

Tayside Contracts Joint Committee

Report to Members and the Controller of Audit on the 2006/07 Audit



October 2007



Contents

Key Messages	1
Introduction	2
Financial statements & financial position	3
Financial position	3
Issues arising	4
Legality	8
Statement on the system of internal financial control	8
Future outlook	8
Governance	11
Performance	14
Overview	14
Performance Management and Improvement	14
Future outlook	14
Risk summary and action plan	15



Key Messages

In 2006/07 we have audited the financial statements and looked at aspects of governance and performance within Tayside Contracts Joint Committee. This report sets out our main findings.

Overall, we found the financial stewardship of Tayside Contracts Joint Committee during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified audit opinion has been issued on the financial statements for 2006/07;
- The Statement on the System of Internal Financial Control included in the accounts complies with accounting requirements and is not inconsistent with audit findings;
- There were significant adjustments made to the figures included in the unaudited accounts provided for public inspection. These related mainly to prior year adjustments in respect of the classification and accounting treatment of leases;
- Many aspects of a sound corporate governance framework are in place;
- A 5-year Business Plan for the period 2006 to 2011 had been developed in conjunction with members and constituent councils that identifies future opportunities and risks;
- An anti-fraud and corruption strategy is in place.

The annual report on the work carried out by the Internal Control & Audit function concluded that “The work carried out during the year continues to allow us to believe that the necessary controls are in place and that we have confidence in the financial service provided”.

Whilst we have concluded that financial stewardship was satisfactory during the year, we have raised a number of areas where further improvements could be made. These are highlighted in the risk summary and action plan.

Key issues for the Joint Committee in the future include the need to close the projected income gap identified over the 5 years of the business plan, specific cost pressures which may arise from inflation and the need to fund increased pension costs, implementation of the Single Status Job Evaluation exercise, staff turnover and changes to cleaning contracts consequent to PPP contracts entered into by constituent councils.

**Audit Scotland
October 2007**

Introduction



1. The members and officers of the Joint Committee are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
 - the Joint Committee's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
 - the Joint Committee has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
 - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption;
 - the Joint Committee has proper arrangements for securing best value in its use of resources.

2. This report summarises the most significant issues arising from our work during 2006/07.

Financial statements & financial position

3. In this section we summarise key outcomes from our audit of the Joint Committee's financial statements for 2006/07, aspects of the Joint Committee's reported financial position and performance to 31 March 2007, and provide an outlook on future financial prospects and financial reporting issues.

Auditor's report

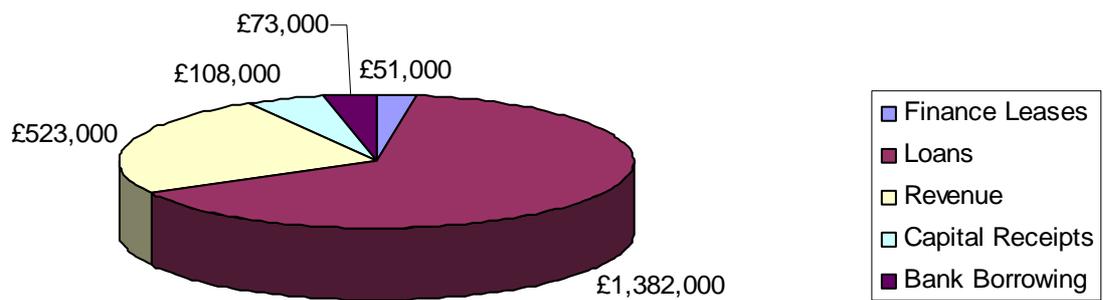
4. We have given an unqualified opinion on the financial statements of Tayside Contracts Joint Committee for 2006/07, concluding that:
 - the financial statements present fairly the Joint Committee's financial position at 31 March 2007 and income and expenditure during the year;
 - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
5. The Joint Committee's balance sheet has an excess of liabilities over assets of £8.774 million due to the accrual of pension liabilities in accordance with accounting standards. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
6. The Joint Committee has considered it appropriate to adopt a going concern basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's contribution rate to meet the fund's commitments. The constituent authorities of the Joint Committee are also liable to fund the Joint Committee's liabilities as they fall due. We are satisfied that the process the Joint Committee has undertaken to consider going concern is reasonable.

