



Falkirk Council

**Annual Audit Report to Members
and the Controller of Audit - year
ended 31 March 2019**

27 September 2019

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About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Falkirk Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Key Conclusions from our 2018/19 audit

<p>Financial statements: Audit Opinion</p>	<p>We have concluded our audit of the Council's financial statements for the year ended 31 March 2019. We identified no unadjusted audit differences arising from the audit. Four audit adjustments were processed as part of the audit.</p> <p>We concluded the other information subject to audit, including parts of the Remuneration Report and the Annual Governance Statement were appropriate.</p>	<p>G R E E N</p>
<p>Presentation and disclosures</p>	<p>The draft financial statements and supporting working papers were of a good quality. We were pleased that the Council had taken on board our previous comments to improve the presentation of the financial statements.</p> <p>We were satisfied that the Annual Governance Statement reflects the requirements of the <i>Delivering Good Governance Framework</i>.</p>	<p>G R E E N</p>
<p>Wider Scope: Financial Sustainability</p>	<p>In 2017/18 we reported that the Council has to increase the pace of transformation to support the delivery of a robust medium term financial plan (MTFP). During 2019, the Council has revised the transformation programme to focus on priorities, refreshed and improved the governance arrangements and identified more areas for potential savings. The key test for the effectiveness of the governance arrangements will be the pace of change and decision making to deliver transformational improvements.</p> <p>While the Council has a MTFP, which provides assurance around the balanced budget in the short term, a budget gap remains for latter years of the plan. It is critical that officers can provide members with real options for savings, but collective political leadership is also required to make difficult decisions to meet the financial challenges ahead.</p>	<p>A M B E R</p>
<p>Financial Management</p>	<p>We were satisfied that financial reporting was clear and consistent throughout the year. The Council also took steps to reduce the impact of a projected overspend in Children's Services. While we noted improvement areas in relation to the monitoring of savings and slippage against the capital plan, the Council has already identified improvements to be implemented in 2019/20.</p>	<p>G R E E N</p>
<p>Governance and Transparency</p>	<p>The key features of good governance at the Council are in place and operating effectively. The audit committee has a new independent chair and a revised programme of member training and support has been developed.</p> <p>The Council continues to embed its risk management arrangements and we concluded that the Council's preparations for EU withdrawal appear appropriate.</p>	<p>G R E E N</p>
<p>Value for money</p>	<p>The Council has recently reviewed its performance management framework to ensure that reporting arrangements are in place to provide members with assurance on performance against priorities and savings plans. Council services also generally perform well against peers.</p> <p>However, in our view there remains scope to report on performance more frequently, and to review the arrangements for public performance reporting.</p>	<p>A M B E R</p>

Introduction

Our key contacts:

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Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Falkirk Council (“the Council”) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both members of the Council and the Controller of Audit, and presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Council. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our Annual Audit Plan.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangement. Where relevant, we have drawn on the findings of previous Best Value Assurance work and our observations and recommendations agreed with management in prior years.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Audit Committee on 8 April 2019.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2018/19 financial statements. We can confirm that we carried out our audit in accordance with the plan. Minor changes were made to the level of materiality that we applied during the audit, to reflect the 2018/19 draft financial statements. We set our reporting threshold to communicate the details of errors identified at £0.25 million.

Overall Materiality

Tolerable Error

Nominal amount

£12.9 million

£9.7 million

£0.25 million

2% of the Council's net expenditure

Materiality at an individual account level

Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply a lower materiality level of £1,000 to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

Financial statement audit

We are responsible for conducting an audit of the Council's financial statements. We provide an opinion as to:

- ▶ whether they give a true and fair view of the financial position of the Council as at 31 March 2019 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- ▶ Financial management;
- ▶ Financial sustainability;
- ▶ Governance and transparency; and
- ▶ Value for money.

Our findings against each dimension are summarised in Section 3 of this report.



Financial Statements audit

Introduction

The annual financial statements provide the Council with an opportunity to demonstrate accountability for the resources at its disposal, and report on its overall performance in the application of those resources during the year. We are responsible for conducting an audit of the financial statements of the Council and provide an opinion on the financial statements as to:

- ▶ whether they give a true and fair view of the financial position of the Council and its group as at 31 March 2019 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare annual accounts, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. The Council's unaudited financial statements were considered by the Audit Committee on 17th June 2019, ahead of the deadline of 31 August. The inspection notice was published on 13 June, in accordance with Regulations.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

Our Annual Audit Plan was considered by the Audit Committee on 8 April 2019. The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- ▶ the risk of fraud in revenue and expenditure recognition (significant risk); and
- ▶ misstatements due to fraud and error (fraud risk).

The plan also highlighted a number of areas of higher inherent risk within the 2018/19 financial statements:

- ▶ Valuation of Property, Plant and Equipment;
- ▶ Pension Liability and Asset Valuation;
- ▶ Accounting for Public Private Partnerships (PPP); and
- ▶ National Loans Fund Accounting.

Preparation of the Financial Statements

As we note in the Good Practice box, below, the Council has taken significant steps to improve the overall quality and user-friendliness of the financial statements in 2018/19.

The format of the financial statements has changed significantly, as part of the Council's response to a recommendation that we made within our 2017/18 Annual Audit Report.

We note that the Council's Chief Financial Officer canvassed other Scottish local authorities to reflect on and identify improvements. We noted (refer below) important changes to the Management Commentary and Annual Governance Statement. During the audit, we worked with the finance team to make further minor improvements to the presentation, including improved links to further information on the Council's performance and management of strategic risks.

Good Practice: Improvements to Financial Statements

The Council reviewed and considered a number of other local authority financial statements and reports as a template to learn from. We committed to early engagement with the Chief Finance Officer and noted a number of improvements:



Despite the need for significant additional disclosures as a result of changes to accounting standard, the length of the financial statements reduced by 2 pages as a result of streamlining notes and prioritising disclosures



We identified a number of qualitative improvements including:

- Greater focus on the key achievements of the Council
- Clarity about the key areas of Council spend in the year
- Greater explanation of the Council's governance processes and areas for improvement

We will continue to work with the finance team to support further enhancements.

Group financial statements

The Council has identified and accounted for the following interests in other entities within its group financial statements:

- ▶ Falkirk Community Trust;
- ▶ Falkirk Community Stadium Limited;
- ▶ Thinkwhere;
- ▶ Central Scotland Valuation Joint Board; and
- ▶ Falkirk Integration Joint Board

No matters were identified as a result of our review of the group consolidation.

Audit outcomes

We identified no unadjusted audit differences arising from the audit. Four adjustments were processed as part of the audit, which are outlined in Appendix F.

Our overall audit opinion is summarised on the following page.

Our audit opinion

Element of opinion

Financial statements

- ▶ Truth and fairness of the state of affairs of the Council at 31 March 2019 and its expenditure and income for the year then ended
- ▶ Financial statements in accordance with the relevant financial reporting framework

Going concern

- ▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting

Other information

- ▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit

Matters prescribed by the Accounts Commission

- ▶ Audited part of Remuneration Report has been properly prepared.
- ▶ Management commentary / Annual Governance Statement are consistent with the financial statements and have been properly prepared.

Matters on which we are required to report by exception

Basis of our opinion

We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement.

We are satisfied that accounting policies are appropriate and estimates are reasonable.

We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.

We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis.

Wider scope procedures, including financial forecasts are considered as part of our work on financial sustainability.

We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:

- ▶ Review of committee minutes and papers, regular discussions with management, our understanding of the Council and the sector and our participation in the Local Area Network with other scrutiny bodies.
- ▶ Early work and engagement with the Council's finance team on the revised format of the financial statements and report.

Our procedures include:

- ▶ Agreeing the format of the reports to regulations and agreeing the disclosures to underlying accounting records, including to the underlying accounting records.
- ▶ Reviewing the content of narrative disclosures to information known to us.
- ▶ Our assessment of the Annual Governance Statement against the *Delivering Good Governance Code*.

We are required to report on whether:

- ▶ there has been a failure to achieve a prescribed financial objective;
- ▶ adequate accounting records have been kept;
- ▶ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- ▶ we have not received the information we require.

Conclusions

We have issued an unqualified audit opinion on the 2018/19 financial statements for:

- ▶ Falkirk Council and its group; and
- ▶ the Falkirk Temperance Trust.

We have no matters to report.

We are satisfied that the annual report materially meets the core requirements set out in the Code of Practice on Local Authority Accounting.

We have issued an unqualified opinion.

We have no matters to report.

