



HENDERSON LOGGIE

**Angus Council**

**Report to Members and the  
Controller of Audit**

**2006/2007**

**External Audit Report No: 2007/08**

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# Contents

		<b>Page</b>			<b>Page</b>
1.	Executive Summary	1 - 4	<b>Appendix I</b>	Respective Responsibilities	25
2.	Introduction	5	<b>Appendix II</b>	Follow-up Action Plan for 2005/06	26 - 27
3.	Financial	6 - 16			
4.	Governance	17 - 19			
5.	Performance	20 - 23			
6.	Action Plan	24			



# Executive Summary

## 1.1 Introduction (Section 2, page 5)

- 1.1.1 We are pleased to submit our annual report for the first year of our five year appointment as external auditors of the Council. The report highlights key issues grouped under three distinct headings of financial, governance and performance.
- 1.1.2 Together with officers from across all of the Council's services an effective working relationship is being developed. This will greatly aid the audit process for both the Council and us over the remaining term of our appointment.

## 1.2 Financial (Section 3, page 6)

- 1.2.1 The Council achieved the statutory deadline for the submission of its accounts for audit. The audit was completed with the issue of an unqualified audit opinion on 28 September 2007.
- 1.2.2 On 27 September 2007 we issued our ISA 260 report to the Head of Finance and the Leader of the Council, as the Council's representatives of those charged with governance, to advise them of the issues arising from the audit, and the final audit adjustments to the draft accounts were agreed.
- 1.2.3 We were not obliged to make any adverse comment on the Council and its group's Statement on the System of Internal Financial Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

- 1.2.4 The financial statements presented for audit had been prepared using the new format introduced by the 2006 Statement of Recommended Practice (SORP).
- 1.2.5 In all eighteen audit adjustments were made to the unaudited financial statements, mainly due to ensuring that the changes in the 2006 SORP requirements were met. Details of these audit adjustments were highlighted in our ISA 260 report issued to the Head of Finance and Leader of the Council on 27 September 2007.
- 1.2.6 The Council's Significant Trading Operations (STO) met their statutory three-year break-even target covering the three years of operation to 31 March 2007.
- 1.2.7 In-year financial management and performance reporting identified a significant problem with the financial performance of the Waste and Cleaning Operations STO. The achievement of a surplus in 2006/07 was due to a year-end accounting adjustment of £0.225 million, increasing the income of the STO with a corresponding charge to the service department. We made three recommendations in relation to this issue which have been agreed by management and will be followed up during next year's audit. They are detailed in an action plan on page 24.
- 1.2.8 The Council's income from government grants and local taxation exceeded its net operating expenditure of £201.224 million, resulting in a surplus on the Income and Expenditure Account for the year of £2.547 million (2005/06 – Deficit of £4.988 million). After the necessary adjustments to the General Fund movements for the year this resulted in a surplus of £6.246 million (2005/06 – Deficit of £0.703 million).



# Executive Summary

## 1.2 Financial (Section 3, page 6) (Cont'd)

- 1.2.9 The budgeted break-even position for the General Fund was exceeded by £6.246 million. Details of the significant underspends are given in Table 1 on page 7.
- 1.2.10 The Housing Revenue Account (HRA) Income and Expenditure Account reported a small surplus of £0.516 million (2005/06 – £0.803 million). The final outturn for 2006/07, after the necessary adjustments to the HRA movements, resulted in a small adverse variance of £0.159 against a budgeted deficit of £0.911 million. This variance was mainly due to staff slippage and a lower level of spend on improvements.
- 1.2.11 Commitments against the General Fund balance total £13.042 million, leaving £2.462 million of uncommitted funds and £1.014 million of DSM funds at 31 March 2007. The HRA balance at 31 March 2007 of £3.504 million will be used to support the future management costs and the approved programme of property improvements for the Council's housing stock required to meet the Scottish Housing Quality Standard over the next few years.
- 1.2.12 The Council's net pension liabilities at 31 March 2007, estimated by the Actuary, exceeded its share of pension scheme assets by £54.981 million (2005/06 - £78.145 million). The favourable movement of £23.164 million is mainly as a result of the gain on valuation of equities reflecting the upward trend in world stock markets during the year and in part due to the Actuary's positive assessment of recent changes in pension benefits on future pension liabilities.
- 1.2.13 The Council has carried out a job evaluation exercise as part of Single Status. Letters have been issued to staff outlining their new grades and pay rates. The Council intends that this will be implemented on 1 April 2008. The Council has earmarked £3.3 million in its General Fund Balance at 31 March 2007 to allow the budgetary impact of Single Status to be phased in and has also included a further provision of £2.2 million in its 2007/08 budget.
- 1.2.14 During 2006/07 the Council made payments of £2.391 million in settlement of equal pay claims; £0.951 million in respect of the Council's employees up to 31 March 2006 and £1.440 million in respect of its share of claims for employees of Tayside Contracts Joint Committee up to August 2006. Further liability will accrue until the new Single Status pay and grading rates are implemented but this cannot be accurately estimated at this time.
- 1.2.15 Other significant cost pressures include increasing energy and recycling costs, and free personal care costs which are being contained within the existing available resources. The Council is also using unused budgets from previous years that have been approved for carry forward under the budget flexibility scheme to help smooth in the budgetary impact of such pressures.
- 1.2.16 In our ISA 260 Report we highlighted capital accounting and the maintenance of the fixed asset register as an area where the Council's practices could be improved. We also reported that material weaknesses in accounting systems relating to fixed assets had been identified during our audit.



# Executive Summary

## 1.2 Financial (Section 3, page 6) (Cont'd)

1.2.17 The Council reached financial close on its schools project during 2006/07. This project is a contract to facilitate the refurbishment and replacement of eight schools in Forfar and Carnoustie with anticipated education start dates in 2007/08 and 2008/09.

## 1.3 Governance (Section 4, page 17)

1.3.1 The senior management structure was revised during 2006. Following a review of the committee structure in early 2007 the committee structure is now fully aligned with the management structure.

1.3.2 The Council's Corporate Plan has been reviewed during 2007 and a draft Corporate Plan 2007 – 12 was presented to the Strategic Policy Committee for approval on 30 October 2007. Annual action plans will be used to implement the objectives.

1.3.3 A new Community Plan 2007 – 12 has been agreed by the Angus Community Planning Partnership.

1.3.4 The Council put a training programme in place for all members following the May elections, in line with a strategy that had been developed with member input and was approved before the election. Priority issues were identified and training delivered during the first month after the election. Further, more in depth training to reinforce some of the induction topics is now underway in a series of sessions planned up to the end of 2007.