Financial position

7. The Joint Committee's Income & Expenditure account shows a net surplus of £1.276 million for the year, £0.5 million of which is to be distributed to the constituent councils in accordance with the profit sharing percentages approved by the Joint Committee on 8 May 2006. The net surplus figure measures the Board's financial results in the year under Generally Accepted Accounting Principles. The movement on the General Reserve balance is also an important figure when considering the Board's financial stewardship. Adjustments are made to the net surplus figure to take account of expenditure that statute and non-statutory proper practice require to be charged

to the general reserve. Following these adjustments, the general reserve balance at the year end was £0.14 million.

8. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations, which are required to break even over a three year rolling period. In the three years to 31 March 2007 the Construction Division Statutory Trading Account achieved an aggregate surplus of £1.267 million and the Facilities Services Statutory Trading Account made an aggregate surplus of £0.783 million. Both Statutory Trading Accounts, therefore, met the statutory target. However, both trading operations face on-going pressures and management are looking at ways of closing the income gap identified in the 5-year Business Plan which was developed in 2005/06.
9. Capital expenditure in the year totalled £2.137 million. The majority of this expenditure related to the addition of items of plant and vehicles for the Construction Division, including spreaders, tipping trucks, winter fleet and a crusher for the quarry. Capital was funded by:



Issues arising

10. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:
 - replacement of the consolidated revenue account with a traditional income and expenditure account. This shows the income receivable and expenditure incurred in the year and is compiled in line with UK Generally Accepted Accounting Practice (UK GAAP);
 - a new statement of movement on the general fund balances that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit.

Income and expenditure charged to the general fund are determined by statute and non-statutory proper practices rather than being in accordance with UK GAAP;

- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.

11. Overall, we were satisfied that the Joint Committee had prepared the accounts in accordance with the revised SORP. There were, however, significant adjustments made to the figures included in the unaudited accounts provided for public inspection. These related mainly to prior year adjustments in respect of the classification and accounting treatment of leases and resulted in the following accounting adjustments:

- the Income & Expenditure account was amended to:
 - accurately reflect the reclassification of operating leases which require to be treated as finance leases for accounting purposes. This resulted in a reduction of £32,000 in 2005/06 expenditure;
 - increase the 2006/07 surplus figure by £60,000 largely due to the gain on sale of fixed assets being included;
 - reduce the equal pay costs and the related reimbursement which were overstated by £657,000. This did not result in a change to the provision in the balance sheet;
- the Balance Sheet was amended to:
 - reflect reclassified finance leases, increasing fixed assets by £1.197 million and finance lease liabilities by £1.256 million. ;
 - reduce finance lease liabilities and the general fund by £290,000 in respect of the prior years capital costs of finance leases and £156,000 for the current year;
 - reverse a transfer of £100,000 from the general fund to the repairs and renewal fund to compensate for the impact on the general fund from the above adjustments;
- no Statement of Total Recognised Gains and Losses had been included in the initial version of the accounts submitted to audit and the version provided in the accounts provided for public inspection was incomplete. This was extensively amended to ensure that the above changes were accurately reflected and that the statement complied with the SORP;
- the Cash Flow Statement and relevant notes to the core financial statements were amended to reflect the relevant changes above;
- a note was added to disclose the prior year changes that were required to the 2006/07 accounts.

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12. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the Joint Committee and for publication. The financial statements are an essential means by which the Joint Committee accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
 13. Further matters arising from the audit of the financial statements which requires to be brought to the attention of members are summarised below.

Leases

14. The accounting treatment of lease agreements depends on whether they are classed as “operating” or “finance”. The terms of the contract between the lessor and the lessee have to be taken into account in determining the classification. An operating lease involves the lessee paying a rental for the hire of an asset for a period of time which is normally substantially less than its useful economic life. In these cases the lessor retains the risk and therefore ownership of the asset. With a finance lease, however, the lessee has substantially all the risks and rewards associated with the asset other than the legal title and as such these leases are included as assets on the balance sheet.
15. A number of new leases have been signed in recent years. The Joint Committee employed an external firm to review and determine the classification of these leases. Our review of a number of leases this year cast doubt on the accuracy of the classifications to date. A subsequent detailed review carried out by officers to address these concerns resulted in a significant reclassification of prior year operating leases as finance leases.