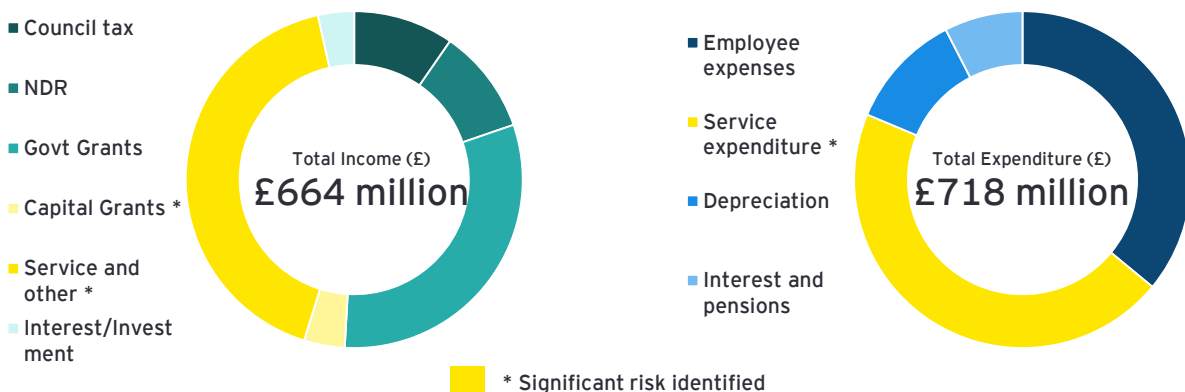
Significant and fraud audit risks

1. Risk of Fraud in Income and Expenditure Recognition

As we outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

In our audit planning, we rebutted the risk of improper recognition of core grant funding income from the Scottish Government, as well as in respect of council tax and non-domestic rate income because there is no judgement in respect of these income streams. The charts below highlight how our assessment impacts our testing strategy on the Council's financial statements.

Exhibit 1: Key components of the Council's income and expenditure



Source: 2018/19 Financial Statements: Comprehensive Income and Expenditure Statement

Our testing has not identified any material misstatements relating to revenue and expenditure recognition.

Specific procedures relating to significant risks

We undertake specific, additional procedures over income and expenditure streams where we identified a significant risk, including:

- ▶ Review and challenge management's accounting estimates over revenue or expenditure recognition for evidence of bias.
- ▶ Review transaction listings for individually material balances as well as unusual items to agree to supporting documentation and third party evidence.
- ▶ Test a representative sample of transactions across the remaining income and expenditure population to ensure coverage of testing across all balances.
- ▶ Review and test revenue cut-off around the year end through reviewing manual journals and credit notes raised after year end.
- ▶ Perform a search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.

Our Audit of Other Income and Expenditure

We undertook walkthroughs in respect of the processes management has established to account for material income and expenditure streams. We obtained data downloads from the Council's financial ledger to allow us to trace key transactions from initiation to recording in the financial statements.

Other audit procedures: non-significant risk areas:

Our audit work on other areas, where there were no significant risks, we identified no audit misstatements. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.

Council tax income: We established detailed expectations of income based on properties and rates and compared to actual income in the year. We audited the reconciliation between the financial statements and the relevant feeder system.

Non Domestic Rates: We established expectations of income to be collected by the billing authority and agreed the reconciliation between the general ledger and the feeder system. We also audit the Council's NDR grant return to the Scottish Government to ensure that reliefs have been applied appropriately.

Non ring-fenced grant income: We substantively tested these balances to grant confirmation letters from third parties.

Interest income: We agreed balances to bank statements and other third party reports.

Employee expenses: We establish expectations of payroll costs in the year based on staff numbers and salary movements, and compared our expectations to actual results and investigated variances. Our bespoke data analysers provided analysis of all payroll transactions in the year, from which we investigated and corroborated material and unusual transactions.

Depreciation, amortisation & impairment: We undertook testing of these balances in conjunction with our work on property, plant and equipment. We considered the appropriateness of useful lives of assets and recalculated depreciation charged in the year.

Pension costs: We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on the page 14. In respect of all pension transactions impacting the CIES we have agreed these journals to the underlying IAS 19 report prepared by the Council's actuaries.

2. Risk of Misstatement due to Fraud or Error

Our Annual Audit Plan recognises that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

Our audit procedures

Our findings

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We considered the risk of fraud, inquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

We have not identified any material weaknesses in controls or evidence of management override.

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We have outlined these procedures in more detail on the following page.

We identified a number of manual journals requiring further consideration using criteria we established based on our understanding of the Council. All journals that we tested were assessed as appropriate and verified to supporting documentation.

Management disclose their assessment of the critical accounting judgements and key estimates in the financial statements. We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates.

We reviewed each estimate and concluded there was no evidence of material bias.

We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias.

We are also content that the disclosures that management have made in the relevant section of the financial statements are appropriate.

Evaluate the business rationale for any significant unusual transactions.

No unusual transactions were identified outside the normal course of business.

Review of property, plant and equipment expenditure to ensure it fulfils the accounting requirements to be capitalised. We also tested Housing Revenue Account expenditure to ensure funds were not being used to meet General Fund expenditure.

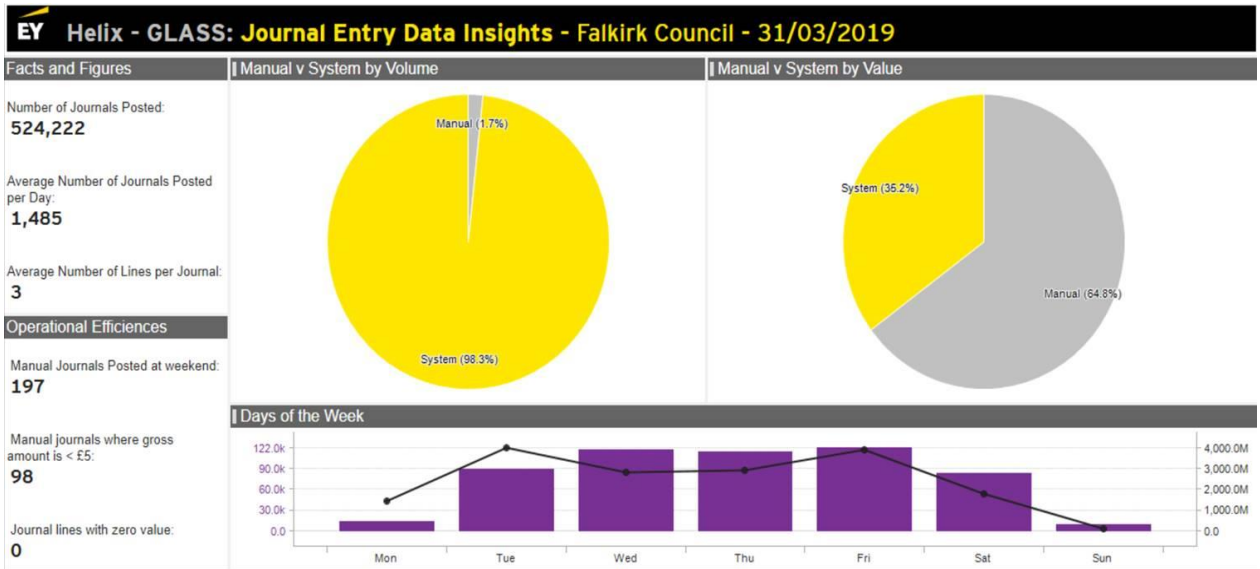
No issues were noted through testing performed.

We consider the consistency and application of accounting policies, and the overall presentation of financial information.

There are no accounting practices that materially depart from what is acceptable under the Code.

Our consideration of financial journals posted through the year

As outlined on the previous page, we recognise one way for management to manipulate the Council's financial position is through posting manual journals to bypass internal financial controls. As part of our audit procedures we obtained a full download of all journals posted to the Council's financial ledger in the year, and completed procedures to ensure their completeness in advance of our testing.



This extract shows a full summary of all journals posted in the year, and some of the key fields through which we search and analyse journals. In particular the analysis demonstrates that while journals are mostly system generated by volume, the larger value journals tend to be manually entered by finance staff. This is in line with our expectations as many larger value journals will be posted manually as part of the yearend process:

- ▶ yearend adjustments to the Council's LGPS liability; and
- ▶ yearend valuation adjustments to fixed assets, PFI liabilities and other estimates and judgements.

We use our bespoke data analysers to scrutinise 100% of the journals posted in the year. We filter the journal posting to focus on those deemed the highest risk:

- ▶ journals posted by senior management;
- ▶ journals posted at unusual times;
- ▶ journals posted around the yearend; and
- ▶ journals posted to key accounts.

We use this risk based approach to identify journals that require additional testing through discussions with management and corroboration to supporting evidence from third parties.

Other Inherent Risk Areas

Our Annual Audit Plan highlighted three additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

	Our audit procedures	Our findings
<p>Valuation of Property Plant and Equipment</p> <p>The Council's PPE portfolio totals over £1bn of assets. Our work focused on judgements in relation to the valuation of the Council's school estate. An external valuation was procured by the Council from Shepherd's in the year. The net book value of the Council's school estate was £372 million at 31 March 2019.</p>	<ul style="list-style-type: none"> ▶ We reviewed the annual cycle of valuations to ensure that assets have been valued in accordance with the requirements of the Code, and whether any specific changes to asset use have been communicated. ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre). ▶ Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated. ▶ Considered changes to useful economic lives as a result of the most recent valuation. ▶ Tested that accounting entries have been correctly processed in the financial statements. 	<p>The Council's current approach to valuations is to revalue as at 1 April, rather than the balance sheet date. The risk that we have highlighted in previous reports crystallised in 2018/19 as the value of the school estate increased by £7 million between 31 March and 1 April. While we are satisfied that this has not resulted in a material error in 2017/18 or 2018/19, we have highlighted the error indicated by the valuation in Appendix F.</p> <p>Recommendation 1: The Council should ensure that future revaluations occur at the balance sheet date.</p>
<p>Valuation of PFI liability</p> <p>The Council holds PFI liabilities and assets amounting to £193 million.</p>	<p>For all existing PFI schemes we reviewed the existing contracts and inquired with management outside the finance team to ensure there were no material changes to the arrangements that should be accounted for.</p> <p>We tested the accounting entries made in the year to supporting schedules and contracts.</p>	<p>We agreed the PFI liability calculations to supporting contracts.</p> <p>Our expert valuation team agreed with the approach adopted by the Council.</p>

Our audit procedures

Our findings

Valuation of Pension Liabilities

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £334 million (£264 million at 31 March 2018).