1.3.5 Following a review of Audit Scotland's publication on community planning an action plan covering all community planning partners and the Community Planning Partnership (CPP) was agreed by the CPP in January 2007 and is currently being implemented.

1.3.6 We reviewed the Council's internal audit provision and determined that we could rely on their work. We reported our findings in our *Financial Statements Audit Plan*, Report 2007/03 issued on 28 June 2007.

1.3.7 For 2006/07 we agreed to place reliance on a number of internal audit's reviews and are pleased to report that all of these reviews were completed in time to give us assurance and reduce the level of our year-end testing in most areas. We identified from their asset management review that further detailed testing would be required for this area during our year-end audit.

1.3.8 In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. Overall co-ordination of the exercise has been good; the exercise was planned in advance and data submitted on time. Overpayments of some £13,000 have been found to date, of which nearly £12,000 is in the process of being recovered. Only one fraud has been found, and this was in relation to Housing Benefit.



# Executive Summary

## 1.4 Performance (Section 5, page 20)

- 1.4.1 The Council has renewed the Corporate Plan and there is a new Community Plan in place. Community planning priorities were taken into consideration in revising the Corporate Plan. The service planning and budget processes are being brought closer together for 2008/09.
- 1.4.2 The Excelsis performance management system was piloted in Housing and Social Work during 2006/07 and has now been rolled out to all Council departments. All departments are now using the system for Service Planning and updating the Risk Register/Action Plan.
- 1.4.3 A corporate Risk Management Strategy is in place, but is in the process of being updated. Corporate and service risk registers are also in place, together with Management Action Plans; both now form part of the Excelsis performance management system, which facilitates monitoring of responsibilities and actions with regard to individual risks.
- 1.4.4 The Council produced a 2006/07 Efficiency Statement and submitted it to the Scottish Executive by the suggested date of August 2007. Planning for producing the 2007/08 statement is already well underway and the Council aims to deliver in excess of their indicative three year efficiency gain targets set by the Scottish Executive for 2005 – 2008.
- 1.4.5 The Council is involved in local and national shared services projects. It is seeking to maintain flexibility within local projects to allow them to accommodate the outcomes from the other national shared service projects. The main focus for the Council presently in relation to shared services development is on procurement through the Tayside Procurement Consortium (TPC) with the other local Tayside councils.
- 1.4.6 The 2006/07 return to Audit Scotland for Council SPIs was made by the 31 August 2007 deadline and publication was made by the 30 September deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all but two of the 57 indicators, and the Council was unable to fully report on another one. Both the unreliable systems and the failure to report relate to new indicators this year.
- 1.4.7 The Council has responded promptly to guidance around asset management, dealing with it on an individual service basis, rather than in a centralised manner. In May 2006 a Corporate Asset Management Plan for Operational Properties was approved by members. Energy management, sustainability, biodiversity and water management strategies are also in place.
- 1.4.8 In February 2007 members received a report on the long term affordability of the General Fund Financial Plan; this goes further than the Prudential Code requires, and we consider it a very useful piece of work, since it seeks to identify and address any long term capital funding gap.





# Introduction

## 2.1 Introduction

- 2.1.1 We are pleased to submit our first annual report, covering significant matters arising during the course of our audit of Angus Council for the year ended 31 March 2007.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland and our audit approach is as outlined in our report 2007/01: *Risk Assessment, Annual Audit Plan and Fee Proposal for 2006/07* issued on 8 February 2007. The respective responsibilities of Council members, officers and auditors are set out in appendix I to this report.
- 2.1.3 Broadly the scope of our audit was to
- ❑ provide an opinion on the financial statements in accordance with the standards and guidance issued by the Auditing Practices Board;
  - ❑ review and report on the Council and its group's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Council's financial position;
  - ❑ review and report on the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value; and
  - ❑ review and report on whether the Council has made adequate arrangements for collecting, recording and publishing prescribed performance information.
- 2.1.4 Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Council.

## 2.2 Basis of Information

- 2.2.1 External auditors do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.
- 2.2.2 We have raised a number of issues during the course of the audit, including matters highlighted in our *Report to those charged with Governance on the audit of Angus Council: (ISA 260 Report) Report 2007/07*, issued on 27 September 2007. The main points from our audit are summarised in this report.
- 2.2.3 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Council. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

## 2.3 Acknowledgement

- 2.3.1 Our audit for this year has brought us in contact with a wide range of Council staff. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our duties.



## 3.1 Audit Completion

- 3.1.1 The target date for submission of the 2006/2007 audited accounts of the Council was 30 September 2007. We are pleased to report that the target date for the audit completion and certification of the annual accounts was met.
- 3.1.2 On 27 September 2007 we issued our ISA 260 report and met with the Leader of the Council as a representative of those charged with governance to discuss issues arising from the audit and agree the final audit adjustments to the draft accounts.

## 3.2 Accounts Certification

- 3.2.1 On 28 September 2007 we issued our audit report expressing an unqualified opinion on the financial statements of the Council for the year ended 31 March 2007. We set out below a summary of the audit certification issues:
- ❑ The financial statements present fairly the Council and its group's financial position at 31 March 2007 and income and expenditure during the year.
  - ❑ The Council's Significant Trading Operations (STO) met their statutory three-year break-even target.
  - ❑ We were not obliged to make any adverse comment on the Council and its group's Statement on the System of Internal Financial Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

## 3.3 Audit Adjustments

- 3.3.1 In accordance with the changes in the 2006 Statement of Recommended Practice (SORP) the Council included an Income and Expenditure Account and a Statement of Movement on the General Fund Balance in its 2006/07 financial statements and revised the 2005/06 reported figures into the new format. These new statements replaced the Consolidated Revenue Account.
- 3.3.2 In all eighteen audit adjustments were made to the unaudited financial statements, mainly due to ensuring that the changes in the 2006 SORP requirements were met. While these adjustments mainly impacted on the Balance Sheet, some impacted on the Income and Expenditure Account. The net effect on the Income and Expenditure Account was a decrease of £1.561 million on the reported surplus for the year. Most of this effect was however due to technical adjustments which do not impact on the Council's true outturn position. The net effect on the movement on the General Fund balance at 31 March 2007 was therefore an increase in the balance of only £0.073 million.
- 3.3.3 The audit adjustments impacting on the balance sheet resulted in a net decrease to the Total Net Worth of £4.199 million. This was mainly due to an error in the valuation of Council assets that had been overstated in the draft accounts.
- 3.3.4 With changes made to the audited accounts of group entities further adjustments were required to the Council's group accounts which resulted in a decrease in the group's deficit for the year of £0.231 million and a decrease in the group's Total Net Worth of £6.369 million. Appropriate notes to the group accounts were added to those incorporated in the unaudited accounts.