Refer Action Plan no 1

16. Prior to 2006/07, accounting adjustments to the operating surplus for finance leases were made through the asset management revenue account. This involved the replacement of depreciation costs with the repayment of finance lease debt. Whilst the depreciation figure had been correctly removed from the operating surplus in previous years there had been no corresponding replacement with the repayment of finance lease debt. An adjustment of £290,000 relating to the repayment of finance lease debt was therefore made to the 2005/06 surplus. The effect of this adjustment was to reduce the opening general fund balance by £290,000.
17. The accounts clearly state that the general fund’s purpose is primarily to meet any losses in future years, and to meet future costs of restructuring and other expenditure of an exceptional nature. The impact of audit adjustments to the annual accounts has seen the general fund fall from £438,000 at 31 March 2006 to £140,000 which is a significant reduction to the Joint Committee’s financial cushion.

Fixed Asset Policy

18. The Joint Committee currently operates an informal policy determining what constitutes fixed assets, including a “de-minimis” level, below which expenditure would be classed as revenue.

However, under the current arrangements, there is a risk that expenditure around the “de-minimis” level could be either capitalised, or charged as revenue expenditure. A formal policy would address this inconsistency.

Refer Action Plan no 2

Year End Accounting Procedures

19. At 31 March 2007, the Joint Committee had capital reserves totalling £1.4 million, being a Fixed Asset Restatement Account of £3.6 million offset by Capital Financing Account of £2.2 million. From 1 April 2007 the Fixed Asset Restatement Account and Capital Financing Account will be replaced by a Revaluation Reserve and a Capital Adjustment Account respectively. It should be noted that this change will be a change of accounting policy and will require a prior year adjustment. Appropriate steps should be taken in preparation for this change that will impact on the 2007/08 financial statements.

Refer Action Plan no 3

20. The bad debt provision included in the accounts is based on 4% of non-council balances rather than on the probability of receiving outstanding debt. General practice would be to use past experience to judge the percentages of each type of debt that is unlikely to be recovered. It is advisable to prepare and retain working papers setting out the rationale for the bad debt provision and to review this against the actual levels of debt written off. Appropriate adjustments would then be made to the provision figure. There is currently no formal review of actual debt write off against the provisions made.

Refer Action Plan no 4

21. Construction projects ongoing at the year end are classified as work in progress for those elements not yet billed. During our review of the accounts we noted that £61,000 (67%) of the value of work in progress was irrecoverable and therefore an adjustment was agreed to write this off. Work in progress should be subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus or minus any profit or loss reasonably attributable to the works.

Refer Action Plan no 5

22. With the exception of Facilities Services, the working papers provided to support the figures in the accounts were generally not of the required quality for audit purposes. Following discussions with staff, amended working papers were provided, which enabled us to complete the audit by the controller of audit's target date of 30 September. We will be working with officers to ensure that, in preparing the 2007/08 financial statements, the standard of working papers is improved.

Legality

23. Each year we request written confirmation from the Proper Officer that the Joint Committee's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Proper Officer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of members and officials of Tayside Contracts Joint Committee, the financial transactions of the Joint Committee were in accordance with the relevant legislation and regulations governing its activities.
24. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. As highlighted earlier in this report, the Joint Committee has recognised a liability in the financial statements in relation to the potential contravention of this Act. Until the single status agreement is implemented, however, there remains the possibility that the Joint Committee could be judged to have contravened that Act.
25. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

26. The 2006/07 financial statements include a Statement on the System of Internal Financial Control which highlights the Proper Officer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Committee's internal financial control system.
27. The Statement is supported by a high level review of the adequacy and effectiveness of internal financial controls undertaken by Chief Officers. The Managing Director presented an annual report on the work carried out by the Internal Control & Audit function to the Joint Committee in June 2007 which concluded that "The work carried out during the year continues to allow us to believe that the necessary controls are in place and that we have confidence in the financial service provided".
28. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Future outlook

Single Status

29. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms).