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We have focused on the following areas, which are consistent with those of management:

- ▶ The reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent judgements on McCloud and Guaranteed Minimum Pensions (GMP).
- ▶ Ensuring the information supplied to the actuary in relation to the Council was complete and accurate.
- ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

We have liaised with the appointed auditor of the Falkirk Council Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council.

We have assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. The assumptions used by the actuary have been reviewed by both PWC and our EY actuarial team who have both concluded that the assumptions and methodology used are considered to be appropriate.

We have assessed the approach taken by the actuaries to account for the estimated impact of the recent rulings made around the McCloud judgement and various rulings around guaranteed minimum pensions (GMP).

As a result of our work over GMP and McCloud judgments management has obtained a revised IAS19 report and processed an adjustment of £7.7 million to increase the net pension liability reported in the financial statements.

In calculating the scheme assets as at 31 March 2019 the actuary performs a roll forward technique using investment returns and cash flow data since the last triennial valuation. We have considered the reasonableness of the reported asset position and note that the actuary provided updated reporting for actual investment returns with the updated IAS 19 report. The impact of this was to reduce the value of pension assets by £5.07 million.

Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

Our audit procedures

Our findings

Implementation of IFRS 9 and 15

The 2018/19 Accounting Code of Practice required the implementation of changes to the 2018/19 Accounting Code which affects the Council's financial statements, the most material being the accounting standards IFRS 9 (financial instruments) and IFRS 15 (revenue from contracts).

We requested management provide an impact assessment in relation to the implementation of IFRS 9 and 15 to identify the key changes required to the financial statements.

We considered management's impact assessment against our own understanding of the impact of IFRS 9 and 15, as well as guidance issued by Audit Scotland and CIPFA.

We reviewed the financial statements to ensure the impact of the new accounting standards was appropriately disclosed and accounting notes were updated accordingly.

We reviewed and challenged the approach taken by management in relation to key judgements, such as expected credit loss allowances for balances with the subsidiary entities and other bodies and concurred with their conclusion.

We also identified some minor improvements to disclosures through our completion of the CIPFA disclosure checklist that we highlighted to management for updating in the final version of the financial statements.

National loans fund accounting

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016 and replaced the provisions in the Local Government (Scotland) Act 1975 in respect of the loans fund with a prudent approach.

Guidance provided in 2018/19 by Audit Scotland set out the accounting practices for administering a loans fund and:

- ▶ Provided options for the repayment of loans fund advances made from 1 April 2016 under the new prudent approach.
- ▶ Reflected the current legislative position that all pre-2016 advances to continue to be repaid as if the 1975 Act had not been repealed (the statutory method).

This guidance was subsequently updated to reflect the legal guidance which clarifies that pre-2016 advances may be repaid under the same revised prudent approach as advances made from 1 April 2016.

We have discussed the updated legislation and subsequent guidance issued in the year with management.

We have confirmed that no amendments have been made to repayments for either pre or post 2016 advances.

We will consider all proposed reprofiling of repayments going forward as management proposes them, in particular against the ongoing requirements to ensure all payments continue to be made on a prudent basis.

Looking ahead

Recommendation 2:
The Council must perform an impact assessment on the application of IFRS 16 during 2019/20, together with other changes to the Code.

IFRS 16 - Leases and Other changes

IFRS 16 replaces *IAS 17 Leases* and its related interpretations. It will now apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the Council.

The Council is yet to perform an impact assessment or detailed analysis on the completeness of leases and identifying those that may require reclassifying. During the course of the audit testing, we used data analytics procedures to identify potential classes of leases that were not on the operating lease schedule. We identified two classes of lease that have not been included within the Council's current disclosures, relating to:

- ▶ the leasing of electric vehicles; and
- ▶ the leasing of multifunction printers and photocopiers.

While the current expenditure relating to these classes of asset does not result in a material misstatement for 2018/19, the Council should ensure that all leases are identified and the impact under the IFRS is assessed.

The Council's readiness for the implementation of IFRS 16, including a detailed analysis on the completeness of leases, will be a key consideration as part of the 2019/20 financial statements audit. The Council will be required to include disclosures in the financial statements next year detailing the potential impact of the application of the new standard.

CIPFA/LAASAC Code for 2019/20

Changes have been made to the CIPFA/LAASAC Code for 2019/20;

- ▶ There is now a revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework).
- ▶ Updated guidance has been issued around the treatment of the Apprenticeship Levy.
- ▶ Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs .
- ▶ Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

We do not currently consider that the above would result in a material impact to the Council. However, it is important that the Council ensures that it performs its own assessment of the impact in advance of preparation of the 2019/20 financial statements.



Wider Scope Dimensions

Introduction

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the Council's arrangements for each of the four wider scope audit dimensions.

We apply our professional judgement to risk assess and focus our work on each of the dimensions. In doing so, we draw upon conclusions expressed by the Council's internal auditors, and the other scrutiny bodies that we work with on the Local Area Network including Education Scotland and the Care Inspectorate. As the appointed auditor, we are now the LAN Lead. The LAN determined, in agreement with the Council, that no separate scrutiny plan was necessary for 2019/20.

We also consider national reports and guidance from regulators and Audit Scotland. For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

The Wider Scope dimensions

Financial Sustainability:

- ▶ considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

Financial Management:

- ▶ considers the effectiveness of financial management arrangements, including the adequacy of financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Governance and Transparency:

- ▶ Considers the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Value for Money

- ▶ considers whether best value can be demonstrated in the use of resources, including the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

Financial Sustainability

In 2017/18 we reported that the Council has to increase the pace of transformation to support the delivery of a robust medium term financial plan (MTFP). During 2019, the Council has revised the transformation programme to focus on priorities, refreshed and improved the governance arrangements and identified more areas for potential savings. The key test for the effectiveness of the governance arrangements will be the pace of change and decision making to deliver transformational improvements.

While the Council has a MTFP, which provides assurance around the balanced budget in the short term, a budget gap remains for latter years of the plan. It is critical that officers can provide members with real options for savings, but collective political leadership is also required to make difficult decisions to meet the financial challenges ahead.

Planning to achieve financial sustainability

The Council approved its Corporate Plan 2017-22 in September 2017, which set out the priorities and challenges facing the organisation and its partners. As Exhibit 3, below, highlights, key priorities for the Council include young people in Falkirk, tackling the impact of poverty and inequalities, and developing community empowerment and self-reliance.

In May 2019, the Council's five year Business Plan was published, which brought together a number of strategies that will help deliver the aims of the Corporate Plan, while securing the financial sustainability of the Council including:

- ▶ The Medium Term Financial Plan;
- ▶ Workforce Plan;
- ▶ Digital Strategy;
- ▶ Community Engagement Strategy; and
- ▶ The Council of the Future Wave 2 transformational programme.

The Corporate Plan sets a vision for how the Council will have changed by 2024. The Council expects to employ less people overall, but estimates that an additional 250 posts will be created within Early Years. Critically, the Council projects that it will need to save in the region of £76 million by 2024.

Exhibit 3: Strategic Priorities 2017-22

People

- ▶ Raising aspiration and ambition
- ▶ Reducing the impact of poverty on children and their families.

Place

- ▶ Growing our economy
- ▶ Improving the neighbourhoods we live in
- ▶ Promoting vibrant town centres.

Partnership

- ▶ Working with communities to deliver better services
- ▶ Empowering and enabling people to be self reliant
- ▶ Promoting stronger, more self-reliant communities.

Source: Falkirk Council SOLD / Corporate Plan 2018/19

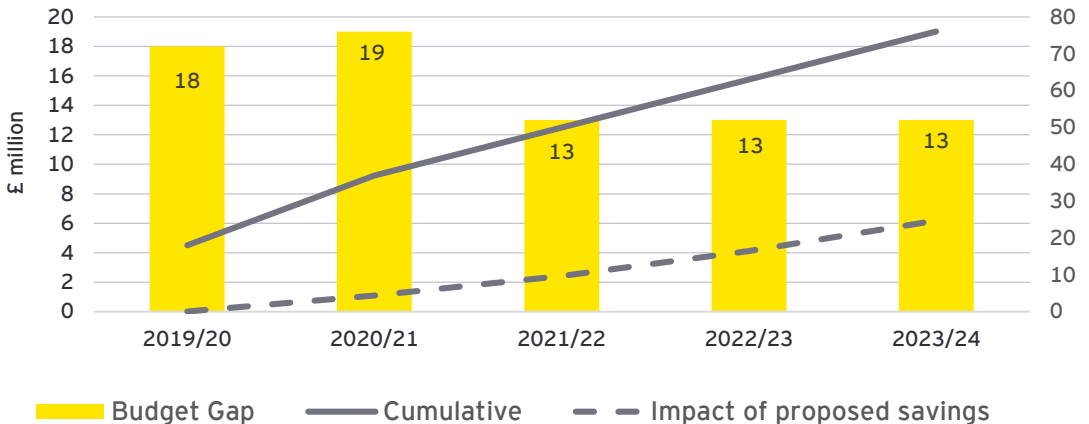
Recommendation 3:
The Council must continue to develop a balanced MTFP to provide assurance about financial sustainability in the medium term.