### 3.3 Audit Adjustments (Cont'd)

- 3.3.5 Due to the change in the disclosure requirements for 2006/07 the accounts for the year to 31 March 2006 required restatement. A number of audit adjustments were required to the unaudited accounts to fully reflect the necessary restatement of the 2005/06 figures. The restatement did not affect the General Fund balance at 31 March 2006.
- 3.3.6 Details of these audit adjustments were highlighted in our ISA 260 report issued to the Head of Finance and Leader of the Council on 27 September 2007.

### 3.4 Financial Position

- 3.4.1 The Council's income from government grants and local taxation exceeded its net operating expenditure of £201.224 million, resulting in a surplus on the Income and Expenditure Account for the year of £2.547 million (2005/06 – Deficit of £4.988 million). After the necessary adjustments to the General Fund movements for the year this resulted in a surplus of £6.246 million (2005/06 – Deficit of £0.703 million).
- 3.4.2 The Housing Revenue Account (HRA) Income and Expenditure Account reported a small surplus of £0.516 million (2005/06 – £0.803 million). The final outturn for 2006/07, after the necessary adjustments to the HRA movements, resulted in a small adverse variance of £0.159 against a budgeted deficit of £0.911 million.

### 3.5 Financial Performance

- 3.5.1 Financial performance can be measured against the financial budget set by the Council in February 2006 for 2006/07. In this regard the Council's General Fund Balance for the year shows a surplus of £6.246 million against a budgeted break-even position. The HRA balance for the year is not included in the total General Fund Balance.
- 3.5.2 A number of factors have contributed to the final outturn on the General Fund. Details of the main variances are given in the Explanatory Foreword to the accounts. Table 1 below highlights the significant factors.

**Table 1 – Financial Performance against 2006/2007 budget**

<b>General Fund Balance</b>		
	<b>£m</b>	<b>£m</b>
Budgeted General Fund surplus		0.000
<b>Significant factors</b>		
Underspends on departmental budgets	3.357	
Loan charge principal repayment savings	1.080	
Treasury management activity savings	0.592	
Additional interest income	0.560	
Additional surpluses from trading accounts	0.337	
Additional Council Tax income	0.298	
Others	0.022	
		6.246
<b>Overall variance</b>		6.246
<b>Actual General Fund Balance surplus</b>		6.246

## 3.5 Financial Performance (Cont'd)

3.5.3 The HRA budget included a contribution of £0.911 million from the HRA balance to facilitate a rent increase of 3.7% and a contribution towards the planned expenditure to upgrade the quality of the housing stock. The main elements explaining the final underspend of £0.752 million are lower supervision and management charges £0.381 million, mainly due to staff slippage and a lower level of spend on improvements £0.532 million, offset by increased repairs and maintenance costs. The HRA balance at 31 March 2007 of £3.504 million is over the policy level of £0.500 million. However there is an ongoing commitment to improve the housing stock to the Scottish Housing Quality Standard.

### *Significant Trading Operations (STO)*

3.5.4 In accordance with the new requirements of the Local Government in Scotland Act 2003 (the Act) the Council assessed its trading activities and determined that Grounds Operations, Sports Services and Waste and Cleaning Operations were STOs. The results of STOs are disclosed in Statement 8 to the accounts. Each STO met its three-year break-even target. Table 2 provides the three-year trading performance.

**Table 2 – Financial performance against break-even target**

Significant trading operations –	Grounds Maintenance	Sports Services	Waste/Cleaning Operations
Financial year	£m	£m	£m
2004/05 - surplus	0.128	0.463	0.056
2005/06 - surplus	0.171	0.318	(0.051)
2006/07 - surplus	0.372	0.553	0.040
<b>Three-year outturn</b>	0.671	1.334	0.045
Break-even Target	0.000	0.000	0.000
<b>Excess over break-even target</b>	0.671	1.334	0.045

3.5.5 The Council's Waste and Cleaning Operations STO produced a surplus for the year of £40,000 on annual turnover of £7.594 million. This resulted in a rolling three-year surplus of £45,000 and accordingly the achievement of the statutory three-year break-even target.

## 3.5 Financial Performance (Cont'd)

### *Significant Trading Operations (STO) (Cont'd)*

- 3.5.6 In-year financial management and performance reporting identified a significant problem with the financial performance of this STO. The scale of the problem was however not fully recognised until after the year-end. The achievement of a surplus in 2006/07 was due to a year-end accounting adjustment of £0.225 million, increasing the income of the STO with a corresponding charge to the service department. A similar accounting adjustment was applied in the previous year.
- 3.5.7 The accounting adjustment in 2006/07 was applied by management in June 2007 to address what was seen as an imbalance between the contractual and budgeting arrangements for charging services and the service specification being delivered. Council officers have confirmed their view that while an additional charge has been applied the STO still provides Best Value to the Council.
- 3.5.8 While we have accepted the accounting adjustment as appropriate to represent the substance of the arrangement between the STO and the service department, we are concerned over the lack of appropriate management action over recent years to fully address the contractual and operational issues between the STO and the client service. Essentially this action centres around the significant changes in the way waste services are delivered not being reflected in the contractual arrangements between the contractor and client.

- 3.5.9 A commitment was given to the previous external auditor to revise and update the contract/SLA between the STO and the service department and to carry out a Best Value review of the service as part of a Phase 2 of the management restructuring at the Council. Phase 2 has not progressed as quickly as intended. It is however recognised that management action to address these commitments is underway.
- 3.5.10 There remains a significant risk of the STO failing to meet its statutory three-year breakeven target in 2007/08 and represent best value for the Council unless management fully address the contractual and best value issues between the STO and the service department.

