



HENDERSON LOGGIE

Fife Council

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

2005/2006

External Audit Report No: 2006/22

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Executive Summary

1.1 Introduction

- 1.1.1 We are pleased to submit our annual report in what is our last 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. Four specific recommendations have been made and these will be followed up by the incoming external auditors in due course.
- 1.1.2 Over the past five years we have seen significant improvement in the Council's arrangements generally and more specifically in relation to a number of financial, internal control and governance issues. We commend the Council for having taken the action to facilitate the achievement of continuous improvement.
- 1.1.3 Together with officers from across all of the Council's Services, and in particular with the Head of Finance and Asset Management and his finance and internal audit staff, sound and effective working relationships built on mutual respect have been developed. This has greatly aided the audit process for both the Council and us.
- 1.1.4 A meeting has been arranged for late October 2006 between us and the incoming external auditors. This will allow us to impart relevant information and knowledge of the Council to them as part of Audit Scotland's agreed handover protocol for change in external auditor appointments.

1.2 Financial (Section 3, page 5)

- 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 22 September 2006. No material audit adjustments were noted.
- 1.2.2 We are satisfied that the Council's Corporate Governance Statement complies with the adopted Code of Corporate Governance and we are not aware of any misleading or inconsistent comments within the statement.
- 1.2.3 The Council's only Significant Trading Operation, Building Services, achieved its statutory break-even target covering its first three years of operation.
- 1.2.4 The Council reported a deficit of £21.42 million against a budgeted deficit of £7.84 million for the year to 31 March 2006. The provision for Equal Pay costs of £29.51 million, offset by net under spends by Services and other largely non-recurring factors of £13.58 million, was the main reason for the adverse deficit position at 31 March 2006.
- 1.2.5 The Council's estimated pension liabilities at 31 March 2006 exceeded its share of assets by £941.9 million, a rise of £78.6 million over the past year. A full actuarial valuation was carried out as at March 2005 which recommended annual increases in the employers' contributions.
- 1.2.6 Implementation of Single Status, estimated to cost £15.5 million over 6 years, has been partly budgeted with £7.0 million provided for in 2006/2007 with the balance to be met from resources over the period 2008 to 2012.



Executive Summary

1.2 Financial (Cont'd)

- 1.2.7 Cost pressures, particularly in the Education and Social Work Services, continue to feature in 2006/2007 with estimated projected over spends totalling in excess of £10.0 million by 31 March 2007. Energy costs have increased dramatically over the last year however anticipated cost increases of around £5.0 million were not budgeted for in 2006/2007. The ability of Services to absorb the increased energy costs is seen as unsustainable. Management are taking action to address the anticipated over spend, with Members being kept informed through monitoring reports.
- 1.2.8 As a result of the deficit the level of fund balances and reserves at 31 March 2006 is much reduced and now stands at £13.73 million, down £22.33 million on the previous year. Commitments against the General Fund at 31 March 2006 exceed fund balances by £3.96 million.
- 1.2.9 The Council's overall financial position is regarded as precarious with the need for tight control over budgets during 2006/2007. Failure to make savings will result in the carry forward of over spends against the 2007/2008 budget. This in turn will impact on the available budget in 2007/2008 for front line services.
- 1.2.10 The second PPP project, "Expanding Horizons", achieved financial close in December 2005. Our review supported the Council's provisional judgement on the accounting treatment as off-balance sheet. Construction is on-going with facilities coming on stream between November 2006 and June 2007.

1.3 Governance (Section 4, page 14)

- 1.3.1 The governance arrangements in the Council are well founded, subject to continuous review and appear to work well, however recent changes to scrutiny arrangements have still to realise their full potential.
- 1.3.2 Members' roles are well defined with induction and on-going training and development opportunities in place. Budget monitoring reports are routinely provided to Members and all reports include information about financial implications. Reports generally make it clear what action members are being asked to take.
- 1.3.3 Preparation for changes that will be required following the 2007 council elections is well advanced. Members and officers have been involved in this process.
- 1.3.4 The Standards and Audit Committee has continued to function well. Recommendations made last year have been implemented although there is scope to further involve the committee in considering the Corporate Governance Statement and the SAS 610 report and further consideration should be given to setting and monitoring committee objectives.
- 1.3.5 The Council's internal audit service continues to make improvement in the delivery of its annual plan. This aids the overall audit process and allows external audit to take a greater level of reliance on the work of internal audit.



Executive Summary

1.4 Performance (Section 5, page 17)

- 1.4.1 Strategic planning is undertaken within a framework that links community, corporate and service planning together.
- 1.4.2 Ongoing review of the processes to refine linkages and measurement of outputs has resulted in different formats and detail of reporting of the outcomes over the years. Further refinement is planned, primarily through changes in community planning and further development in linking planning with budget setting. Action during 2006 has improved clarity in the reporting and monitoring structures relating to community planning and further action is planned.
- 1.4.3 There is not a systematic approach to managing workforce planning, however information about workforce planning risks is utilised and there are a number of good and relevant policies in place.
- 1.4.4 Communities Scotland gave an initial overall assessment of “good” for the Council’s Local Housing Strategy. Further work by Communities Scotland confirmed that the Council has made good progress in implementing the plan.
- 1.4.5 We were involved in the HMIC primary inspection of Fife Constabulary during 2005/2006. The overall conclusion from the inspection was that Fife Constabulary provides a high level of service to the people of Fife, that partnerships are well established, there is good support within the community served and the Force has good structures in place to aid effective leadership, internal communication and accountability.
- 1.4.6 Ongoing performance management is undertaken in a framework that involves Service Management Teams, the Corporate Management Team and Members through various committees.
- 1.4.7 The Council considers its Efficient Government activities within the budget setting and Collective Challenge processes. The Fife Community Partnership commissioned a review, carried out by SOLACE, to consider shared service options and opportunities. The results of this review are being taken forward by a working group, including Council and partner organisations.
- 1.4.8 During the year the Council has reconsidered reporting arrangements in relation to Efficient Government and are considering the difficulties of quantifying time-releasing savings. Going forward reconsideration will require to be given to some currently identified savings to ensure that they fully comply with the Scottish Executive’s definition of savings.
- 1.4.9 Risk management is an area that the Council has identified as requiring further work.
- 1.4.10 The agreed action plan that resulted from a review of the Council’s compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound has not been fully implemented. Plans are in place to address the remaining recommendations.
- 1.4.11 The systems in operation for the production and publication of SPIs were reliable for all but four of the 71 indicators. Audit Services is working with the Service to improve the systems for the four indicators.
- 1.4.12 Cost pressures in respect of home to school transport remains an issue for further review and action, including consideration of the Council’s policy to set a service level that exceeds minimum requirements without a matching revenue budget.