There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

30. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004. Tayside Contracts has yet to implement the agreement. At 31 March 2007, the Joint Committee had not set aside any funds for the cost of single status. On-going costs associated with single status are largely confined to Facilities Services and will be recovered from constituent councils through billing mechanisms.
31. Until a local agreement is concluded the initial and continuing costs to the Joint Committee cannot be reliably estimated. This represents a significant financial risk to the Joint Committee. Evidence from councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. In securing a local agreement the Joint Committee needs to ensure it maximises the opportunity for service and job redesign to ensure that it achieves value for money from its investment in its staff.

Pension liabilities

32. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. There are further proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost although these have not yet been implemented. In accounting for pensions, 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. This requirement results in very large future liabilities being recognised on the face of annual accounts.
33. The Joint Committee participates in the Local Government Superannuation Scheme (Tayside Superannuation Fund), a defined benefits scheme administered by Dundee City Council. Note 34 to the Core Financial Statements highlights that the Joint Committee's scheme net liabilities at 31 March 2007 are £10.4 million, a decrease of £5.1 million from the previous year partly as a result of changes to the pension regulations which allows individuals to elect to receive a larger lump sum payment in return for a reduced annual pension. The actuary assessed the overall effect of this as a reduction in the pension liability of £1.35 million. This was based on the assumption that 50% of retirees would opt to take the larger lump sum in return for a reduced annual pension. Dundee City Council, the administering authority for the pension fund, will make arrangements to ensure that this assumption is monitored against experience over time.
34. The full actuarial valuation of the Tayside Superannuation Fund was reported in early 2006. Factors such as the volatile stock market and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 97% as at March 2002 to 91% as at March 2005. The actuary is required to make a 3-year assessment

of the contributions that should be paid by the employing authorities as from April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions normally 5% - 6% of salary. The current 3-year assessment shows that budgeted contributions are expected to rise from 275% of employee contributions to 315% by 2008/09.



Governance



35. In this section we comment on key aspects of the Joint Committee's governance arrangements during 2006/07.

Overview

36. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. In previous years we have concluded that the Joint Committee has many aspects of a sound corporate governance framework in place and have reached the same conclusion this year.

Internal Control Function

37. Internal audit should play a key role in the Joint Committee's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system.

38. We reviewed the internal control function as part of our annual audit process and found that the Internal Control officer was:

- on-site and visible;
- flexible and quick to respond to situations that arise;
- pro-active in generating solutions to problems identified.

39. Although we have no concerns about the competency of the internal control officer, we have concerns about the environment in which this officer operates, such as the fact that there is no central risk register in place and no risk-based audit methodology used. The internal control officer works alone and it is unclear to what extent his work is planned, supervised and reviewed. The internal control officer is not independent of management and is also involved in the accounting process.

40. An internal audit function should provide management with valuable information on control weaknesses, risks the entity may be exposed to and actions to be followed up by management. The responsibility for ensuring that all controls are operating satisfactorily rests with management.

Refer Action Plan no 6

Borrowing Procedures

41. The Joint Committee has not determined an upper limit for its borrowing requirements, although Dundee City Council considers Joint Committee borrowing in determining its Prudential Indicators. In addition, the process of obtaining loans from constituent councils is informal as no signed loan agreements are made. The absence of a borrowing limit and a formal process for entering into debt raises concerns that the Joint Committee may be exposed to affordability and sustainability challenges.

Refer Action Plan no 7

Anti-fraud and corruption arrangements

42. The Joint Committee has appropriate arrangements in place to prevent and detect fraud and corruption. These arrangements include the Councillors' Code of Conduct, Anti -Fraud and Corruption Strategy, which was approved by the Joint Committee in May 2006, along with supporting policies and guidelines and a whistle-blowing policy.