### *Recommendations*

- R1** *The management arrangements for the Waste and Cleaning Operations STO should be reviewed to identify, and then implement, the measures necessary to improve the Operations' financial management and reporting.*
- R2** *A revision of the contractual position and contract specification between the Waste and Cleaning Operations STO and the Service department should be undertaken without delay to ensure the contractual and pricing arrangements reflect the service specification being asked for and delivered.*
- R3** *The Best Value review of the Waste and Cleaning Operations STO as part of the Phase 2 management restructuring exercise should be completed as early as possible and that the outcome of the review should feed into service and operational planning for both the Waste and Cleaning Operations STO and its client service department.*

## 3.6 Pensions

- 3.6.1 Accounting for the costs of pensions presents a difficult challenge for local authorities. The amounts involved are large; the timescales long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.
- 3.6.2 The Council participates in two pension schemes on behalf of its employees; the Scottish Teachers' Superannuation Scheme (Teachers) administered by the Scottish Government and the Local Government Pension Scheme (LGPS); the Tayside Superannuation Fund administered by Dundee City Council. Both schemes provide members with defined benefits related to pay and service.
- 3.6.3 The Council disclosed the FRS 17 requirements for the LGPS whereas the Teachers' scheme is an unfunded scheme which is excluded from the accounting requirements of FRS 17 as it is a national scheme that cannot separately identify the pension liabilities of the individual contributing bodies. The exception is unfunded pension enhancements.
- 3.6.4 The Council's net pension liabilities at 31 March 2007, estimated by the Actuary, exceeded its share of pension scheme assets by £54.981 million (2005/06 - £78.145 million). The favourable movement of £23.164 million is mainly as a result of the gain on valuation of equities reflecting the upward trend in world stock markets during the year and in part due to the Actuary's positive assessment of recent changes in pension benefits on future pension liabilities.

- 3.6.5 The Tayside Superannuation Fund is subject to a triennial valuation and the last full review was carried out at 31 March 2005. This highlighted a deficit on the fund of 9% and required an increased employer contribution rate over the next three-year period to 31 March 2009 rising from 275% to 315% of employee contributions by 2008/09.

## 3.7 Accounting Treatment of Premiums Incurred on the Early Repayment of Debt

- 3.7.1 The Council's Balance Sheet at 31 March 2007 includes £2.786 million (31 March 2006 - £2.986 million) relating to premiums paid by the Council incurred on the early redemption of debt which was replaced as part of debt refinancing and restructuring exercises.
- 3.7.2 The Council's current policy is to write off gains or losses on the repurchase or early settlement of debt to the Income and Expenditure Account unless they are part of a refinancing or restructure option; in this case they are written off over the life of the replacement borrowing.
- 3.7.3 The recent financial instruments' financial reporting standards; FRS 25, 26 and 29, introduced comprehensive reporting and disclosure requirements in relation to the recognition and measurement of financial instruments, including borrowing and premiums/discounts paid on rescheduling of debts. These new requirements differ substantially from the 2006 SORP requirements and most likely would require most premiums and discounts currently deferred to be written off to the Income and Expenditure Account immediately on the repayment of the debt on which they were originally incurred.

## 3.7 Accounting Treatment of Premiums Incurred on the Early Repayment of Debt (Cont'd)

- 3.7.4 The 2007 SORP has been amended to take account of these FRS requirements. However statutory regulation and guidance to mitigate the impact on local taxation is in place from 1 April 2007 that permits deferment to continue where certain conditions are met; such as where the replacement loan is a fixed interest rate the premium/discount may be written off over the life of new loan or where the replacement loan is a variable rate loan the maximum period of write off is 20 years. The new SORP requirements will require a change in the Council's current accounting policy for next year's accounts.
- 3.7.5 During the year the Council repaid PWLB fixed rate loans of £33 million incurring net discounts of £0.046 million which were written off to the Income and Expenditure Account. The Council also wrote off £0.200 million of deferred premiums relating to refinancing of PWLB fixed rate loans which have been deferred over the term of the new replacement PWLB fixed rate loans in previous years. The guidance permits premiums paid in this case to be written off over the life of the new loans.
- 3.7.6 At 31 March 2007 the Council had market loans, all of which are lender option borrower option arrangements (LOBOs) of £20 million (31 March 2006 - £20 million). None of the deferred premiums relate to these variable rate loans (at 31 March 2006 - nil). The deferred premiums and discounts all relate to PWLB fixed rate loans.

## 3.8 Financial Pressures

### *Single Status*

- 3.8.1 The Council has carried out a job evaluation exercise as part of Single Status. Letters have been issued to staff outlining their new grades and pay rates. The Council intends that this will be implemented on 1 April 2008.
- 3.8.2 4,300 employees are affected, with the expected cost to the Council (including its share of Tayside Contract's costs) estimated at £3.5 million in the first year of implementation with incremental costs of £0.850 million in 2009/10 and 2010/11, and £0.600 million thereafter. The Council has earmarked £3.3 million in its General Fund Balance at 31 March 2007 to allow the budgetary impact of Single Status to be phased in and has also included a further provision of £2.2 million in its 2007/08 budget. The Council's longer term budget strategy has taken account of the impact of Single Status costs including those of Tayside Contracts over the next three years.

### *Equal Pay*

- 3.8.3 During 2006/07 the Council made payments of £2.391 million in settlement of equal pay claims; £0.951 million in respect of the Council's employees up to 31 March 2006 and £1.440 million in respect of its share of claims for employees of Tayside Contracts Joint Committee up to August 2006. The Council had accrued £2.853 million at 31 March 2006 and has accrued a further £0.340 million at 31 March 2007 in respect of Tayside Contracts' estimated liabilities up to that date. Further liability will accrue until the new Single Status pay and grading rates are implemented but this cannot be accurately estimated at this time.



## 3.8 Financial Pressures (Cont'd)

### *Energy Costs*

- 3.8.4 The 2007/08 approved budget for energy costs, including electricity gas and oil across the Council, increased by £0.900 million compared to the 2006/07 final outturn projections of £2.464 million recognising that recent price increases for energy would not be contained within the 2006/07 agreed budget figures. Based on costs to date the position may improve slightly for 2008/09.

### *General*

- 3.8.5 The Council recognises that there is a significant cost pressure associated with the delivery of its recycling policy within Waste Management. This is subject to an ongoing Best Value review. Other significant cost pressures, including increased free personal care costs, are being contained within the existing available resources. The Council is also using unused budgets from previous years that have been approved for carry forward under the budget flexibility scheme to help smooth in the budgetary impact of such pressures.

## 3.9 Reserves and Balances

- 3.9.1 All Councils hold reserves which consist of earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. At 31 March 2007 the "cash-backed" fund balances and reserves held by the Council totalled £29.679 million (at 31 March 2006 - £21.211 million). Table 3 details the balances and movements on these reserves. The Fixed Asset Restatement Account and the Capital Financing Account are specific capital accounting reserves and the Pensions Reserves have been excluded as these are not "cash backed" reserves.