Introduction

2.1 Introduction

- 2.1.1 We are pleased to submit our fifth annual report covering significant matters arising during the course of our audit of Fife Council for the year ended 31 March 2006.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our long term Strategic Plan. The audit scope and the respective responsibilities of Council members 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'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 issued a number of reports incorporating action plans for 2005/2006. Some of the main points from those reports 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 and the previous four years 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.



Financial

3.1 Audit Completion

3.1.1 The target date for submission of the 2005/2006 audited accounts of the Council was 30 September 2006. We are pleased to report that the target date for the audit completion and certification of the annual accounts was met.

3.2 Accounts Certification

3.2.1 On 22 September 2006 we issued our audit report expressing an unqualified opinion on the financial statements of the Council for the year ended 31 March 2006. We set out below a summary of the audit certification issues:

- The financial statements present fairly the Council's financial position at 31 March 2006 and income and expenditure during the year.
- The Council's Significant Trading Operation (STO) met its statutory three year break even target.
- We were not obliged to make any adverse comment on the Council's Corporate Governance Statement. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

3.3 Financial position

3.3.1 The Council's net revenue expenditure of £638.75 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £21.42 million

3.4 Financial Performance

3.4.1 Financial performance in one sense can be measured against the financial budget set by the Council in February 2005 for 2005/2006. In this regard the Council's Consolidated Revenue Account (CRA) shows a deficit of £21.42 million against a budgeted deficit of £7.84 million. The Housing Revenue account came in on budget with a deficit of £1.54 million.

3.4.2 A number of factors have contributed to the adverse CRA outturn. The table below highlights the significant factors.

Table 1 – Financial Performance against 2005/2006 budget

Consolidated Revenue Account	
	£m
Budgeted CRA deficit	7.84
Significant factors	
Equal pay claims	29.51
Service underspends	(5.92)
Lower loan charges	(3.08)
Lower CFCR	(4.66)
Increased council tax income	(2.43)
Other	0.16

Adverse variance	13.58

Actual CRA deficit	21.42
	=====



3.4 Financial Performance (Cont'd)

- 3.4.3 Overall the 2005/2006 budget was increased by £7.84 million. This was achieved through the use of budget carry forward balances of £6.08 million, which after adjustment for the carry forward of ring-fenced resources to 2006/2007 of £2.82 million resulted in a net increase of £3.26 million. Other budgets funded from balances in 2005/2006 amounted to £4.58 million.
- 3.4.4 An in-year budget deficit of £13.58 million has resulted in an overall deficit of £21.42 million.
- 3.4.5 The Head of Finance and Asset Management in his “*Review of budgeted and final outturn*” report to the Policy and Resources Committee on 8 June 2006 highlighted the main service over and under spends resulting in the budget deficit of £13.58 million. Key highlights are reported here.
- 3.4.6 A provision of £29.51 million has been made in the accounts to 31 March 2006 for compensation payments in respect of equal pay claims. This has been shown as an exceptional charge in the Consolidated Revenue Account. Payments to staff in respect of equal pay have been made in 2006/2007.
- 3.4.7 While there was a net under spend by Services of £5.92 million there were a number of significant factors that contributed toward this outcome.
- 3.4.8 The Children and Adult Services showed a net over spend of £0.78 million against a budget of £405.6 million. Significant budget pressures were experienced in the Education Service with over spends in non-DSM early years officers costs of £1.0 million and transport costs of £1.1 million. This was offset by favourable variances of £0.5 million in other non DSM costs and an under spend of £0.7 million on the DSM budget.
- 3.4.9 While the Social Work Service showed a net under spend of £0.19 million there were over spends of £6.38 million, largely as a result of increased demand from vulnerable clients, offset by a range of under spends, including £1.56 million on residential and nursing care for older people and £1.39 million on staff vacancies. At September 2006 cost pressures in the Education and Social Work Services continue to feature in 2006/2007 and unless compensatory savings can be found could lead to significant over spending.
- 3.4.10 Support Services showed an under spend of £5.13 million for 2005/2006. The surplus from the Building Services STO combined with other budget under spends resulted in an under spend of £2.35 million on Service Support. In addition, of the 2004/2005 under spend on Service Support carried forward to 2005/2006, £2.26 million was unspent in year and has now been released to General Fund balances.
- 3.4.11 Favourable variances in loan charges of £3.08 million, council tax income of £2.43 million, mainly due to a revision in the level of bad debt provision, and capital funded from revenue of £4.66 million have reduced the overall in-year deficit.

3.4 Financial Performance (Cont'd)

Significant trading operation (STO)

3.4.12 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 Building Services was its only STO. The results of STOs are disclosed in the Council's Consolidated Revenue Account and associated notes to the accounts. The STO has met its three-year break-even target. Table 2 below provides the three-year trading performance.

Table 2 – Financial performance against break-even target

Significant trading operation – Building Services	Actual	Budget	Variance
Financial year	£m	£m	£m
2003/2004 - surplus	1.68	0.45	1.23
2004/2005 - surplus	2.86	0.32	2.54
2005/2006 - surplus	2.69	1.52	1.17
Three-year outturn	7.23	2.29	4.94
Break-even Target	0.00	0.00	0.00
Excess over break-even target	7.23	2.29	4.94

3.4.13 The STO is budgeted to produce a surplus in 2006/2007 which would, if achieved, ensure that the rolling three-year break-even target will be met in 2006/2007.

3.4.14 While generating overall trading surpluses, for a number of years Building Services have incurred deficits on certain types of work, previously referred under CCT legislation as Category 40 works. Management action has largely addressed the issues giving rise to trading deficits for this type of work and it is expected that deficits will be avoided in future years.

Housing Revenue account

3.4.15 The Housing Revenue Account (HRA) outturn for 2005/2006 reported a small adverse variance against budget of £0.04 million. The budget included a contribution from the HRA fund balance of £1.50 million to meet planned expenditure to upgrade the quality of the housing stock. A favourable variance of £1.79 million in respect of the cost of borrowing has allowed an increased use of CFCR in the financing of the capital programme, which in turn will help to reduce future borrowing costs. The balance at 31 March 2006 was £4.56 million of which £1.50 million is committed to the HRA Investment Plan to meet housing quality standards.

3.5 Pensions

- 3.5.1 Accounting for the costs of pensions presents a difficult challenge for the Council. The amounts involved are large; the timescales long, the estimation process is complex and involves many areas of uncertainty that are 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.
- 3.5.2 The Council accounts for three defined benefit pension schemes; the Local Government Superannuation Scheme and the Uniformed Police and Fire Services Schemes. The Council's estimated pension liabilities at 31 March 2006 exceeded its share of assets in all three schemes.