Medium Term Financial Plan

The Council received an update on its medium term financial plan (MTFP) as part of the budget papers in February 2019. The update outlined an identified funding gap of £76 million in the period to 2023/24. The MTFP also identifies continuing uncertainties that may result in further costs, including the impact of EU withdrawal.

As a result of additional grant and pension consequentials, the updated budget gap in 2019/20 was £13.4 million. The Council’s Business Plan identifies the Council of the Future (COTF) transformation programme as the key strategy to bridge the budget gap in 2019/20 and beyond. As Exhibit 3 demonstrates, the combination of potential savings identified by services and other cost saving measures has reduced the budget gap. The level of savings remaining to be identified means that financial sustainability continues to be an area of risk for the Council. Strong collective political leadership will be needed to make the difficult decisions necessary to deliver savings of this scale.

Exhibit 3: The Council’s MTFP highlighted a cumulative budget gap of £76 million by 2023/24. If delivered, savings identified to date would reduce the gap to £24 million.



Source: Falkirk Council Medium Term Financial Plan, February 2019

Council of the Future (COTF)

During 2018/19, the Council developed Wave 2 of the COTF transformational programme. The Business Plan includes a range of options developed by services to deliver change and saving targets. The COTF savings for 2019/20 total £5.4 million across 5 workstreams, designed to drive change across service lines:

- ▶ Enabled Communities;
- ▶ Services of the Future;
- ▶ Digital;
- ▶ Transformational Enablers; and
- ▶ Entrepreneurial Services.

COTF Governance

The Council established revised governance arrangements to monitor and approve savings. The Programme Management Office work with COTF Change Groups to develop savings plans. In July 2019, the first series of Workstream boards met to monitor the progress and delivery of savings. While it is too early to consider the effectiveness of the governance arrangements, we found a number of areas of good practice (see below). We do, however, consider that the success of the COTF programme will be in increasing the pace of transformational change, and identifying sufficient options for savings to provide elected members with real choices. The Council must also ensure that councillors are provided with sufficient information to make effective and timely decisions. Reporting arrangements and the delivery of change will remain areas of audit focus for 2019/20.

Good Practice: Key Features of the COTF Transformation Programme

- ▶ Each project is required to complete a Project Initiation Document (PID) and project plan. At the time of our review, individual projects were at different stages of the planning process, but part of the role of the Workstream Board was to ensure that the project documentation was in place.
- ▶ For the majority of projects, an options appraisal will be required as part of the PID. We reviewed a sample of three option appraisals undertaken to date and while different formats were used, we were satisfied that they were used to stimulate discussion and debate prior to selection of the favoured option.
- ▶ The Council has identified Top 10 projects as those that will have the greatest impact on the delivery of priorities. These projects will be overseen by the Make It Happen Board of senior officials.
- ▶ £1 million of the Council's reserves has been set aside as a Change Fund. The Fund is intended to support priority projects (based on value of savings and impact on communities). Individual bids are being developed to access investment. Bids below £75,000 are considered by the Change Fund Panel; bids greater than £75,000 are approved by the COTF Board.
- ▶ The Council of the Future Board will consider progress against the overall plan, including exception reporting for projects that are unlikely to achieve the planned level of savings. Dashboard reporting will be used to ensure that the Executive and the Audit Committee maintain oversight of the programme.
- ▶ Savings will be validated by the Council's internal auditors throughout 2019/20.

Source: Review of a sample of COTF Wave 2 projects

Savings in 2019/20

The 2019/20 budget process identified a financial gap of £13.4 million. The majority of the budget gap in 2019/20 will be met by actions identified and implemented by services. In addition to the COTF projects (£5.4 million), Council services have identified a further £9.4 million of savings, increased income and reductions in services. Key sources of savings include:

- ▶ the reduction in an estimated 130 FTE staff across a range of services including social work, education and development services;
- ▶ a reduction in loans charges of £713,000;
- ▶ schools with less than 10 pupils, with an estimated saving of £101,000;
- ▶ £837,000 from the implementation of the Closer to Home strategy to increase the use of the Council's own foster and kinship carers; and
- ▶ procurement savings of £300,000.

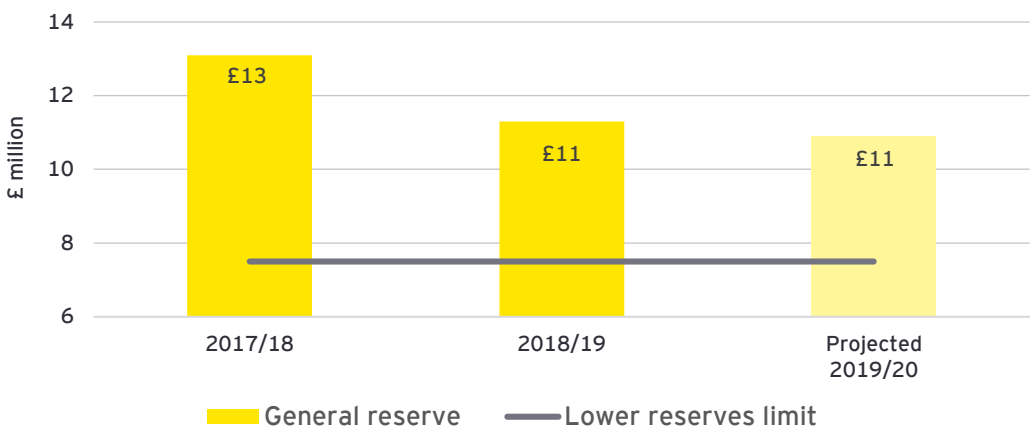
At the most recent update to the Council's Executive in August 2019 the savings were on track for delivery.

Reserves Strategy

The Council has set a target level for reserves of between 2% and 4% of net service expenditure, in line with guidance from CIPFA. As Exhibit 4, below, highlights the Council's reserves fell by £1.8 million during 2018/19, against a budgeted use of £2.3 million. Current financial projections for 2019/20 suggest that a surplus of £0.6 million will be achieved. As a result, a planned use of £1 million of general reserves will be limited to £0.4 million, resulting in a balance of £10.9 million at 31 March 2020.

Any failure to deliver the savings programme will result in a further reduction in reserves. In addition, the Council continues to monitor the potential financial impact of claims relating to historic child abuse. It is likely that the Council will have less ability to draw on reserves to balance budgets in future years. Members and officers must work together to find politically acceptable options for savings that prevent further use of reserves to support recurring expenditure.

Exhibit 4: The Council projects that it will use a further £0.4 million of reserves in 2019/20.



Source: Falkirk Council Financial Monitoring Reports

Financial Management

We were satisfied that financial reporting was clear and consistent throughout the year. The Council also took steps to reduce the impact of a projected overspend in Children's Services.

While we noted improvement areas in relation to the monitoring of savings and slippage against the capital plan, the Council has already identified improvements to be implemented in 2019/20.

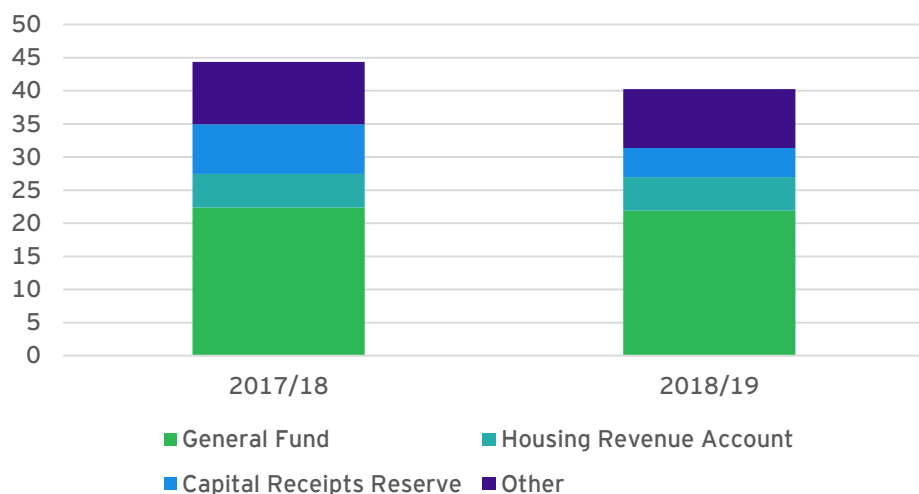
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Financial Outturn

The Council spent £337.8 million on the provision of services in 2018/19. The Comprehensive Income and Expenditure Statement records a deficit for the year of £64 million, principally as a result of the impact of revaluation of the Council's school estate and movements in the pension liability.

The key measure of the Councils' financial performance in the year is the movement in the general fund balance. Following the application of accounting adjustments, the net impact on the general fund was a decrease of £0.6 million to £21.9 million (2017/18: £22.4 million). As Exhibit 5, below, highlights in total the cash backed (useable) reserves held by the council decreased by £4 million to £40.3 million.

Exhibit 5: The Council's cash backed reserves fell by £5.3 million in 2018/19



Source: Falkirk Council 2018/19 Financial Statements

In 2018/19 £10.5 million of the Council's General Fund was earmarked for specific purposes. The remainder, £11.3 million is uncommitted and available to meet the costs of unexpected events. This balance, representing 3.32% of net expenditure (2017/18: 3.92%) and is within the Council's target range for reserves.