**Table 3 – Fund balances and reserves**

<b>Fund balances and reserves</b>	<b>2006/07</b>	<b>2005/06</b>	<b>Movement</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund	16.518	10.272	6.246
Housing Revenue Account	3.504	3.663	(0.159)
Capital Fund	3.270	3.254	0.016
Repairs and Renewal Fund	3.059	2.701	0.358
Insurance Fund	0.905	0.923	(0.018)
Usable Capital Receipts	1.790	0	1.790
Other Funds	<u>0.633</u>	<u>0.398</u>	<u>0.235</u>
<b>At 31 March</b>	<u>29.679</u>	<u>21.211</u>	<u>8.468</u>

- 3.9.2 The General Fund balance has increased by £6.246 million in 2006/07 as a result of the surplus for the year leaving a closing General Fund balance of £16.518 million.
- 3.9.3 Commitments against the General Fund balance total £13.042 million, leaving £3.476 million of uncommitted funds at 31 March 2007. The committed balances include ring fenced monies of £3.948 million, a contingency of £2.800 million, £3.300 million for the implementation of Single Status, £2.103 million of 2007/08 Budget Commitments and £0.516 million for asset replacement. Under the Budget Carry Forward Scheme a further £0.375 million is committed. Ring fenced monies include a small balance on the Devolved School Management (DSM) reserve and grants which are earmarked for specific purposes.



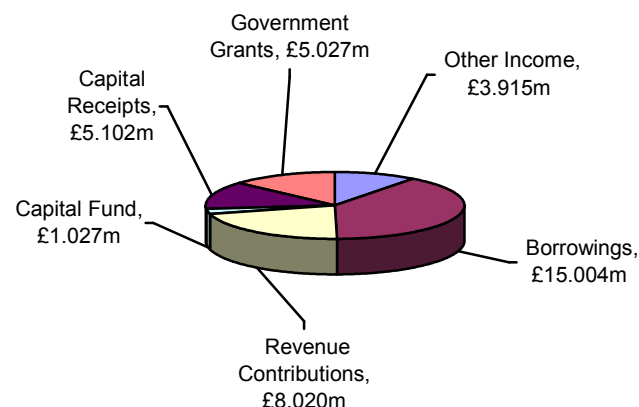
## 3.9 Reserves and Balances (cont'd)

- 3.9.4 The HRA balance at 31 March 2007 of £3.504 million will be used to support the future management costs and the approved programme of property improvements for the Council's housing stock required to meet the Scottish Housing Quality Standard over the next few years.
- 3.9.5 The Council also has significant commitments against both the Capital Fund and Renewal and Repair Fund balances at 31 March 2007 and the approved 2007/08 budget included a further £3.115 million contribution to the Renewal and Repair Fund to ensure that a reasonable level of funding is available to meet unforeseen expenditure on essential and urgent repairs. At the 31 March 2007 there was also a balance on the Useable Capital receipts Reserve of £1.790 million available to take forward capital developments.

## 3.10 Capital Expenditure

- 3.10.1 Gross capital expenditure on the Council's fixed assets amounted to £37.332 million of which £8.742 million was on the Housing Programme. The Council also partly financed the refurbishment of Webster Theatre for the Arbroath Common Good Fund. The total capital expenditure of £38.095 million was financed as follows:

Capital Expenditure Funding Sources 2006/07



- 3.10.2 The gross capital budget for 2006/07 was £43.518 million and the variance of spend against the budget of £5.423 million is due to significant slippage in the capital programme across all services, including the Housing Programme.

## 3.11 Capital Accounting

- 3.11.1 In our ISA 260 Report we highlighted capital accounting and the maintenance of the fixed asset register as an area where the Council's practices could be improved. We also reported that material weaknesses in accounting systems relating to fixed assets had been identified during our audit. A number of material and significant audit adjustments were required to amend the financial statements for both 2006/07 and the prior year 2005/06, arising from capital accounting issues.
- 3.11.2 The valuation of council dwellings was overstated in the audited 2005/06 accounts by £12.608 million and required a prior year adjustment to correct the carrying value of these assets on the Balance Sheet at 31 March 2006. The current year's valuation was also amended by £5.826 million and the carrying value of council dwellings adjusted to £259.639 million at 31 March 2007. This includes a revaluation of these assets of £28.556 million during the year. The disposals figure was also adjusted by £0.119 million to bring into the accounts disposals of 30 dwellings to the private sector that had been omitted.
- 3.11.3 Various other significant adjustments were made to the fixed asset additions and disposals in the draft accounts including the transfer of land and assembly costs relating to the A92 PFI contract of £2.425 million out of fixed assets and into long term debtors and a transfer back to the Council of its share of the Webster Theatre costs £1.624 million spent on the refurbishment that had been shown in full on the Common Good Fund Balance Sheet in error.
- 3.11.4 A number of fixed assets had been disposed of during the year that had not been included in the fixed asset register. This has been a common occurrence over the past few years where in particular land owned by the Council was disposed of but had not been accounted for within the fixed asset register. The capital receipts had however been accounted for within the appropriate capital accounting reserves. Various corrections were required to the calculation of the gain on disposal of these assets.
- 3.11.5 We have accepted assurances from the Head of Finance that the Council will review the assets held on the fixed asset register in conjunction with both Property and Legal to establish an appropriate value for all Council property assets currently held to be recorded in the fixed asset register and the accounts. The Head of Finance has also agreed to review the Council's capital accounting processes and procedures and implement necessary improvements.
- 3.11.6 Following the agreed adjustments to the accounts we were satisfied with the Council's capital accounting arrangements for 2006/07 and that the entries for additions, disposals, transfer, revaluations and impairments were not materially misstated.

## 3.12 Group Accounts

- 3.12.1 The SORP requires authorities to prepare a full set of group accounts in addition to their single-entity accounts where they have an interest in other entities (excluding the Pension Fund). The Council has prepared group accounts in accordance with these requirements.
- 3.12.2 Our review identified a number of audit adjustments were required to the figures for the group included in the draft accounts to take account of the final audited figures for the associates and joint venture and to amend the Council's own figures included in the group's results. Amendments were also required to cancel contributions to the Joint Boards which are replaced with the Council's share of their results.
- 3.12.3 The following table details the Council's interest in other entities and the basis of consolidating their results within the Council's group accounts.