Table 3 – Pension liabilities

Estimated pension liabilities	2005/2006	2004/2005	Movement
Pension Scheme	£m	£m	£m
Local Government	379.1	390.4	(11.3)
Police	408.8	342.2	66.6
Fire	154.0	130.7	23.3
	-----	-----	-----
Pension liability at			
31 March 2006	<u>941.9</u>	<u>863.3</u>	<u>78.6</u>

- 3.5.3 The full actuarial valuation of the Fife Council Superannuation Scheme was carried out as at 31 March 2005. This highlighted a deficit of £132.0 million and made recommendation for an increase in employers' contributions from 270% of employees' contributions to 285% by 1 April 2008 with 5% increases in the rate for 2006 and 2007.
- 3.5.4 Under current funding arrangements the pension liabilities in relation to the Police and Fire schemes are met through the revenue support grant arrangements.
- 3.5.5 In addition to the three schemes referred to above the Council make contributions into the Teachers Pension Scheme for teaching staff employed by the Council. This scheme is administered by the Scottish Executive. It is not possible to identify any underlying liabilities for this scheme attributable to the Council's employees.

3.6 Accounting treatment of premiums incurred on the early repayment of debt

- 3.6.1 The Council's balance sheet at 31 March 2006 includes £64.9 million relating to premiums paid by the Council incurred on the early redemption of debt which was replaced as part of debt restructuring exercises in previous years. Of this amount £61.3 million relates to restructures where fixed interest rate loans were replaced with similar fixed rate loans (albeit at a lower rate of interest) whilst £3.6 million relates to restructures involving fixed interest rate loans being replaced by lender option borrower option loan agreements (LOBOs).

3.6 Accounting treatment of premiums incurred on the early repayment of debt (Cont'd)

3.6.2 The 2005 SORP allows premiums on the early repayment of debt to be amortised to revenue over the period of the replacement loans when the repurchase is coupled with a restructuring or refinancing of borrowing and the overall economic effect is substantially the same. This treatment is an exception to the standard accounting treatment set out in FRS4 which requires immediate recognition of the premium. The SORP itself does not provide a definition of the term 'overall economic effect', and the SORP guidance notes provide the only extant working definition i.e.

- ❑ the size of the authority's overall loan portfolio remains approximately the same, or
- ❑ overall finance cost should remain approximately the same

3.6.3 The Council has relied upon this definition and concluded that, on this basis, LOBOs have substantially the same overall economic effect as fixed interest rate loans. The Council has therefore followed the exception allowed by the SORP and is amortising the premium over the life of the replacement loans.

3.6.4 Notwithstanding the definition in the SORP guidance notes, in our view, there are strong arguments for concluding that the overall economic effect of fixed rate loan is different from that of a LOBO. However, there is a lack of reliable evidence to conclusively support that view and therefore there is no impact on our opinion on the 2005/2006 accounts in that regard.

3.6.5 It will be necessary for auditors to consider this issue again in 2006/2007. However, the adoption of new accounting standards by the SORP from 2007/2008 will mean that, in the majority of cases, the option to amortise premiums will be removed. It is however intended that regulations or statutory guidance will come into force that will mitigate the impact of this change on council tax.

3.7 Financial pressures

Single Status

3.7.1 The Council has carried out a job evaluation exercise as part of Single Status which is in the final stages of negotiation with trade unions. Implementation of Single Status is expected during 2006/2007 ensuring the Council's pay and grading structure takes full account of equality issues across employee groups across the Council.

3.7.2 16,000 employees are affected, with the expected cost to the Council estimated at £15.5 million over 6 years. The Council has provided £7.0 million in its 2006/2007 budget and anticipates the balance will be met from existing resources over the 2008/2012 period.

3.7 Financial pressures (Cont'd)

Education Service

3.7.3 As reported earlier in this report the Education Service continues to experience a range of cost pressures. In addition to budget overspend carried forward of £1.50 million to 2006/2007, the main areas of projected overspend in 2006/2007 include staffing costs of £1.02 million, early years services of £0.55 million, transport costs of £0.34 million, energy costs of £1.65 million, pension costs of £0.50 million and an increase in PPP unitary charges of £0.15 million. The Service has identified £1.50 million of savings leaving a projected deficit of £4.2 million.

3.7.4 A number of corrective actions are being investigated and implemented, including a recruitment freeze, a focus on core services and the identification of further savings.

Social Work Service

3.7.5 The Social Work Service also continues to experience cost pressures and projects an over spend for 2006/2007 of £6.13 million before implementation of savings. The main areas of over spend include placement of children of £4.47 million, family placement services of £1.08 million and adult placements of £3.13 million. This is partly offset by projected under spends of £2.55 million, including staff cost savings of over £1.00 million. A range of savings measures, including the use of carry forward budget under spends from 2005/2006, have been identified by management. These together with in-year under spends elsewhere within the Service should result in a reduction of the final over spend for 2006/2007 to £1.61 million.

Energy Costs

3.7.6 Energy costs have risen significantly over the past year, impacting on domestic and business users. Fuel costs in 2005/2006 amounted to £8.26 million representing an over spend of £0.28 million against budget. The budget for 2006/2007 did not build in the expected £5.00 million fuel cost increase, with Services expected to meet this increase from within their allocated budgets and from the achievement of energy savings through work carried out by the Council's energy management unit. Services are now forecasting over spends on energy costs in 2006/2007 and highlighting difficulties in funding sustainable savings to meet the higher energy costs.

3.7.7 Recommendation

While accepting that increased cost savings through the Collective Challenge, Efficient Government, energy management initiatives and prudent management by budget holders will be necessary, we recommend in setting Service budgets for 2007/2008 that the impact of higher energy costs on Services is budgeted for at a level necessary to meet projected energy costs.

Free Personal Care

3.7.8 The provision of Free Personal Care (FPC) has been subject to a degree of inconsistency in treatment across local authorities in Scotland. Some authorities have not included the cost of meal preparation as a task coming under the umbrella of FPC, with some authorities charging separately for such services.

3.7.9 The Council does include meal preparation as part of FPC with no separate charge being made. The cost of FPC in 2005/2006 amounted to £20.27 million, an over spend of £0.14 million against budget.

3.8 Reserves / Balances - Policies

3.8.1 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 2006 the fund balances and reserves held by the Council totalled £13.73 million.

Table 4 – Fund balances and reserves

Fund balances and reserves	2005/2006	2004/2005	Movement
	£m	£m	£m
General Fund	5.14	26.56	(21.42)
Housing Revenue Account	4.56	6.10	(1.54)
Energy Management Fund	0.33	0.09	0.24
Tourist Development Fund	0.89	0.24	0.65
Insurance Fund	2.81	3.07	(0.26)
At 31 March 2006	13.73	36.06	(22.33)

3.8.2 The General Fund balance has reduced by £21.42 million in 2005/2006 as a result of the deficit for the year leaving a closing General Fund balance of £5.14 million.

3.8.3 Commitments against the General Fund balance totals £9.10 million resulting in an over commitment at 31 March 2006 of £3.96 million. A strategy for funding Equal Pay costs, including actions to restore balances to a positive position by 31 March 2007 was approved by the Policy and Resources Committee on 9 June 2006.