Delivery of Savings

Wave One of the COTF programme was established to deliver savings of £4.9 million in 2018/19, which included:

- ▶ £1.8 million relating to staff savings through, for example voluntary severance and vacancy management;
- ▶ planned savings of £0.8 million relating to a Strategic Review of the Children and Families Service;
- ▶ a further £0.4 million from the Closer to Home Strategy to reduce the use of out of authority placements for looked after children; and
- ▶ procurement Savings of £0.3 million.

Recommendation 4:
The Council must ensure that COTF savings are tracked to provide assurance to members on the pace and impact of the programme.

We were unable to fully verify the achievement of savings against the Wave One COTF programme. While the 2018/19 budget took account of the planned savings we note, for example that there was a overspend of £1.9 million in Children and Families, although predominantly as a result of new requirements for continuing care rather than out of authority placements. Similarly, while 17 individuals accepted voluntary severance in 2018/19, the Council's workforce grew overall in 2018/19 as a result of initiatives such as early years and the Pupil Equity Fund.

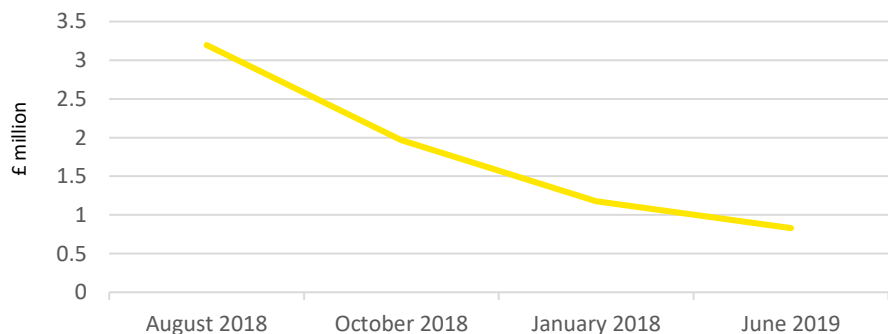
We note that improvements have been made to financial monitoring reports in 2019/20 to provide members with the status and RAG rating of service savings plans.

Financial Monitoring during 2018/19

The Council's Executive received quarterly updates on financial projections. As Exhibit 6, below, demonstrates, the Council managed a significant projected overspend throughout the financial year. There were two key areas of projected overspend identified in August 2018, relating to Children's Services (£3.3 million) and Waste Services (£0.9 million). A transfer from Devolved School Management reserves reduced the Children's Services overspend by £0.8 million.

The Council took effective steps to reduce areas of potential overspend during 2018/19, although Children's Services continues to present an area of financial risk.

Exhibit 6: There was a significant improvement in the level of projected overspend for services as a result of recovery actions



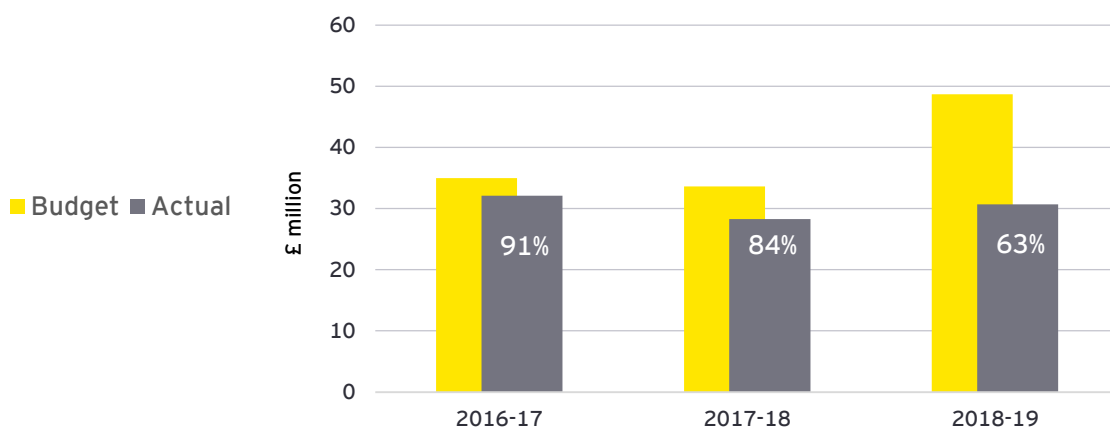
Source: Falkirk Council 2018/19 Financial Monitoring Reports

Recommendation 5:
Despite our recommendation in 2017/18, the capital programme continued to experience slippage.

Capital Programme

The Council spent £30.7 million on General Fund capital expenditure in 2018/19. As Exhibit 7 demonstrates, this continues a trend of slippage against the budget. While the Council operates a five year capital strategy, a number of areas of capital investment underpin the aims of the Business Plan. It is therefore important that key projects are delivered within timescale. Slippage of £8.1 million has been added to the 2019/20 programme, and a further £5 million of projects were previously approved as rescheduled to future years.

Exhibit 7: The Council has continued to underspend against the General Fund Capital Plan in 2018/19



Source: Falkirk Council Financial Statements 2018/19

During 2018/19, the Council's internal auditors reviewed the General Fund capital planning process, including arrangements for dealing with slippage. The internal auditors identified a number of key controls to monitor the progress of the capital plan and reduce slippage. It is therefore expected that slippage will be reduced in 2019/20.

Housing Capital Programme

During 2018/19, the Council spent £35.3 million on the housing capital programme, including £7.1 million on building new council houses and £16.2 million making improvements to existing council housing.

Strategic Property Review

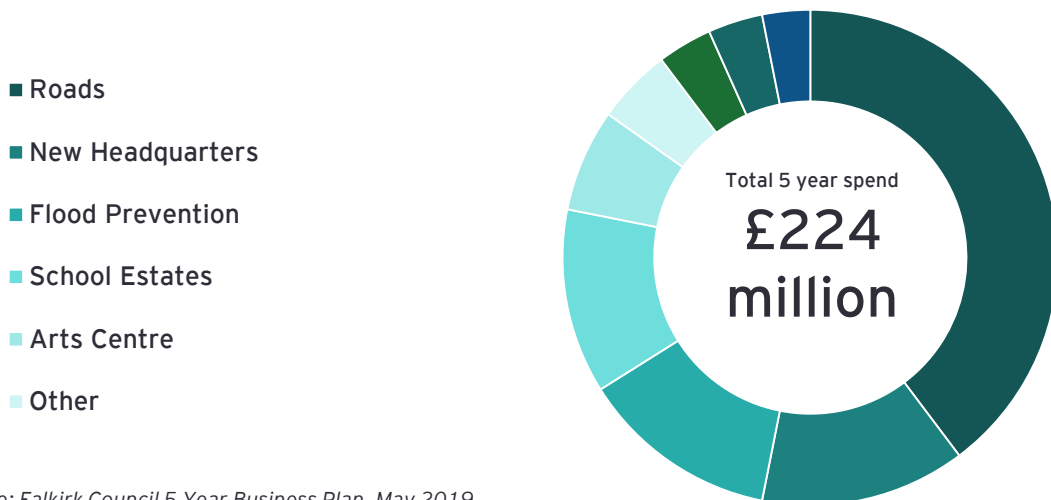
In October 2018, the COTF Board considered the recommendation of an options appraisal on the future of the Council's assets. The options appraisal recognised the substantial number and value of the Council's property, but that the current buildings are inefficient and uneconomical. Key changes to the way that the Council works, including the impact of improved digitisation and community empowerment, have meant that customer facing services need to be delivered in a different way. As a result, a Strategic Property Review is underway to review each of the Council's property assets, including the leased portfolio. The aims of the project are to reduce the overall property portfolio but ensure that those in use support the Council's priorities and objectives more effectively.

The review is supported by the COTF Programme Management Office and reports to the COTF Board. The Council has earmarked £0.750 million of reserves to support the development of the project.

Capital Investment

The Business Plan estimates that over £200 million will be spent on capital investment over the next five years. The plan includes two significant developments, to move the Council's headquarters to a town centre location that can make best use of technology, and a new Arts Centre. The plans for these developments remain at an early stage and full costs are not yet known.

Exhibit 8: The Business Plan outlines a number of key capital projects for the next 5 years



Source: Falkirk Council 5 Year Business Plan, May 2019

Governance and Transparency

The key features of good governance at the Council are in place and operating effectively. The Council's audit committee has a new independent chair and a revised programme of member training and support has been developed.

The Council continues to embed its risk management arrangements and we concluded that the Council's preparations for EU withdrawal appear appropriate.

Openness and transparency

One of the risk areas that we identified as part of our planning process was the increasing focus on how public money is used and what is achieved. Guidance from Audit Scotland has underlined the expectation that councils should be open and transparent to support public understanding and scrutiny.

We noted within our Annual Audit Plan that openness and transparency can be improved by having council and committee papers publicly available, explanations or insights as to why business is conducted in private, and increased disclosures through the Council's financial statements and annual report.

As we highlight in Section 1, we noted improvements in the quality of financial reporting within the Council's financial statements. The report uses graphics to explain the key areas of expenditure and draws on key indicators of financial performance.

The Annual Governance Statement explains the key decision making committees and the work of the Council of the Future Board to ensure that the Council remains financially sustainable.