**Table 4 – Group entities**

	Council Control	
	2005/06	2006/07
<b>Subsidiaries</b>		
Common Good	100%	100%
Charities	100%	100%
<b>Associates</b>		
Tayside Fire and Rescue Board	19.00%	19.00%
Tayside Joint Police Board	24.40%	24.40%
Tayside Valuation Joint Board	27.02%	26.69%
<b>Joint Arrangement</b>		
Tayside Contracts	29.00%	29.00%

- 3.12.4 The Group's net operating expenditure of £220.165 million exceeded the income from government grants and local taxation, resulting in a deficit for the year ending 31 March 2007 of £6.315 million.
- 3.12.5 The Group Balance Sheet shows the Total Assets less Liabilities to be £217.393 million at 31 March 2007 compared with the Council's single entity Balance Sheet total of £358.900 million. This material decrease is mainly due to the Share of the Net Liabilities of Associates including the Council's share of the pension liabilities of the Joint Boards. These have been accounted for under FRS 17 'Retirement Benefits' in accordance with the SORP.
- 3.12.6 All of the associates' accounts have been prepared on a going concern basis. These accounts have been audited and there were no qualifications included in the audit opinions. The Council's group accounts have also been prepared on a going concern basis.

## 3.13 Public Private Partnership (PPP) Projects

- 3.13.1 The Council has three Public Private Partnership (PPP) schemes. The first is a contract to facilitate dualling works of the A92 which opened to traffic in September 2005. Annual unitary charges of £5.117 million are included in the Roads & Transport Services costs. An audit adjustment was required this year to transfer additional land assembly costs contributed by the Council to this project to long term debtors.

## **3.13 Public Private Partnership (PPP) Projects (Cont'd)**

- 3.13.2 The second PPP project is a joint arrangement with NHS Tayside for the refurbishment and provision of Beechhill House that has been in operation since March 2005. Annual unitary charges of £0.141 million are included in the Social Work Service costs.
- 3.13.3 The third project is a contract to facilitate the refurbishment and replacement of eight schools in Forfar and Carnoustie with anticipated education start dates in 2007/08 and 2008/09. The capital investment for this project is estimated at £43.024 million and the estimated annual unitary charge is £5.402 million in the first full year.



## 4.1 General Governance

- 4.1.1 The senior management structure was revised during 2006. Following a review of the committee structure in early 2007 the committee structure is now fully aligned with the management structure.
- 4.1.2 The Council's Corporate Plan has been reviewed during 2007 and a draft Corporate Plan 2007 – 12 was presented to the Strategic Policy Committee for approval on 30 October 2007. The plan sets out the key corporate objectives and priorities for the Council, identifying how performance will be measured. Annual action plans will be used to implement the objectives.
- 4.1.3 A new Community Plan 2007 – 12 has been agreed by the Angus Community Planning Partnership.
- 4.1.4 During 2006/07 the Council again refined its budgeting procedures so as to allow decisions on planning and resource allocation to be more closely linked. A key feature of this was that for the first time the budget and planning timetables are fully aligned. Further action is underway in the 2008/09 budget and service planning round to build on the successes and make improvements in other areas, primarily in the transparency of linkage between the budget setting and planning at service, corporate and community planning levels.

## 4.2 Impact of Local Government Elections

- 4.2.1 As noted in 4.1.1 the committee structure was revised prior to the May 2007 elections to align it with the revised management structure.
- 4.2.2 In preparing the committee timetable for 2007/08 officers built in time to undertake training with all members, including training around encouraging a more active scrutiny role.

## 4.3 Members

- 4.3.1 The Council put a training programme in place for all members following the May elections, in line with a strategy that had been developed with member input and was approved before the election. Priority issues were identified and training delivered during the first month after the election. This provides a broad understanding of the Council and its business and covered a range of regulatory and legislative issues, including planning regulations, licensing, the Code of Conduct and financial regulations. Further, more in depth training to reinforce some of the induction topics is now underway in a series of sessions planned up to the end of 2007. These include corporate planning, risk management and scrutiny.
- 4.3.2 Personal Development Plans (PDPs) are not compulsory but all members are being actively encouraged to have one. To date 17 of the 29 members have a PDP in place and individual training on topics such as IT has already been delivered.

## 4.4 Partnership Working

### *Community Planning*

- 4.4.1 Following a review of Audit Scotland's publication on community planning an action plan covering all community planning partners and the Community Planning Partnership (CPP) was agreed by the CPP in January 2007 and is currently being implemented.
- 4.4.2 Internal Audit issued their report on Community Planning Finance in February 2007. They concluded that "*procedures and processes in relation to Community planning resources are still being established. Further work is now needed to link the priorities identified for the partnership to resources and to put in place financial governance and performance management arrangements*". A number of good practice areas were also identified. Work is currently underway to prepare a Community Plan Resource Plan and to take forward the other agreed actions from this review.
- 4.4.3 Resource planning is linked with Council resource planning and the community planning themes. Resource gaps have been identified and are now being considered. The target for completing the Resource Plans is early 2008 and consideration of the resource gaps will be an integral part of the various partners' budget and planning processes for 2008/09. Revised risk management arrangements have been agreed and the CPP expect to have developed outcome measures, indicators and targets for each community planning theme by April 2008.

## 4.5 Reliance on Internal Audit

- 4.5.1 At the start of our appointment we reviewed the Council's internal audit provision and determined that we could rely on their work. We reported our findings in our Report 2007/03 *Financial Statements Audit Plan* issued on 28 June 2007.
- 4.5.2 To minimise audit duplication we liaise with internal audit during our planning to identify areas of their work that we can place reliance on. For 2006/07 we agreed to place reliance on work covering a number of areas. All of the expected work was received and our review of the their reports and working paper files allowed us to place reliance on the work of internal audit.
- 4.5.3 We reviewed the weaknesses identified by internal audit and in most cases, concluded that these were unlikely to have a material effect on the financial statements, allowing us to reduce the level of detailed testing during our year-end audit. The only area where we did not reduce the level of testing was fixed assets and capital accounting as internal audit concluded, in their review of the asset register, that "*there is a basic control environment in place. However two main areas were identified where additional work requires to be carried out to enhance the existing control environment.*" This confirmed our findings reported in our *Financial Statements Audit Plan* Report 2007/03 issued on 28 June 2007 that most of the updating of the fixed asset register is carried out during the year-end process.
- 4.5.4 As noted in section 3 and in our ISA 260 report, a number of audit adjustments to the financial statements were required as a result of weaknesses in the capital accounting arrangements.