3.8.4 The continuing cost pressures in Education and Social Work Services in 2006/2007 referred to earlier are projected to result in a net over spend in the Children and Adults Services of £11.66 million by 31 March 2007. Reports to the respective Children's and Adult Services Committees have highlighted the need to identify further corrective actions to address the net over spend and it is hoped that, if implemented, will result in a significant reduction in the net over spends in 2006/2007.

3.8.5 Based on latest financial projections, and assuming no reduction in projected over spends or other corrective action, the General Fund balance will not be restored to a positive balance by 31 March 2007 as earlier planned for.

3.8.6 In recognising the financial position members have agreed that further corporate reports and service monitoring reports and emerging issues will be submitted to the appropriate committees throughout the year.

Auditor comment

3.8.7 The Council's overall financial position is regarded as precarious with the need for tight control over budgets during 2006/2007. Failure to make savings will result in the carry forward of overspends against the 2007/2008 budget. This in turn will impact on the available budget in 2007/2008 for front line services.

3.8.8 The Council, through its financial reporting framework at service and corporate levels, is kept informed of the financial position throughout the year and of the actions being taken to address budget overspends. Potential impact on future budgets and medium term financial planning is also clearly considered as apart of the Council's wider financial planning.

3.8 Reserves / Balances - Policies (Cont'd)

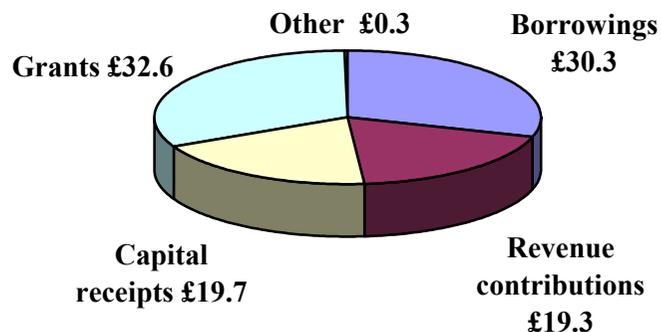
Auditor comment (Cont'd)

- 3.8.9 Financial stewardship issues are being actively pursued with Elected Members and Services tasked to observe tight budgetary control to ensure expenditure is contained within approved budget levels.

3.9 Capital Expenditure

- 3.9.1 Gross capital expenditure amounted to £102.2 million of which £34.4 million was on the Housing Programme. Funding for the capital expenditure was made up as follows:

Capital Expenditure Funding Sources 2005/06 (£m)



3.10 Capital Accounting

- 3.10.1 We were satisfied with the Council's capital accounting arrangements for 2005/2006 and that the entries for additions, disposals, transfer, revaluations and impairments were not misstated.
- 3.10.2 The entries included a transfer of assets, mainly estate's assets, of £28.18 million from operational to non-operational use. The main assets include the John Smith Business Park valued at £7.2 million, Pitreavie Office Units valued at £2.05 million together with a range of industrial units, business centres and community assets. The John Smith Business Park has been disposed by the Council in 2006/2007.
- 3.10.3 Impairment of assets totalling £2.65 million was applied to reduce the value of Council assets at 31 March 2006. The main asset involved was the former Blacklaw Primary School, now demolished, which accounted for £1.90 million of the impairment total.

3.11 PPP / PFI

- 3.11.1 The Council has two Public Private Partnership (PPP) schemes within its Schools Estate Strategy. PPP1 "A New Way Forward", involving three schools, a sports hall and an all weather pitch was completed in August 2003 and are fully operational. The net annual cost of the scheme is £3 million.

3.11 PPP / PFI (Cont'd)

3.11.2 The second PPP project, "Expanding Horizons", achieved financial close in December 2005. As part of the financial close arrangements the Council, assisted by their financial advisers, formed the view that the proposed proper accounting treatment for this scheme was off balance sheet. As the Council's external auditors we issued a letter on 19 December 2005 commenting on the Council's judgement on the proposed accounting treatment for the project. Our conclusion was:

- ❑ *The process followed to determine whether Fife Council should account for the transaction on or off its balance sheet was in accordance with the current underlying guidance.*
- ❑ *Your provisional judgement on the accounting treatment is reasonable.*

3.11.3 Construction is ongoing with the facilities programmed for service commencement between November 2006 and June 2007. The net annual cost after Scottish Office financial support is estimated at £2.6 million.

3.12 Group accounts

3.12.1 The 2004 SORP required authorities to prepare a full set of group accounts in addition to their single-entity accounts where they have a material interest in other entities (excluding the Pension Fund). Full implementation of the 2004 SORP requirements was required for 2005/2006.

3.12.2 The Council undertook a review of its involvement with outside parties and formed the view that while it has interests in a number of Trusts it neither has any material financial involvement in any of these entities nor exposure to significant risk. Our review has confirmed that Group Accounts are not required.

3.12.3 Fife Police and Fire Services have always been part of Fife Council and the financial results of these Services have been incorporated into the accounts of the Council each year. The introduction of group accounts to the public sector now means that other local authorities in Scotland now account for their respective share of Police and Fire Services management through Joint Boards.

Governance

4.1 General

- 4.1.1 The governance arrangements in the Council are well founded, subject to continuous review and appear to work well, however recent changes to scrutiny arrangements have still to realise their full potential.
- 4.1.2 A major review of the governance structures was undertaken in 2000, with committees taking on a more strategic role. Since then there has been ongoing review to mirror operational structural changes and develop and strengthen members' scrutiny role. Scrutiny Sub-Committees have been established to replace the less formally constituted scrutiny working groups with meetings held in public. All committees, sub-committees and working groups are established according to party balance, with the Standards & Audit Committee on an all party basis. The Standards & Audit Committee and all Scrutiny sub-committees have non-administration chairs.
- 4.1.3 Members' roles are defined in the Members' Handbook. The Handbook together with a number of other documents are issued to all members. These cover codes of conduct and guidance, including the Best Value Task Force Advisory Notes on Elected Member Leadership.
- 4.1.4 The Inter-Party Protocol approved in 2003 sets out the rights and responsibilities of members and political groups in the course of conducting Council business. The protocol also incorporates a Fife supplement for Relations between Members and Employees in Scottish Councils, which is part of the national Members' Code of Conduct.
- 4.1.5 A new Chief Executive took up post in June 2006 following the retirement of the previous post-holder. Governance in its widest sense is one of the areas that the Chief Executive has a particular interest in and early discussions with the management team have been held.