Systems of internal control

43. During the year we carried out a review of the Joint Committee's integrated job costing and financial management system. The system is based upon the Integra financial management system, with the addition of four costing modules which were specifically developed to the Joint Committee's requirements. The complexity of the Integra suite of modules is set to increase as plans are in place to develop it further, for example, linking in the Requisitioning, Stores and Services (RSS) module. We found that, overall, there is a sound framework of control underpinning the operation of the Integra job costing and financial management system in the following areas:
- an extensive range of procedure manuals and user guides specific to the Joint Committee processes are in place;
 - access controls to the system are robust;
 - sound controls over the allocation of direct and indirect costs to the nominal ledger;
 - robust stores procedures are in place, demonstrating good practise in areas such as the application of minimum stock levels and regularly stock taking procedures;
 - daily reconciliations are carried out on the interfaces between the purchase, sales and cash management modules and the nominal ledger;
 - monthly reconciliations are carried out between the costing ledger modules and nominal ledger;

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- detailed timetables are in place to produce management reports and ad - hoc reports can be and are produced on request;
 - performance against budget is monitored monthly;
 - contribution (profit before overhead cost) is monitored by area and supervisor;
 - detailed working papers support the allocation and apportionment of overhead costs and the elimination of internal charges within consolidated reports.

44. A number of areas for improvement to internal controls were agreed with management including:

- expanding the responsibilities for managing and maintaining this complex system which, at the time of the review lay solely with one officer;
- improving the robustness of work-in-progress figures included within the Construction Division's monthly monitoring reports to enable easier comparison of estimated figures against actual;
- improving reporting and reviewing profitability by activity type to enable improved analysis of and remedial action to be taken on loss making jobs.

Performance

45. In this section we comment on key aspects of the Joint Committee's reported performance during 2006/07 and provide an outlook on future performance.

Overview

46. The delivery of high quality and cost effective public services is a cornerstone of current government policy. Performance management and improvement involves raising the standards and quality of performance, achieving greater efficiency in the use of public funds and becoming more responsive to the needs and aspirations of both individual service users and the communities served. Performance management systems will need to be robust to handle changing requirements.

Performance Management and Improvement

47. The 2006/11 Business Plan acknowledges the need to improve efficiency and productivity and to make best use of assets and people in order to minimise the impact of cost pressures in the next five years. The Joint Committee's progress in meeting the objectives of the Business Plan is subject to on-going review.

Future outlook

48. The Joint Committee faces operational pressures which clearly impact on its ability to close the projected income gap identified over the 5 years of the business plan. These include:

- ongoing negotiations with PPP contractors which will have an impact on the Cleaning Unit;
- securing replacement work in the Construction Division following the completion of large contracts, such as BEAR Scotland Limited and West Lothian Council;
- the impact of falling school rolls and healthy eating initiatives on the Catering Unit;
- staff turnover, especially within Facilities Services and at professional and supervisory levels within the Construction Division and support service functions.

Risk summary and action plan

No.	Issue & risk	Responsible officer	Response & agreed action	Action date
	Leases			
1	<p>The accounting treatment of lease agreements depends on whether they are classed as “operating” or “finance”. The Joint Committee employed an external firm to review and determine the classification of these leases. Our review of a number of leases this year cast doubt on the accuracy of the classifications to date. A subsequent detailed review carried out by officers resulted in a significant reclassification of prior year operating leases as finance leases.</p> <p>Risk: new leases entered into are not reviewed, resulting in incorrect classification and accounting treatment.</p>	Head of Finance	All new leases entered into will be subject to review to ensure correct classification in accordance with the relevant accounting standards, and also to ensure proper accounting treatment.	Ongoing
	Fixed Asset Policy			
2	<p>The Joint Committee currently operates an informal policy determining what constitutes fixed assets, including a “de-minimis” level, below which expenditure would be classed as revenue. However, under the current arrangements, there is a risk that expenditure around the “de-minimis” level could be either capitalised, or charged as revenue expenditure. A formal policy would address this inconsistency.</p> <p>Risks: Capital expenditure may not be correctly classified resulting in misstatements of capital and revenue expenditure.</p> <p>Without a formal “de-minimus” level revenue expenditure may be incorrectly treated as capital.</p>	Head of Finance	<p>Capital expenditure classification is carried out correctly in line with proper accounting practice. A de-minimis level of £5,000 has been applied, although not formally documented. No material mis-statements of expenditure in respect of classification as capital or revenue have been made.</p> <p>The de-minimis level will be included in the Financial Regulations document.</p>	31 Dec 2007