## 4.6 National Fraud Initiative

- 4.6.1 In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27M to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
- 4.6.2 The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Council's involvement in NFI 2006/07 during the course of our audit.
- 4.6.3 The Council has planned the audit carefully and uses staff experienced in fraud work where possible. It has committed considerable resources to the exercise, with the intention of examining all relevant matches, and is nearing completion in most areas (although some investigations are ongoing). The exception to this is Housing Rents where an extensive internal reorganisation has meant that little progress has been made to date. Work on this area is due to start very shortly.
- 4.6.4 Overpayments of some £13,000 have been found to date, of which nearly £12,000 is in the process of being recovered. Only one fraud has been found, and this was in relation to Housing Benefit. The relatively low level of overpayments arising from the exercise can be related to the successful targeting of possible overpayments already in place within the Council, which includes investigating a high number of referrals from the Housing Benefit Matching Service provided by the Department of Work and Pensions.
- 4.6.5 In the exercise this year risk based data sets were available for the first time as well as mandatory ones. The Council decided to take only creditor payments as they felt that the risks around the other ones were too low to justify the resource involved. The creditor matches (some of which date back several years) have been reviewed and instances of duplicate payments found, although not large ones individually. In addition to the possibility of reclaiming some amounts, this has highlighted training issues around the entry of invoices.

# Performance

## 5.1 Strategic Planning

- 5.1.1 As noted in section 4 the Council has renewed the Corporate Plan and there is a new Community Plan in place. Community planning priorities were taken into consideration in revising the Corporate Plan.
- 5.1.2 Although not specifically included in the Corporate Plan, financial strategy arrangements continue to be improved. The service planning and budget processes are being brought closer together for 2008/09. The Council also identified capital planning and budgeting as a significant issue and a number of steps to improve this have been undertaken during 2006/07. Key components to improve this area are now in place. The Council intends to update the work carried out last year on the long-term affordability of its capital programme as part of the 2008/09 budget setting process.

## 5.2 Performance Management

- 5.2.1 The Excelsis performance management system was piloted in Housing and Social Work during 2006/07 and has now been rolled out to all Council departments. Training has been undertaken with relevant staff and further system functionality is being developed.
- 5.2.2 All departments are now using the system for Service Planning and updating the Risk Register/Action Plan. The system also holds action plan information from external sources such as SWIA and HMIE. Information from the system is being used to provide progress updates and aid performance management through reporting to both officer groups and committees.

- 5.2.3 Information is also held on the system and provided to the CPP. The CPP has a programme of meetings considering progress under six key outcome areas. Excelsis Crystal reports are used to help monitor and provide management information. Reports on demographics and sustainability have been considered by the CPP.

## 5.3 Risk Management

- 5.3.1 The Council has separated strategic and operational risk management, with operational risk management being the responsibility of the Chief Internal Auditor, while strategic responsibility remains with the Chief Executive's Service. A corporate Risk Management Strategy is in place, but is in the process of being updated. Corporate and service risk registers are also in place, together with Management Action Plans (MAPs); both now form part of the Excelsis performance management system, which facilitates monitoring of responsibilities and actions with regard to individual risks. During 2006/07 internal audit reviewed the operation of the risk registers and MAPs, making a number of recommendations which have been agreed by management. They also looked at overall risk management arrangements as part of their annual review of corporate governance and the Local Code.
- 5.3.2 Given the Chief Internal Auditor's operational risk management responsibility we included risk management as an area for review in our 2006/07 plan. Preliminary work has been undertaken but the fieldwork was delayed at officers' request. This will recommence in November with reporting planned late November or early December 2007.



# Performance

## Efficient Government

### *Background*

- 5.4.1 The Scottish Executive incorporated efficiency saving targets to the budgets for all councils from 2005/06 to 2007/08. Following a review of the first year's experiences the Scottish Executive recognised that standard measures should be prepared to aid future reporting of outcomes.
- 5.4.2 The Scottish Executive issued a paper on Efficient Government Reporting "*Framework For Local Authorities in Scotland*" in 2007 which introduced arrangements for reporting on efficiency savings. Efficiency Statements will be compulsory for 2007/08 but councils were encouraged to produce them for 2006/07.

### *Efficiency Statement*

- 5.4.3 The Council produced a 2006/07 Efficiency Statement and submitted it to the Scottish Executive by the suggested date of August 2007. Planning for producing the 2007/08 statement is already well underway. The Council is following COSLA guidance to ensure services standards are not being adversely impacted.
- 5.4.4 The Council aims to deliver in excess of their indicative three year efficiency gain targets set by the Scottish Executive for 2005 - 2008. Officers have confirmed the Council is currently on track to achieve this, mostly through cashable savings.
- 5.4.5 A review of trading operations is underway, with reporting expected by the end of 2007. The Corporate Planning review also considered a number of service areas and internal business management arrangements for review. These will be taken forward after approval at the Strategic Policy Committee meeting on 30 October.

### *Shared Services*

- 5.4.6 The Council is involved in local and national shared services projects. It is seeking to maintain flexibility within local projects to allow them to accommodate the outcomes from the other national shared service projects.
- 5.4.7 The Council's Social Work and Health Service shares premises with Angus Community Health Partnership, and Tayside Police and Council staff share premises at five locations across Angus.
- 5.4.8 The main focus for the Council presently in relation to shared services development is on procurement through the Tayside Procurement Consortium (TPC).
- 5.4.9 The Council is a member of the TPC together with Dundee City and Perth & Kinross Councils. The official launch of the initiative was on 8 November 2007 although work has been progressing on this project for a number of months. This project relates to shared procurement through the development of procurement opportunities, collaborative contracts and shared commodity expertise. A Head of Procurement for the three Councils has recently been appointed. E-procurement systems will be used by all three councils, with Angus and Perth & Kinross Councils using the national e-procurement system PECOS.
- 5.4.10 Consultants have been engaged to assist the consortium with strategic procurement and commodity analysis. Output from recently held workshops is now available identifying opportunities within a range of commodities, and these opportunities indicate the potential to save several millions across the three councils over the next few years. Further work is now underway to progress the structures and resources necessary to realise the potential benefits identified.



## Efficient Government (Cont'd)

### *Shared Services (Cont'd)*

5.4.11 As the Council sits within the North East area for the national Excel project, collaboration with both Aberdeen City and Aberdeenshire Councils is being actively pursued through the Tayside Procurement Consortium.