- 4.1.6 Three other members of the senior management team have left during the year and have not been replaced. Interim management arrangements have been put in place through realigning responsibilities of existing management team members, or through temporary appointments. One of the posts covered initially by realigning responsibilities, and now by a temporary appointment, is that of Head of IT services. The move to a temporary appointment is in recognition that this is a particularly crucial role at the moment given a number of initiatives that are ongoing, including the introduction of a new telephony system, and the implementation of the IT resource strategy.
- 4.1.7 The Council has adopted a Code of Corporate Governance based on guidance issued by CIPFA/SOLACE. Adherence to the code is reviewed annually and, as required, a statement is included with the annual accounts. A review of the Council's Code of Corporate Governance is planned prior to March 2007.

4.2 Councillor Information

- 4.2.1 An induction programme is provided to all new councillors, and a number of ongoing training opportunities are offered. Induction and training for the Planning Committee and other quasi-judicial functions has been provided together with other training on decision making and the Councillors' Code of Conduct. Elected Member Development Days are held regularly; dates are set a year in advance and between a quarter and a third of members usually attend. Topics are discussed by officers and outside speakers. As an example in June 2006 the development day included a Scrutiny Workshop, led by a CIPFA training consultant.



4.2 Councillor Information (Cont'd)

4.2.2 Budget monitoring information is routinely presented to committees. Other reports to committees are made in a standard format that includes financial implications of any decision that will be made and implications, where applicable, for issues such as equality, fairness and diversity, and health and safety. Reports generally make it clear what members are asked to do in terms of noting or decision making.

4.3 Councillor / CE Retirements - Impact

4.3.1 The Council expects a number of current members to retire in 2007, and therefore there will be a significant number of new councillors following the next election. This has been taken into account in planning for members' induction and future Members Development Days. One of the key questions to be resolved is whether members' training should be compulsory or not.

4.3.2 Members are currently involved in the discussions and planning in preparation for the expected impact of the 2007 elections. Officers in Policy and Organisational Development (POD), Members' Services and Law and Administration have also been involved in considering a number of issues relevant to planning for the impact of the 2007 elections. A cross-party working group has been considering structures post the election, however no final conclusions can be reached as the new Council itself must have input to the process.

4.3.3 In preparation, to minimise the work required by the new Council, a paper has been produced summarising developments in the committee structures since 2000 and the current position before posing questions about how well this works and changes that might be considered or required.

4.4 Audit Committee - Effectiveness

4.4.1 The Standards and Audit Committee has continued to function well, considering outcomes from both internal and external audit work and information from other sources. The committee has requested additional work to be undertaken to provide further information on particular topics or early assurance that action plans have been implemented and are having the desired effect.

4.4.2 Last year we made a small number of recommendations around training and committee involvement, designed to further strengthen the working of the committee. During the year four briefings have been held for members of the committee and more are planned for the future, particularly when the new Council is elected. The draft Corporate Governance Statement was presented to the committee in May and the final will be presented following certification of the accounts.

4.4.3 While agreed in principle, the practical difficulties of arranging an additional committee meeting to accommodate consideration of SAS 610 issues, the audited accounts and the final Corporate Governance Statement ahead of finalising the audit has meant that the committee has yet to deal with this aspect of governance.

4.4.4 We previously recommended that the committee should set objectives which could then be used to review the committee's effectiveness. This was agreed in principle but has not yet been implemented.

4.4.5 Recommendation

There is scope to further involve the Standards & Audit Committee in considering the Corporate Governance Statement and the SAS 610 report, and further consideration should be given to setting and monitoring committee objectives.

4.5 Reliance on Internal Audit

4.5.1 To minimise audit duplication we liaise with Audit Services during our planning to identify areas of their work that we can place reliance on. For 2005/2006 we agreed to place reliance on work covering a number of projects under the headings of main systems, staffing, income, partnership working, purchases and asset management, re-charges and support services, Social Work and Common Good and Trust Funds. Following review of the files relating to each of the reports we concluded that we could place reliance on the work and findings of internal audit. A small number of procedural issues were identified and discussed with the Audit and Risk Management Services Manager.

4.5.2 Last year we reported that delays in completion of internal audit work had prevented us from placing reliance on all the areas planned for that year. This year there has been an improvement although a significant number of projects were completed later than originally planned, with several being reported in 2006/2007. Only two projects were not completed. Late reporting of areas on which external audit seek to place reliance can potentially lead to additional audit work being identified at a late stage.

4.5.3 *Recommendation*

The Audit and Risk Management Services Manager should have early discussion with the new external auditors and once the projects on which they want to place reliance have been agreed every effort should be made to ensure these projects are completed timeously.

4.6 National Fraud Initiative

4.6.1 The National Fraud Initiative (NFI) in Scotland is Audit Scotland's data matching exercise that runs every two years in line with the Audit Commission's NFI timetable. The NFI is designed to help participating bodies to identify possible cases of fraud and detect and correct any consequential overpayments from the public purse.

4.6.2 Audit Scotland's report on NFI 2004/2005, published in May 2006, highlighted the main issues arising in Scotland and noted that fraud, overpayments and savings totalling £15.1 million had been found from the exercise. This figure includes £0.3 million identified by Fife Council. The Audit Scotland report highlighted Fife as one of the councils that had achieved significant results in relation to pension overpayments and forward savings.

4.6.3 Data for NFI 2006/2007 is due to be submitted for processing by mid October 2006 and we can confirm that the Council is on track to meet this deadline. The mandatory datasets for 2006/2007 are: housing rents; payroll (including pensions payroll); housing benefits; and full-time students. New data matching areas, outside the core mandatory elements of NFI, have also been included for 2006/2007 covering: creditors' payment history and standing data; parking permits and concessionary travel passes; insurance claims; private care home residents; and market trader and taxi driver licences. Submission of this data is optional, dependent on two key requirements: reasonable quality data; and assessment of risk in these areas. The Council will be submitting data for creditors; private care home residents; and taxi driver licences. Data will also be submitted in relation to window cleaners.

5.1 Strategic Planning

- 5.1.1 Strategic planning is undertaken within a framework that links community, corporate and service planning together. There has been ongoing review of the processes during the last few years to refine linkages and measurement of outputs and this has resulted in different formats and detail of reporting of the outcomes each year. This in turn makes comparative assessment more difficult. Links have been maintained between the various levels of strategic planning during these changes. Further refinement is planned, primarily through changes in community planning and through further development in linking planning with budget setting. We have previously reported that some of the reporting and monitoring structures relating to the Council's review of community planning are not clear. This has been partially addressed during 2006 and should be further addressed by the planned changes going forward.
- 5.1.2 Several Service plans include financial information on both capital and revenue budgets but this varies across Services however work is ongoing to improve the position. Full achievement of this is seen as a longer-term goal. Budget setting includes consideration of the Collective Challenge to identify areas where savings can be made. Any savings made under this initiative are applied to the budget that is then managed by the service and reported to the service and corporate management teams and committees.