We found that the Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers, and that agendas were available in advance of each meeting. All committee meetings are recorded and available on the Council's website, although we understand that there is a low level of access to the recordings. In our experience the level of papers considered in private sessions is low and appropriate.

Audit Committee

The Audit Committee has recently appointed a new independent Chair, following an extended period when interim chairing arrangements were in place. The new Chair has instigated a programme of informal training and development sessions with the committee to help promote and improve the level of scrutiny applied. A risk management training session was developed and led by the Chief Internal Auditor. We will work with the chair to support development of future sessions, include training on the role of the audit committee.

We have reviewed the training records of members of the committee and note that audit committee training that was provided following the last election was attended by five of the six elected committee members.

The Council has appointed a new independent chair to the audit committee, who has identified development opportunities to support the committee to fulfil its role.

Risk management

The Corporate Risk Management Group has led the Council's approach to strategic risk management. The group reports to the Corporate Management Team, and the Corporate Risk Register is overseen by the Audit Committee on a six-monthly basis. Current high risks include:

- ▶ Health and Social Care Integration;
- ▶ insufficient funding to deliver services and outcomes;
- ▶ data security and loss; and
- ▶ uncertainties surrounding Brexit.

The Council's internal auditors maintain an integrated assurance map to ensure that key risks are subject to sufficient independent review. Where relevant, each of the corporate risks are also assigned to one of the Council's Governance Groups, including the Procurement Board, Information Management Group, Fairer Falkirk Partnership and Strategic Housing Group.

EU withdrawal

As in 2017/18, Audit Scotland has maintained an interest in public bodies' preparedness for EU withdrawal. We assessed the Council's arrangements against three key factors, relating to the workforce, funding and regulations.

The Council's Development Director participates in the Scottish Government's Resilience Partnership. This involvement has allowed the Council's workplan for Brexit preparations to be informed by the national planning assumptions. A Brexit working group is in place, which has participation from internal audit, risk management and the Council's resilience team.

The Council has reviewed the potential impact on its workforce and found that a relatively low number of employees (around 130) will be directly affected. Tailored support has been made available for each EU national. The Council has identified key areas of risk relating to the local economy and on the implications for poverty and the benefits system to support vulnerable people in the Falkirk area. The Procurement Board has also assessed the risks and implications of a potential no deal Brexit on the council's key supply categories. Mitigation actions and remaining risks are known.

Reports on preparations have been prepared for the Corporate Management Team. The Working Group delivered briefing sessions for members as the 29 March deadline was approaching. Plans are in place to hold additional briefing sessions during September and October 2019.

While risks remain for all public sector bodies, we are satisfied that the Council's arrangements to prepare for EU withdrawal are appropriate and informed by wider sector involvement.

Following the Public Pound

We are satisfied that the Council has arrangements to oversee the performance, financial position and risks associated with ALEOs but the Council should consider self assessing its arrangements against the Audit Scotland ALEOs report (May 2018).

Recommendation 6: Despite previous recommendations as part of the annual external audit process, the Council has not yet acted to resolve the conflict of interest in relation to the Falkirk Community Stadium.

In May 2018, Audit Scotland published its national performance report on Arm's Length External Organisations (ALEOs) across Scottish Local Government. The report found that ALEOs can bring both financial and operational benefits and that councils have generally improved and strengthened their oversight of ALEOs.

The report made a number of recommendations for councils, including the need to set clear criteria for how councillors and officers are involved with ALEOs, and take steps to demonstrate more clearly how ALEOs secure Best Value.

Falkirk Council recognises a number of ALEOs within its group boundary, including the Falkirk Community Stadium Limited and Falkirk Community Trust. The Council's Scrutiny - External committee plays a key role in reviewing the effectiveness and performance of each of the council's partners. In June 2019, the Council received a report on joint working with the Falkirk Community Trust. The strategy was intended to deliver savings of £5 million as part of the Council's Five Year Business Plan and Strategic Property Review. Proposals were identified to improve the standard of culture and sport provision and rationalise assets. Council did not accept the recommendation. We would therefore continue to highlight the financial and performance risk associated with the Falkirk Community Trust.

We also note that the Council has not yet acted to resolve the conflict of interests that we highlighted in 2016/17 and again in 2017/18 where Council officers act as Directors for Falkirk Community Stadium.

Follow up of recommendations

During 2017/18, we reported that in our view, implementation of recommendations should be supported by more robust and proactive monitoring and reporting on the status of audit recommendations, with scrutiny from the Audit Committee.

We followed up the implementation of the recommendations that we made in 2017/18, and report on progress within Appendix E. As Appendix E highlights, good progress has been made in actioning most of our recommendations. We note that the Audit Committee received a status update against recommendations at its meeting in April 2019 and appears to have been effective in maintaining momentum.

National Fraud Initiative (NFI)

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The NFI exercise produces data matches by comparing a range of information held on public bodies' systems to identify potential fraud or error.

We submitted an assessment of the Council's participation in the exercise to Audit Scotland in June 2019. We concluded that the Council has actively participated in the NFI exercise and that it is well embedded within the Council's proactive counter fraud workstream.

Value for Money

The Council has recently reviewed its performance management framework to ensure that reporting arrangements are in place to provide members with assurance on performance against priorities and savings plans. Council services also generally perform well against peers.

However, in our view there remains scope to report on performance more frequently, and to review the arrangements for public performance reporting.

Performance Management Framework

In May 2019, the Council issued its five year Business Plan, which signalled a change to its performance management arrangements. Under the Business Plan, Corporate Plan Actions will replace the current service planning process. A revised performance management framework has been agreed that will draw on existing local indicators to provide assurance that the Council is delivering on the priorities within the plan and achieving the transformational change necessary.

We do, however, note that progress against the Corporate Plan Priorities is scheduled to be reported only annually to the Executive and Council. The Council should assess whether this provides sufficient and timely performance information to elected members.

The current service performance arrangements are expected to continue. The Scrutiny Committee considers performance reports from each of the Directorates. In addition, the Council's analysis of its performance against other councils in the Local Government Benchmarking Framework (LGBF) is considered by the Scrutiny Committee and the Council.

The Scrutiny Committee received annual performance reports in June 2019 for:

- ▶ Corporate and Housing Services; and
- ▶ Children's Services

The last performance report on Development Services was considered by the Performance Panel in February 2019, and covered the period to 31 December 2018. The Performance Panel met in private and this report is therefore not publicly available. In April 2019, the Council considered the results of an elected member led review of scrutiny. As a result of the review, the Performance Panel was disbanded and in the future the Scrutiny Committee will subsume the work of the Panel. In addition, all elected members are encouraged to attend and participate in the scrutiny of service performance.

Recommendation 7:
The Council should review its performance management framework to ensure that service performance reporting is considered on a timely basis.

Recent improvements to the governance in scrutiny will improve the openness and transparency of service performance reporting.

Statutory Performance Indicators

The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2015 Direction, which applies until 31st March 2019, reinforced the Accounts Commission's focus on public performance reporting (PPR) and prescribed two Statutory Performance Indicators (SPIs):

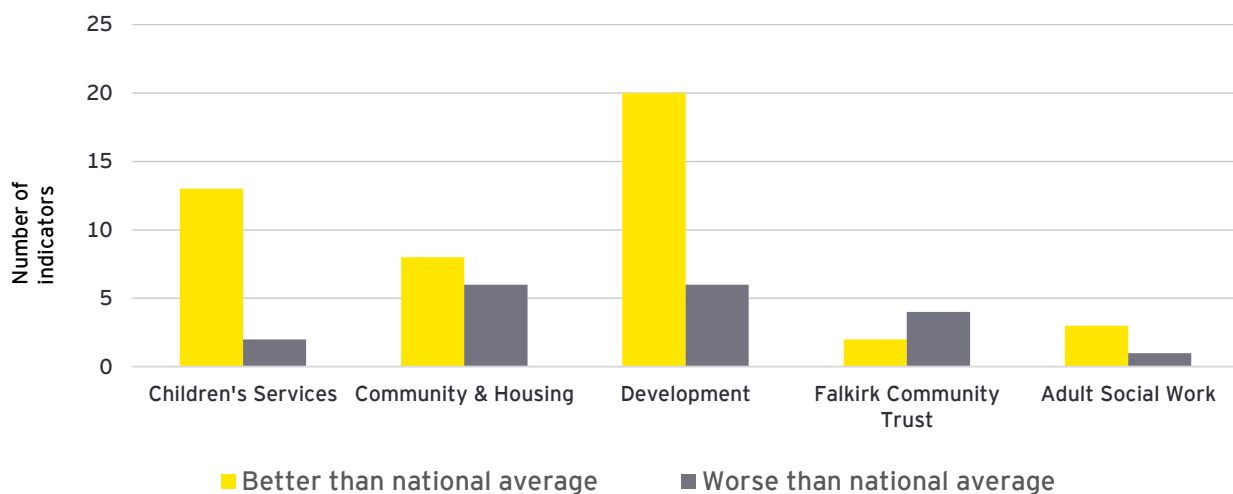
SPI 1: Each council will report a range of information setting out:

- ▶ Its performance in improving local public services (including with partners)
- ▶ Its performance in improving local outcomes (including with partners)
- ▶ Its performance in engaging with communities and service users, and responding to their views and concerns Best Value
- ▶ Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources.