## 5.5 Best Value Audit

5.5.1 The Council has a Best Value Improvement Plan (BVIP) which was developed following Audit Scotland's Best Value review in 2004. The BVIP is now included in the Excelsis performance monitoring system.

5.5.2 We have undertaken transitional Best Value work as part of the 2006/07 audit. Fieldwork is underway and reporting is planned for November 2007.

## 5.6 Statutory Performance Indicators (SPIs)

5.6.1 The 2006/07 return to Audit Scotland for Council SPIs was made by the 31 August 2007 deadline and publication was made by the 30 September deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all but two of the 57 indicators, and the Council was unable to fully report on another one. Both the unreliable systems and the failure to report relate to new indicators this year.

5.6.2 We shall be submitting a report arising from our work on the SPIs designed to agree with management areas where improvements can be made to the collection and publication of data. This will include an agreed action plan with proposed timescales for the implementation of changes.

## 5.7 Asset Management

5.7.1 The Council has responded promptly to guidance around asset management, dealing with it on an individual service basis, rather than in a centralised manner. Property Services has made good progress, with detailed surveys of most of the Council's operational properties undertaken in 2004 in order to ensure that it has the information base to allow proper decision making. These surveys are updated annually. In May 2006 a Corporate Asset Management Plan for Operational Properties was approved by members; this is a strategic document written in line with best practice from Wales which has been adopted as a model by Scottish local authorities. A timetable for future progress is included as it is viewed as the first stage in an ongoing process. Energy management, sustainability, biodiversity and water management strategies are in place.

5.7.2 Two SPIs were submitted for Property Services in 2006/07, both of which were assessed as providing reliable information. One was new, and related to the condition and suitability of operational buildings. This showed that some 19% of Council accommodation was not in a satisfactory condition, while 20% was not suitable for its present use.

## 5.7 Asset Management (Cont'd)

- 5.7.3 The other SPI relates to public access for those with disabilities; some 79% of buildings are assessed as providing accessible services. The Council has a strategy to ensure compliance with the Disability Discrimination Act and a continuing programme to upgrade failing buildings.
- 5.7.4 The Head of Roads is progressing work on infrastructure asset management planning through the Society of Chief Officers for Transportation in Scotland (SCOTS). This co-operative venture is expected to generate significant benefits in terms of efficiency and national consistency.
- 5.7.5 IT Services holds detailed information on the Council's IT asset base which allows it to take decisions on replacement and disposal.
- 5.7.6 The Council has issued guidance on capital project appraisal and option appraisal and has begun to use whole life costing when looking at large scale projects. However further detail in the Council's guidance on what whole life costing entails would be useful to ensure that decisions within the capital project process are made on an appropriate basis.
- 5.7.7 In February 2007 members received a report on the long term affordability of the General Fund Financial Plan; this goes further than the Prudential Code requires, and we consider it a very useful piece of work, since it seeks to identify and address any long term capital funding gap. The need to make a number of assumptions does not invalidate the assessment, although it does mean that a regular review will be necessary.



# Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
3.5.4 to 3.5.10	<p><b>Financial Performance</b></p> <p><i>Significant trading operations (STO)</i></p> <p><b>Recommendation 1</b> The management arrangements for the Waste and Cleaning Operations STO should be reviewed to identify, and then implement, the measures necessary to improve the Operations' financial management and reporting.</p>	Recommendation agreed and action is underway to address this	Yes	Directors of Corporate Services, Infrastructure Services and Neighbourhood Services. Head of Finance to lead	January 2008
3.5.4 to 3.5.10	<p><b>Recommendation 2</b> A revision of the contractual position and contract specification between the Waste and Cleaning Operations STO and the Service department should be undertaken without delay to ensure the contractual and pricing arrangements reflect the service specification being asked for and delivered.</p>	This is to be looked at in terms of the immediate position but thereafter will be updated based on the outcome from the Best Value review (see recommendation 3 below)	Yes	As above	January 2008
3.5.4 to 3.5.10	<p><b>Recommendation 3</b> The Best Value review of the Waste and Cleaning Operations STO as part of the Phase 2 management restructuring exercise should be completed as early as possible and that the outcome of the review should feed into service and operational planning for both the Waste and Cleaning Operations STO and its client service department.</p>	This is to be progressed on a priority basis	Yes	As above	June 2008





## Appendix I - Respective Responsibilities

### **Respective Responsibilities of Members, Officers and Auditors**

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Council and the Head of Finance's responsibilities for the Financial Statements are set out on page 10 of the Financial Statements. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

We are required to review whether the Council's Statement on the System of Internal Financial Control complies with the requirements of the Code of Practice for Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice (the SORP) and report any exceptions. We are also required to review the statement and report if it is misleading or inconsistent with other information we are aware of from our audit. The Statement on the System of Internal Financial Control is set out on pages 59 and 60 of the audited accounts. We are not required to give an opinion on the effectiveness of the Council and its group's internal controls.



## Appendix II - Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at July 2007
62	<p><b>Trading accounts</b></p> <p>The Council is still operating agreements with its STOs which substantially originated during the CCT era. As a result, these are largely out of date.</p> <p><i>Risk: the Council is not seen to be achieving best value in its trading operations.</i></p>	<p>Whilst a number of discrete reviews have been undertaken as matters have arisen it has been recognised that a comprehensive Best Value review should be applied across the trading operational agreements.</p> <p>This exercise is to be undertaken as part of the phase 2 management structure review.</p>	Yes	Director of Infrastructure Services, Neighbourhood Services and Corporate Services	September 2007	The phase 2 Management Review has not progressed along the originally envisioned timescale. Nevertheless this review exercise is currently being progressed by the relevant Directors with waste management being an area of focus.



## Appendix II - Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at July 2007
116	<p><b>Financial reporting</b></p> <p>Changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 annual financial statements.</p> <p><i>Risk: in the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements. Unexplained differences between financial reporting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.</i></p>	<p>The changes emanating from the 2006 SORP have been acknowledged and appropriate development actions are being progressed. These include the transparent reconciliation of financial reporting requirements and the presentation of key budget monitoring reporting mechanisms to elected members and the public.</p>	Yes	Director of Corporate Services and Head of Finance	March 2007	<p>The requirements of the 2006 SORP were subject of discussion at early final accounts planning meetings within the Finance Division to ensure that these were addressed in the preparation process.</p> <p>The Head of Finance submitted a paper to the council's Chief Officers Management Team on 13 August 2007 with regard to proposed improvements to current monitoring arrangements and these will be implemented by November / December 2007.</p>