- 5.1.3 There is not a systematic approach to managing workforce planning, however there is information about various risks relating to workforce planning and there are a number of good and relevant policies in place. An annual Workforce and HR Priorities report that provides a profile of the workforce and identifies key priorities and legislative issues for the year ahead is taken to the Policy and Resources Committee. Appropriate action is taken for known issues. As an example, in recognition that 20% of qualified social workers are over age 50, management have created a number of initiatives to improve recruitment and retention to address a potential skills shortage. Succession planning is an area that the Council acknowledges requires further work and this is in hand.
- 5.1.4 Demographic information is available to help plan Services and is reported annually to Elected Members, the most recent being to the Policy and Resources Committee on 9 October 2006.
- 5.1.5 Communities Scotland gave an initial overall assessment of "good" for the Council's Local Housing Strategy, with a number of areas assessed as "very good" and none assessed below "good". Further work by Communities Scotland confirmed that the Council has made good progress in implementing the plan.

5.2 Performance Management

- 5.2.1 Linked with the changes in planning discussed at 5.1.1 the Council has revised its performance management arrangements. The latest changes were made to coincide with the introduction of the Scrutiny Sub-Committees, and are designed to strengthen their role in the planning and review processes. The whole process has been reviewed to ensure the timing of reporting on performance to the Scrutiny Sub-Committees can feed into the next year's planning process.

5.2 Performance Management (Cont'd)

- 5.2.2 Ongoing performance management is undertaken in a framework that involves Service Management Teams, the Corporate Management Team and members through various committees.
- 5.2.3 The Council's appraisal system, (Contribution Management) is targeted to have 100% roll-out by the end of financial year 2007/2008, with the exception of police, fire fighters and teachers, who each have their own system. 360° appraisal is being introduced down to third tier level as part of the contribution management process. By December 2006 it is expected that 305 managers (approximately three-quarters of eligible managers) will have participated. The appraisal system helps to identify individual training and development needs. A number of measures to improve learning and development have been introduced, including more flexible approaches such as e-learning and Learning Direct training suites.
- 5.2.4 The Council adopted a new approach to annual public performance reporting in 2005 through the inclusion of performance information within a new Resident's Guide that was distributed to every household in Fife. Public consultation was carried out to help shape the guide's content and further consultation after publication showed positive results. This year the logistics around the introduction of the new telephony system and the 2007 election mean that a similar product cannot be produced in a meaningful timeframe and therefore an alternative reporting mechanism will be used.

- 5.2.5 Community Plan performance management is also currently under review. The 2005 performance report on key milestones in the Community Plan recognised gaps that need to be addressed in relation to the indicators and associated milestones, that there is a need to review and produce more appropriate milestones and targets, and a more systematic and consistent means of collating information needs to be adopted.
- 5.2.6 EFQM assessment is used by the Council to review performance and feed into the planning processes.

5.3 Efficient Government

- 5.3.1 All public sector bodies in Scotland are involved with the Scottish Executive's Efficient Government initiative. The initiative is designed to achieve cash and time-releasing savings over a five year period through elimination of waste, bureaucracy and duplication.
- 5.3.2 During 2006 Audit Scotland collated information from all public sector bodies relating to their activity in relation to Efficient Government. Benchmarking information has recently been made available to auditors for sharing with Council managers and we will be discussing this with officers in due course. It is intended that the Auditor General for Scotland will publish a report on this subject towards the end of 2006.

5.3 Efficient Government (Cont'd)

5.3.3 The Council considers its Efficient Government activities within the budget setting and Collective Challenge processes. The approach is led corporately through the Customer First Working Group. The group is a joint officer/member group, chaired by the Chief Executive and reporting to the Policy & Resources Committee. The Fife Community Partnership also commissioned a review, carried out by SOLACE, to consider shared service options and opportunities. The results of this review are being taken forward by a working group, including Council and partner organisations.

5.3.4 During our discussions to collect the information requested by Audit Scotland it was identified that reporting by the Council is not aligned to the Efficient Government headings and that there was a lack of identified time-releasing savings. As a result the Council has reconsidered its reporting arrangements in relation to Efficient Government and is considering the difficulties of quantifying time-releasing savings. There will also be a need going forward to reconsider some currently identified savings to ensure that they fully comply with the Scottish Executive's definition of savings, which does not include savings that result in any reduction of service provision.

5.3.5 **Recommendation**
The Council should resolve the current issues relating to the identification and quantification of Efficient Government savings.

5.4 Risk Management

5.4.1 Risk management is an area that the Council has identified as requiring further work. We have undertaken a separate piece of work on this area which is at an advanced stage and will be reported shortly.

5.4.2 The responsibility for taking the strategic lead on risk management now rests with the Head of Law and Administration, having previously been aligned to the Strategic Manager for Support Services. Work to update the strategic risk register was completed during the year and further work has already commenced to undertake a "comprehensive horizon scanning exercise to identify any new risks".

5.4.3 The Council has recognised the need to further develop the Risk Management Strategy Group (RMSG) and a report will be prepared for the Standards and Audit Committee in February 2007, outlining the way forward for this strategic group.

5.4.4 Training is currently being provided for members of the Operational Risk Management Group and the RMSG. Work at Service level is still progressing with the work to date focussing on the identification of risks. Once this identification phase is completed Services will then be in a position to fully develop arrangements for assessing, controlling, monitoring and reviewing risks.

5.4.5 Some progress has been made in developing the appropriate linkages between operational and strategic risks and the Service Improvement Plans.

5.4 Risk Management (Cont'd)

- 5.4.6 The financial regulations now include specific reference to risk management arrangements and include a hyperlink to the Council's strategy and policy for risk management.

5.5 Progress on Following the Public Pound

- 5.5.1 COSLA and the Accounts Commission jointly published the 'Code of Guidance on Funding External Bodies and Following the Public Pound' in 1996 (the Code). This set out the principles of best practice when councils establish significant funding relationships with arms-length and external organisations (ALEOs). In December 2005 a national report '*Following the Public Pound – A follow-up report*' was published by Audit Scotland, following work undertaken in all Councils in Scotland. In conjunction with this work a local follow-up report for the Council was issued on 20 September 2005 (External Audit Report 2005/17). The report concluded that the Council's revised monitoring and evaluation framework, launched in August 2003, covered all aspects of dealing with ALEOs in respect of the Code, however a small number of actions designed to improve compliance with the Code were also reported. We have followed up implementation of the agreed action plan included in that report and our detailed findings have been reported separately in External Audit Report 2006/16.

- 5.5.2 We found that good progress had been made with 4 of the 7 actions now fully implemented. The timetable for implementation has slipped to some extent but this is attributed, in the main, to the need for formal consultation and agreement on the way forward by the Voluntary Sector Task Group and the Heads of Service Reference Group as appropriate. Of the remaining 3 recommendations, one, with an original target completion date of June 2007, is partially implemented, and two, relating to the development and implementation of the guidance procedure for *Conflicts of Interest in the Decision Making Process* and development of a central mechanism to identify Members and officers employed by, or on secondment to, ALEOs have not yet been implemented. Plans are in place to address these issues within timeframes which are acceptable to us.

