating within a medium term financial framework. • Services have made various detailed savings proposals which will, if approved by Members, be built into future year budgets. These will then be monitored through the standard budgetary control process. Specific savings may be identified for monitoring at a more detailed level where appropriate. • The Chief Executive and CFO liaise closely with colleagues at CMT and with senior members. It will be made clear to Service Directors that savings approved by members will require to be delivered in practice.	Chief Finance Officer (Bryan Smail)	Ongoing

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/85	**Public Services Network (PSN)** Health and social care integration is likely to create new challenges especially if the NHS continues to be outwith the PSN compliance framework. **Risk** There is a risk that information security may be compromised as a result of third party access to the council's systems and data. **Recommendation** The council should ensure that its data sharing protocols include the requirement to meet the necessary security standards where sensitive personal data is to be transferred or exchanged electronically.	The information sharing protocols (ISPs) needed for health and social care integration are in preparation in conjunction with the integration scheme. The security of information on electronic transfer will be provided for in the relevant protocol(s). More broadly, the Council's ISPs are being reviewed in light of the adoption of the SASPI Accord by the Council and its partners.	Chief Governance Officer (Rose Mary Glackin)	April 2015

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/88	**Blue badges** The NFI exercise shows that limited progress had been made in investigating potential fraud or misuse of blue badges. The NFI exercise identified 795 high quality matches that merited investigation. At the time of our audit only 40 had been investigated. **Risk** There is a risk of fraudulent misuse of blue badges across the council area. This could have a detrimental impact on the availability of disabled parking spaces for genuine blue badge holders. **Recommendation** The Council should ensure that all high quality matches identified through the NFI exercises are adequately investigated.	The Council's NFI Key Contact discussed the follow up of Blue Badge matches with the relevant Officers. It was agreed that these would be reviewed in a proportionate way, with an eye to checking undertaken at each renewal / application. This approach will be reviewed for NFI 2014/15.	Audit Manager (Gordon O'Connor)	January 2015

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/119	**Risk management** The corporate risk register does not quantify the likelihood and impact of gross risk and net risk (after taking account of controls) nor does it identify individual risk owners. **Risk** There are too many risks recorded on the risk register and it is difficult to differentiate between significant and non-significant risks. Also, mitigating actions to address risk may not be effective without a nominated risk owner. **Recommendation** The corporate risk register should be updated to quantify risks and identify risk owners. The Audit Committee should be regularly updated of changes to risk management arrangements for consideration and review.	The recommendation is accepted and is included within the Corporate Risk Management (CRM) work plan for 2013-15.	Corporate Risk Manager (Hugh Coyle)	March 2015