SPI 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework (LGBF).

The Council reported its performance against the LGBF for 2017/18 in March 2019. As Exhibit 10 demonstrates, the Council performs well against peers for a number of core services.

Exhibit 7: Council services generally perform well against other councils in Scotland



Source: Falkirk Council Analysis of LGBF results 2017/18

Areas where the Council performs poorly in relation to other councils include:

- ▶ the cost of providing a pre-school education place;
- ▶ the cost per attendance at sports facilities;
- ▶ the cost per library visit; and
- ▶ the cost per museum visit.

Recommendation 7:
The Council should ensure that its public performance reporting arrangements meet its Best Value obligations.

We do, however, note that the Council does not currently produce an annual report of performance against the important indicators that are established within each Directorate's Performance Plan. A high level assessment of progress against the Council's important indicators was included in the financial statements. This reported that 86% of important indicators were on track in the year to 31 March 2018. No up to date performance information was available for 2018/19. In addition, we found no evidence that key outcomes with the SOLD Community Plan are publicly reported. We have therefore been unable to conclude that the Council has met the requirements of SPI 1.

Looking ahead

Best Value Assurance Report

Audit Scotland has recently confirmed that the Council has been selected for a Best Value Assurance report, which is expected to be published in November 2020. The scope of the audit will be discussed and agreed with the Council in April 2020, and the fieldwork will be carried out in the period from April to June 2020.

Statutory Performance Indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. The Council has a responsibility, under the duty of Best Value, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which recognises the role and effectiveness of the LGBF, but continues to require councils to report its:

- ▶ performance in improving local public services provided by the Council (on its own and with its partners and communities), and progress against agreed desired outcomes
- ▶ own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments
- ▶ how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

As 2019/20 will be the first year of the revised direction, we will work with the Council to evaluate the effectiveness and appropriateness of the arrangements in place to fulfil the requirements. Our 2019/20 Annual Audit Report will include a conclusion on the effectiveness and appropriateness of the arrangements for complying with the direction, along with any recommendations for improvement.



Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit and Risk Committee

D - Action plan

E - Follow up of prior year recommendations

F - Adjusted errors identified during the audit

G - Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

<p>Corporate Governance</p>	<p>Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.</p>
<p>Financial Statements and related reports</p>	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. ▶ maintaining proper accounting records. ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> ▶ such financial monitoring and reporting arrangements as may be specified ▶ compliance with any statutory financial requirements and achievement of financial targets ▶ balances and reserves, including strategies about levels and their future use ▶ how they plan to deal with uncertainty in the medium and longer term ▶ the impact of planned future policies and foreseeable developments on their financial position.
<p>Best Value</p>	<p>Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.</p>

Appendix B: Independence and audit quality

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the Council.

Matters that we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 8 April 2019.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the Council consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit committee on 16 September 2019.

Audit Fees

	2018/19	2017/18
Component of fee:		
Total agreed auditor remuneration	£187,900	£183,620
Fees for Falkirk Temperance Trust	£550	£550
Audit Scotland fixed charges:		
Pooled costs	£18,220	£16,320
Performance audit and best value	£95,510	£96,200
Audit support costs	£11,800	£11,660
Total fee	£313,980	£308,350

Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2018 UK Transparency Report, can be accessed on our website at [https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/\\$File/ey-uk-2018-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf). The report explains our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the Council since appointment can be found at: www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf.

Appendix C: Required Communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>Annual Audit Plan Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>

Required communication

Our reporting to you

Related parties

Significant matters arising during the audit in connection with the entity's related parties including, when applicable:

- ▶ Non-disclosure by management
- ▶ Inappropriate authorisation and approval of transactions
- ▶ Disagreement over disclosures
- ▶ Non-compliance with laws and regulations
- ▶ Difficulty in identifying the party that ultimately controls the entity

No significant matters have been identified.

Independence

Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence

Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:

- ▶ The principal threats
- ▶ Safeguards adopted and their effectiveness
- ▶ An overall assessment of threats and safeguards
- ▶ Information about the general policies and process within the firm to maintain objectivity and independence

Annual Audit Plan

This Annual Audit Report - Appendix B

Internal controls

Significant deficiencies in internal controls identified during the audit

This Annual Audit Report - no significant deficiencies reported

Group audits

- ▶ An overview of the type of work to be performed on the financial information of the components
- ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components
- ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work
- ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted
- ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements

Annual Audit Plan

This Annual Audit Report

Subsequent events

Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.

We have asked management and those charged with governance. We have no matters to report.

Material inconsistencies

Material inconsistencies or misstatements of fact identified in other information which management has refused to revise

This Annual Audit Report

Appendix D: Action Plan

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the Council or management to action.

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	<p>As we noted in prior years, the valuation reports provided by the Council's appointed valuer are undertaken as at 1 April (beginning of the financial year).</p> <p>A valuation date of 31 March would be more appropriate to ensure the valuations of assets are current at the balance sheet date.</p>	<p>The Council should ensure that future revaluations occur at the balance sheet date.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Going forward it would be our intention to move to a valuation date of 31 March rather than 1 April, which would remove any potential variance between 31 March and 1 April. In doing so we need to test that our Asset Register can accommodate such a change.</p> <p>Responsible Officer: Capital, Treasury & Insurance Manager</p> <p>Implementation Date: 30 September 2019</p>
2	<p>IFRS 16 will become effective for councils in 2020/21. During our testing on the Council's leases we noted a number of areas of expenditure that have not been identified as leases within the financial statement disclosures in prior years. While not material for 2018/19, each class of lease must be reviewed as part of the preparations for IFRS 16.</p>	<p>The Council must perform an impact assessment on the application of IFRS 16 during 2019/20, together with other changes to the Code.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Preparations are currently ongoing and arrangements will be put in place in place to comply with the Code and reporting requirements.</p> <p>Responsible Officer: Corporate Finance Manager</p> <p>Implementation Date: 31 March 2020</p>
3	<p>Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis and the Council's Corporate Plan is delivered.</p>	<p>The Council must continue to develop a balanced MTFP to provide assurance about financial sustainability in the medium term.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The Council's MTFP is subject to ongoing review both in terms of the assumptions, with a commitment to further develop the optimistic and pessimistic assumptions, and savings required to balance anticipated expenditure and resources.</p> <p>Responsible Officer: Corporate Finance Manager & Change Programme Manager</p> <p>Implementation Date: 31 March 2020</p>

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
4	We were unable to fully track the achievement of COTF savings for 2018/19. While we understand that improvements have been identified and planned, it is too early to evidence the reporting mechanisms to the Executive and Audit Committee.	The Council must ensure that COTF savings are tracked to provide assurance to members on the pace and impact of the programme. <i>Grade 1</i>	A governance regime has been put in place for tracking savings. Approved budget savings are specifically reported to the Executive as part of the Financial Projection Report. Responsible Officer: Corporate Finance Manager & Change Programme Manager Implementation Date: 31 March 2020
5	Despite our recommendation in 2017/18, the capital programme continued to experience slippage.	The Council should ensure that the capital programme is delivered within planned timescales. <i>Grade 2</i>	Internal Audit carried out a review of Capital Monitoring in 2018. The review was to provide assurance on the adequacy of the arrangements in place for recording, monitoring, and reporting expenditure including project slippage. As a result of this review a new reporting regime was put in place to monitor and minimise slippage. Where the project variance is greater than 25% of the budget (subject to a de minimus value of £0.1m), Services/Trust will be asked to attend CMT to fully explain the reasons for the variance. However given that the Trust and the IT section have a large volume of small value projects, the totals for all projects in these areas should be consolidated when calculating whether the de minimus value has been breached. The 2019/20 approved budget includes a slippage allowance of £3.5m and it is envisaged that this new monitoring regime will ensure that the level of slippage in 2019/20 will not exceed the budgeted £3.5m level. Responsible Officer: Capital, Treasury & Insurance Manager Implementation Date: 31 March 2020

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
6	Despite previous recommendations made as part of the annual external audit process, the Council has not yet acted to resolve the conflict of interest in relation to the Falkirk Community Stadium.	Management should ensure that actions agreed previously about the governance of Falkirk Community Stadium Limited are completed in a timely manner. <i>Grade 1</i>	The current management arrangements, where senior officers have been appointed as directors to FSCL, have been in place since the first company was formed in 2003. The overall arrangements for managing the Stadium are currently being reviewed and this will allow an assessment of any issues around conflict of interest. Responsible Officer: Corporate Finance Manager Implementation Date: 30 November 2019
7	The Council has considered its Performance Management Framework to support the revised the five year Business Plan, but we consider that annual performance reporting is not timely enough to fully support delivery of the Plan.	The Council should review its performance management framework to ensure that performance against Strategic Priorities is considered on a timely basis. <i>Grade 2</i>	Progress on the performance is reported to each scrutiny committee with services scheduled to report to alternative committees. An annual report on the LGBF is also presented to members and published. This gives an overview of performance and areas for improvement. In addition reporting on progress is taken through Council of the Future work streams, Board and then onto the Executive. The timescales for this reporting are: <ul style="list-style-type: none"> ▪ COTF Board - 6 weekly ▪ Executive - Quarterly ▪ Audit Committee - 6 monthly Responsible Officer: Improvement Manager / Change Programme Manager Implementation Date: 31 March 2020