5.6 Statutory Performance Indicators (SPIs)

- 5.6.1 The 2005/2006 returns to Audit Scotland for Police, Fire and Council SPIs were all made by the 31 August 2006 deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all but four of the 71 indicators. Systems for collection of two indicators (both Adult Social Work) were reported as unreliable and two (one each from Adult Social Work and Education and Children's Services) were failures to report. One of the unreliable systems relates to a new indicator this year.
- 5.6.2 We have been advised that Audit Services is working with Social Work Services management to improve the systems for collecting information prior to production of the SPI information for next year.

5.7 Best Value Audits Follow-up Progress

5.7.1 The Council has not yet been subject to a full Best Value audit. For 2005/2006 we have undertaken follow-up work on the areas that were reported by us last year following our Best Value transitional audit work. We have also considered the Council's approach to procurement, asset management, efficient government and competitiveness. A separate report on this work will be issued in due course. In summary progress has been made in each area and there are a number of initiatives underway to drive further improvement. In addition to comments made elsewhere in this report other key highlights include the following:

- ❑ A revised Equality and Diversity Strategy was published early in 2006 for the period 2006-2009.
- ❑ The Race Equality Scheme was fully reviewed in 2006.
- ❑ All the 2005 Annual Review Reports of service improvement plans have been posted on Fife Direct (the Council's website).
- ❑ A new People's Panel has been established on behalf of Fife Partnership, with the first survey scheduled for October 2006 including subjects such as the environment, policing and crime and homelessness.
- ❑ The new Fife Structure Plan 2006-2026 includes general provisions to promote wind power initiatives.
- ❑ A number of initiatives are ongoing around sustainable development, many of them in partnership with other organisations.
- ❑ The new local Transport Strategy was launched in August 2006.

- ❑ The Council has actively considered its position in relation to the McClelland Report and has involved members in decision making through the Policy and Resources Committee. A number of the McClelland Report recommendations have been identified as already having been considered and there is an active programme of initiatives to pursue this area. Corporate strategy on sustainable development is being reviewed to take account of the McClelland Report and other issues and restructuring of the Procurement and Supplies service is currently underway, due for completion by the end of 2006.
- ❑ Asset management planning is well advanced.

5.8 Home to School Transport Review

5.8.1 Financial pressures in recent years have resulted in significant overspends for the Education Service against the home to school transport cost centre. Actual expenditure in 2004/2005 was £8.654 million, £0.647 million over budget before a specific budget virement of £0.400 million. The cost for 2005/2006 was £9.250 million and is expected to rise to £10.718 million in 2007/2008. The level of service currently provided by the Council for school transport exceeds the minimum requirements laid down in the Education (Scotland) Act 1996. As part of the Council's Collective Challenge, home to school transport was identified as an area where potential savings could be made and a further review, involving officers, internal and external audit was agreed.

5.8 Home to School Transport Review (Cont'd)

5.8.2 Pupils who meet the Council's criteria for free transport are defined as Entitled Pupils. The cost of transporting Entitled Pupils to school is met by the Education Service. In addition, pupils who live within the distance parameters agreed as Council policy can travel on the transport provided, as long as they pay a fare. These pupils are defined as Non-Entitled Pupils. The cost of subsidising the transportation of Non-Entitled Pupils to school is met by Transportation Services.

5.8.3 A number of internal reviews have already been conducted by the Council around this topic including a benchmarking exercise on Schools Local Bus Services in 2004 and a review of Transportation Services in 2005.

5.8.4 It was intended that for this new review internal and external audit would contribute to complement the resources available in the Education Service. Our main role was to be involved with the initial phases of information gathering and analysis, following which subsequent phases would be planned depending on the results.

5.8.5 Unfortunately the baseline information required for this review was not available as it has not been required for management information or operational purposes until now. It was therefore not possible to identify the financial impact which changes to eligibility criteria for Entitled Pupils would have and therefore the core objectives of this review could not be delivered in terms of identifying potential efficiency savings.

5.8.6 We also considered the impact that decisions taken by Housing and Social Work Services had on requirements for transporting school pupils. Detailed figures were not available, however from discussion with officers we concluded that the financial impact of decisions taken by these two Services on the Education Service home to school transport cost centre does not appear to be material in the context of the overall costs.

Conclusion

5.8.7 Our draft report *2006/12 Home to School Transport* summarises the findings of the review so far and makes three recommendations:

- ❑ Given costs pressures and a service level that exceeds minimum statutory requirements, the Council should reconsider its home to school transport policy. Following agreement of the policy there is then a need to review the three year budget provision for home to school transport to ensure that in future budget provision is in line with the likely cost of providing the agreed level of service.
- ❑ An examination of the alternative contracting or service delivery models to achieve efficiency savings should be on special transport where there is a need to achieve a consistent approach across Fife in the evaluation and commissioning process.
- ❑ There is scope to simplify the way in which budget provision for Entitled and Non-Entitled Pupils is arranged between Services.

5.9 HM Inspectorate of Constabulary for Scotland (HMIC)

- 5.9.1 An HMIC primary inspection of Fife Constabulary was undertaken during 2005/2006. We were involved in the joint inspection process reviewing the financial and Best Value aspects of the Force. The HMIC report has been finalised and has been submitted to the Community Safety Committee in August 2006.
- 5.9.2 The overall conclusion from the inspection was that Fife Constabulary provides a high level of service to the people of Fife, that partnerships are well established, there is good support within the community served and the Force has good structures in place to aid effective leadership, internal communication and accountability.
- 5.9.3 An agreed action plan was formulated to manage and implement the recommendations in the report. The action plan will be followed up in the subsequent first review inspection due in May 2007.

5.10 Performance audit of Fife Fire and Rescue Service

- 5.10.1 Audit Scotland is undertaking a national performance audit of all Scottish Fire and Rescue authorities during 2006. The audit covers strategic management, prevention and risk management, financial management, workforce management, management of operational business and communications. To ensure consistency of approach one team has undertaken all the reviews during 2006, with input from the local auditor.
- 5.10.2 We were involved in the Fife audit early in the national timetable, in May 2006. Verbal feedback was given to the Chief Fire Officer at the close of the visit. Local reporting is planned for November 2006 with a national report expected by February 2007.

Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
3.7.7	<p>Financial Pressures – Energy Costs</p> <p>R1 While accepting that increased cost savings through the Collective Challenge, Efficient Government, energy management initiatives and prudent management by budget holders will be necessary, we recommend in setting Service budgets for 2007/2008 that the impact of higher energy costs on Services is budgeted for at a level necessary to meet projected energy costs.</p>	<p>The impact of higher energy costs will be considered by the Council as part of its budget deliberations as recommended in the Head of Finance and Asset Management’s revenue budget report to P&R Committee on 7 September 2006.</p>	Y	Head of Finance and Asset Management	January 2007



Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
4.4.5	R2 There is scope to further involve the Standards & Audit Committee in considering the Corporate Governance Statement and the SAS 610 report, and further consideration should be given to setting and monitoring committee objectives	The draft Corporate Governance Statement was submitted to the Standards and Audit Committee along with the Audit and Risk Management Services Manager's Assurance Statement on 9 May 2006 for consideration by the Committee. As part of the Council's governance arrangements it was previously agreed that these items should be reported to the first Standards and Audit Committee after the end of each financial year. The audited Governance Statement will be submitted, unchanged, as a final to the next Standards and Audit Committee on 9 January 2007.	Y	Audit and Risk Management Services Manager	Annually
		With regard to compliance with SAS 610 the practical difficulties do not relate to arranging an additional Standards and Audit Committee meeting but to the timetable for completion of the audit. The current audit timetable would have required submission of a report by Henderson Loggie by 4 September to allow an extra Standard and Audit Committee meeting on 11 September to facilitate audit sign off by 22 September. This difficulty has been fully discussed with Henderson Loggie during the year and will be raised with our new auditors.	Y	Audit and Risk Management Services Manager	November 2006
		The Audit and Risk Management Services Manager will review the current Committee objectives set out in the Terms of Reference of the Standards and Audit Committee, in line with best practice criteria and will produce a report for consideration by the Committee	Y	Audit and Risk Management Services Manager	April 2007



Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
4.5.3	<p>Reliance on Internal Audit</p> <p>R3 The Audit and Risk Management Services Manager should have early discussion with the new external auditors and once the projects on which they want to place reliance have been agreed every effort should be made to ensure these projects are completed timeously.</p>	The new external auditors have already been provided with copies of both our Strategic and Operational plans and meetings will be arranged as soon as is practicable.	Y	Audit and Risk Management Services Manager	November 2006
5.3.5	<p>Efficient Government</p> <p>R4 The Council should resolve the current issues relating to the identification and quantification of Efficient Government savings.</p>	This area is under review and will be influenced by guidance to be published by the Improvement Service	Y	Head of Finance and Asset Management	January 2007



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 and Asset Management's responsibilities for the Statement of Accounts are set out on page 56 of the abstract of accounts. 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 Corporate Governance Statement 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 Corporate Governance Statement is set out on pages 57 to 59 of the audited accounts. We are not required to give an opinion on the effectiveness of the Council's internal financial controls.



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
5.1, Page 14	<p>Revenue Account Outturns and Carry Forward Balances</p> <p>R1 Members should continue to monitor and consider the full impact of the various reported under-spends, slippage and carry forward schemes on the delivery of services over the next three years and the projected impact of the Modernising Employment agenda on the current policy requirement in relation to retained balances.</p>	<p>Financial monitoring reports will continue to be submitted to Policy and Resources Committee from September each year in accordance with the Council's Budget Monitoring arrangements. These reports will highlight the overall forecast outturn against budget and what management action is being taken to address issues and problems. Policy and Resources Committee will continue to review the policy on balances and the Council, as part of its revenue level of balances and use of balances within the overall financial planning arrangements. A review of monitoring and scrutiny arrangements is currently underway.</p>	Yes	Head of Finance and Asset Management	Ongoing	<p>Financial monitoring reports were submitted to each of the Policy and Resources Meetings from September 2005 through to June 2006, the latter report being the final out turn for the financial year 2005-06. Each of the reports contained high level commentaries on the financial position with General Fund and HRA. The reports contained explanations of variances, the level of balances and commitments thereon including equal pay liabilities. Regular reports on Modernising Employment including Single Status were also submitted on a regular basis to Policy and Resources Committee. The financial impact is still being quantified and these costs will be built into the Revenue Budget 2007-10 processes</p>



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
5.9, Page 20	<p>Accounting for Intangible and Fixed Assets</p> <p>R2 Members should continue to monitor and consider the full impact of the various reported under-spends, slippage and carry forward in the capital programmes on the delivery of corporate objectives and service delivery over the next three years and the projected impact of reduced borrowing requirements on the loans fund charges and level of cash requirements.</p>	<p>Financial monitoring reports will continue to be submitted to Policy and Resources Committee from September onwards. These reports will highlight the overall forecasted expenditure on the capital expenditure plans; identify slippage, advancement of projects and overall funding arrangements including borrowing. The financial and operational issues will be considered both in terms of the capital and revenue implications of the management of the Council's finances.</p>	Yes	<p>Strategic Manager Support Services</p> <p>Head of Finance and Asset Management</p>	Ongoing	<p>Financial Monitoring Reports have been submitted to each of the Policy and Resources Committees from September 2005 to June 2006 for all capital expenditure plans. These reports contained high level statements of the programmes, the reasons for slippage and rephrasing and updates on the funding of the programmes. In addition to these financial monitoring reports a mid year review of the current plan was submitted to the Committee in September 2005 and an updated 2005-11 Capital Expenditure Plan was submitted for approval in February 2006. As part of the monitoring and the Revenue Budget processes updated projections on Loan Charges and Interest on Revenue Balances are calculated and reported on an ongoing basis.</p>



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
6.5, Page 28	Standards of Conduct, Integrity and Openness					
	<p>R3 The Standards and Audit Committee should consider the following items and take appropriate action:</p> <ul style="list-style-type: none"> <input type="checkbox"/> More relevant training could be made available for committee members. <input type="checkbox"/> There is scope for greater involvement in SAS 610 and the Corporate Governance Statement processes. 	<p>The training needs of the committee will be reviewed in line with the standards set out in the CIPFA Guide, Audit Committee Principals. Steps are being taken to identify an appropriate course for local delivery to members of the committee and other interested parties.</p> <p>The committee will continue to develop its involvement in the scrutiny of the Corporate Governance Statement Process including reviewing current processes so as to comply with SAS 610 were practicable. Compliance with this would require a special meeting of the Standards and Audit Committee in late September, prior to Audit certification of the accounts.</p>	<p>Yes</p> <p>Yes</p>	<p>Audit and Risk Management Services Manager</p> <p>Audit and Risk Management Services Manager</p>	<p>April 2006</p> <p>August 2006</p>	<p>Four briefings have been held for members in the current year. A programme of briefings will be prepared for the new Council</p> <p>A draft of the Corporate Governance Statement was submitted to the May Standards and Audit. The final Statement will be submitted on certification of the accounts</p>



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
	<p>Standards of Conduct, Integrity and Openness (Cont'd)</p> <p>R3 Continued</p> <p><input type="checkbox"/> There is scope for the committee to set objectives which can then be monitored to review the effectiveness of the committee.</p>	Where practicable the committee will set objectives in line with the CIPFA Audit Committee principles.	Yes	Audit and Risk Management Services Manager	April 2006	Work is ongoing to identify appropriate objectives for the committee.