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
8	We were unable to verify that the Council has fully delivered its responsibilities under the Statutory Performance Indicators Direction.	The Council should review its public performance reporting arrangements. <i>Grade 2</i>	<p>The Council has considered its public performance management reporting for some years and has sought to publish performance information timeously i.e. after being considered by elected Members. This includes publishing performance information from key partners and progress on the corporate plan. This fulfils the direction as published at December 2018.</p> <p>We do accept the need to improve in this area and therefore with the development of the business plan, these arrangements have been reviewed. Key officers with a remit for overseeing the delivery of key corporate plan priorities have been identified and we are currently developing a specific reporting structure for them to report progress. This includes developing a suite of indicators and key actions for each priority within the corporate plan that will be reported to Members.</p> <p>This will be reported to Members in November and will be the basis for a public performance report.</p> <p>Responsible Officer: Improvement Manager Implementation Date: 30 November 2019</p>

Appendix E: Follow up of prior year recommendations

Prior year recommendations			
No.	Recommendation / grading	Management response/ Implementation timeframe	Our assessment of progress
1	<p>As part of the year two audit debrief and year three planning arrangements, we will again discuss with management expectations and recommendations around enhancements that can be made to the Management Commentary and Annual Governance Statement.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>As part of the debrief of the final financial statements process with the auditors we will reflect on further improvements and enhancements that can be made to the Management Commentary and Annual Governance Statement and incorporate into 2018/19 final financial statements.</p> <p>Responsible officer: Corporate Finance Manager</p> <p>Timeframe: 31 March 2019</p>	<p>The Council has taken significant steps to improve the presentation of the financial statements.</p> <p>Our assessment: Complete</p>
2	<p>Management should ensure the EFA is presented in the 2018/19 financial statements in line with available guidance, which currently recommends it is presented as a note to the financial statements.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Having reviewed the Code of Practice, we have left the EFA adjacent to the CIES. We will give further consideration to its positioning in 2018/19, again with regard to the revised Code.</p> <p>Responsible officer: Corporate Finance Manager</p> <p>Timeframe: 31 March 2019</p>	<p>The Council repositioned the EFA as part of the improvements to the financial statements.</p> <p>Our assessment: Complete</p>
3	<p>Recognising there is a risk of these differences re-occurring next year, given the timing differences will always exist, we have agreed to discuss with management and the actuaries arrangements in advance of the financial yearend to seek to address this before the IAS 19 reports are drafted.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Management notes that dialogue will be taking place between Audit firms and Actuaries to review the way in which pension fund asset valuations are determined. Management will liaise with the Falkirk Pension Fund actuary in relation to the 2018/19 IAS19 process and incorporate any recommendations emerging from the wider discussions, all with a view to minimising the risk of a material difference occurring in the future.</p> <p>Responsible officer: Corporate Finance Manager</p> <p>Timeframe: 31 December 2018</p>	<p>We received the updated actuaries report on a timely basis.</p> <p>Our assessment: Complete</p>

Prior year recommendations

No.	Recommendation / grading	Management response/ Implementation timeframe	Our assessment of progress
4	<p>Management should ensure the capital programme is reviewed in conjunction with the related monitoring and reporting arrangements to support more accurate measurements and forecasting, which in turn facilitates delivery of the programme through identification and resolution of risks and issues.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>As noted in a report to the August Executive, discussions have taken place with Internal Audit and the 2018/19 Audit Plan includes a review of the General Fund Capital Programme. This work is currently underway and is focused on reviewing mechanisms for recording, reporting and monitoring expenditure relating to the General Capital Fund Programme, including arrangements for dealing with slippage. The main findings of this review will be reported to members in due course.</p> <p>Responsible officer: Capital Manager</p> <p>Timeframe: 31 December 2018</p>	<p>As we note within recommendation 5 in our 2018/19 report, further work is required to prevent unnecessary slippage.</p> <p>Our assessment: Ongoing</p>
5	<p>Management should ensure the Audit Committee is better sighted on the status of implementation of recommendations in respect of audit and other scrutiny activity to facilitate more effective scrutiny and challenge.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>We will commit to including IA Recommendation status twice yearly to Audit Committee (April and November meetings) - this will include recommendations outstanding beyond their agreed implementation date. This has been done in the past, but accept that there is a need to be timetabled regularly.</p> <p>Responsible Officer - Internal Audit Manager</p> <p>Timeframe - November 2018</p>	<p>We note that along with improved reporting on IA follow up actions, the committee received a report summarising progress against external audit recommendations in April 2019.</p> <p>Our assessment: Complete</p>
6	<p>Management should ensure the actions agreed previously around the Council's Audit Committee work plan and arrangements for Falkirk Community Stadium Limited governance are completed in a timely manner. Management should also ensure annual audit recommendations are subject to reporting to and scrutiny by the audit committee going forward.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>It is agreed that following approval of the Audit Committee's schedule and agenda for 2019 an underlying work plan will be prepared to supplement the core work plan that was set up with the Committee's terms of reference a number of years ago.</p> <p>A report on Falkirk Community Stadium's financial and governance arrangements will be provided to Members.</p> <p>Responsible Officer - Chief Governance Officer/Corporate Finance Manager</p> <p>Timeframe - December 2018</p>	<p>We note within recommendation 6 in our 2018/19 report that further work is required.</p> <p>Our assessment: Ongoing</p>

Prior year recommendations

No.	Recommendation / grading	Management response/ Implementation timeframe	Our assessment of progress
7	<p>Management should review the reporting arrangements around Council of the Future with a view to supplementing existing reporting with the noted enhancements.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>A review of the Council of the Future reporting arrangement is underway. New arrangements will be reported to the Council of the Future Board and advised to the Executive.</p> <p>Responsible Officer: Head of Human Resources & Business Transformation</p> <p>Timeframe: December 2018</p>	<p>As we note within recommendation 4 in our 2018/19 report, while significant progress has been made to develop governance arrangements, no reporting has yet been made to Committee, although this is planned for October 2019.</p> <p>Our assessment: Ongoing</p>
8	<p>It is important that the planned actions outlined by management in the remainder of 2018/19 are delivered to provide a comprehensive MTFP with identified savings across its five year period to cover budget gaps.</p> <p>Inherently linked to this process is the confirmation of the next tranche of CoTF projects with planned outputs, including financial savings, over the term of the MTFP and objectives aligned to the Council's priorities set out in its corporate plan.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Work is on-going to ensure business plans are in place across the Council, which support the finalisation of the MTFP, with the aim of completion by March 2019. The COTF programme of change will be adjusted to accommodate such developments and to ensure a refreshed programme which covers the 5 year period of the MTFP.</p> <p>Responsible Officer - Head of Human Resources & Business Transformation</p> <p>Timeframe: March 2019.</p>	<p>As we note within recommendation 3 in our 2018/19 report, further work is required to identify the level of savings required.</p> <p>Our assessment: Ongoing</p>

Appendix F: Audit differences identified during the audit

This appendix sets out the significant adjustments processed in the financial statements finalisation. There were no significant unadjusted audit differences identified that relate to the 2018/19 audit

Adjusted differences				
No.	Description	Income and Expenditure Impact		Balance Sheet Impact
1	<i>Adjustment relating to internal recharges error</i>	Dr Income	£666,000	
		Cr Expenditure	£666,000	
2	<i>Netting off of Council Tax Prepayments against Council Tax Debtor</i>	Dr Council Tax Debtor	£1,264,000	
		Cr Council Tax Creditor	£1,264,000	
3	<i>Impact of McCloud and GMP judgements to increase the pension liability</i>	Dr Expenditure	£7,702,000	Cr Pension Liability £7,702,000
4	<i>Adjustment to reflect actual share of Falkirk Pension Scheme (draft financial statements are prepared using projected assets)</i>	Dr Expenditure	£5,070,000	Cr Pension Liability £5,070,000

Unadjusted differences - prior year error				
No.	Description	Income and Expenditure Impact		Balance Sheet Impact
1	<i>The Council obtained a revaluation of its school estate assets as at 1 April 2018. The valuation increased the net value of the assets held by £7.6m. We consider that this indicates that the carrying value of the school estate was undervalued as at 31 March 2018.</i>	2018/19 Entry: Dr Gain on Revaluation £7,660,813		Cr PPE £7,660,813
		2017/18 Entry: Cr Gain on Revaluation £7,660,813		Dr PPE £7,660,813

Appendix G: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the Council, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2018/19 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB			
MAR	➤ Onsite fieldwork, documentation and walkthrough of key accounting processes	Annual Audit Plan	8 April 2019
APR	➤ Review of frauds reported to the Audit Committee.	Fraud Return Submission	Submitted - in line with frauds reported to Audit Committee
MAY			
JUN	➤ Education Maintenance Allowance (EMA) grant claim testing	Certified EMA return	Issued 11 July 2019 - no matters to report
JUL	➤ Year-end substantive audit fieldwork on unaudited financial statements	Whole of Government Accounts assurance statement to NAO	27 September 2019
AUG	➤ Conclude on results of audit procedures ➤ Issue opinion on the Council's financial statements	Certify Annual Financial Statements Issue Annual Audit Report	27 September 2019
SEP			
OCT	➤ Completion of Non-Domestic Rates return testing	Certified Non-Domestic Rates return	27 September 2019
NOV	➤ Completion of Housing Benefits claim testing	Certified Housing Benefit subsidy claim	On track for 30 November 2019
DEC			

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