No.	Issue & risk	Responsible officer	Response & agreed action	Action date
	Year End Accounting Procedures			
3	<p>At 31 March 2007, the Joint Committee had capital reserves totalling £1.4 million, being a Fixed Asset Restatement Account of £3.6 million offset by Capital Financing Account of £2.2 million. From 1 April 2007 the Fixed Asset Restatement Account and Capital Financing Account will be replaced by a Revaluation Reserve and a Capital Adjustment Account respectively. It should be noted that this change will be a change of accounting policy and will require a prior year adjustment. Appropriate steps should be taken in preparation for this change that will impact on the 2007/08 financial statements.</p> <p>Risks: In the event of insufficient preparation, the 2007/08 financial statements may not properly take account of the 2007 SORP change of accounting policy.</p>	Head of Finance	Changes in the 2007 SORP will be assessed and fully implemented into the 2007/08 accounts.	31 March 2008
4	<p>The bad debt provision included in the accounts is based on 4% of non-council balances rather than on the probability of receiving outstanding debt. General practice would be to use past experience to judge the percentages of each type of debt that is unlikely to be recovered. It is advisable to prepare and retain working papers setting out the rationale for the bad debt provision and to review this against the actual levels of debt written off. Appropriate adjustments would then be made to the provision figure. There is currently no formal review of actual debt write off against the provisions made.</p> <p>Risks: The bad debt provision is inappropriate as the rationale behind the estimate is not directly linked to past experience or expected outcome.</p>	Head of Finance	A prudent view of bad debts has been taken, and 4% of non-Council balances at 31 March has been consistently applied for a number of years. Bad debts actually written off have typically been of a lower level. Bad debt write-off is reviewed each year against the provision, but the provision has been maintained at a conservative level (£68k in 2006/07). This approach will be reviewed to ensure a realistic provision is made in future years.	31 March 2008

No.	Issue & risk	Responsible officer	Response & agreed action	Action date
5	<p>Construction projects ongoing at the year end are classified as work in progress for those elements not yet billed. During our review of the accounts we noted that £61,000 (67%) of the value of work in progress was irrecoverable and therefore an adjustment was agreed to write this off. Work in progress should be subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus or minus any profit or loss reasonably attributable to the works.</p> <p>Risk: Current year end processes are not sufficiently robust to ensure that work in progress is properly accounted for.</p>	Head of Finance	WIP at each year end is typically low as every effort is made to ensure work carried out to 31 March is fully billed. Any work unbilled is assessed based on the best information available at the time, and is valued at cost. In 2006/07 a number of jobs against which WIP was attributed were subsequently found to have been overstated. The process will be reviewed to ensure a more accurate assessment of WIP in future years.	31 March 2008
	Internal Control Function			
6	<p>Although we have no concerns about the competency of the internal control officer, we have concerns about the environment in which this officer operates, such as the fact that there is no central risk register in place and no risk-based audit methodology used. The internal control officer works alone and it is unclear to what extent his work is planned, supervised and reviewed. The internal control officer is not independent of management and is also involved in the accounting process.</p> <p>Risk: Potential risks and weaknesses in internal controls are not being identified or reported to management.</p>	Head of Finance	<p>The Internal Audit plan is developed from a risk-based assessment, initially carried out by DCC Internal Audit group in 2003, and subsequently updated by Tayside Contracts Internal Auditor. An independent audit needs assessment is planned to ensure an up to date risk basis is applied to internal audit planning and execution.</p> <p>The Internal Auditor's involvement in the accounting process is minimal, generally to assist and advise on year end activities.</p>	31 March 2008

No.	Issue & risk	Responsible officer	Response & agreed action	Action date
	<i>Borrowing Procedures</i>			
7	<p>The Joint Committee has not determined an upper limit for its borrowing requirements, although Dundee City Council considers Joint Committee borrowing in determining its Prudential Indicators. In addition, the process of obtaining loans from constituent councils is informal as no signed loan agreements are made. The absence of a borrowing limit and a formal process for entering into debt raises concerns that the Joint Committee may be exposed to affordability and sustainability challenges.</p> <p><i>Risks: The Joint Committee may be exposed to affordability and sustainability challenges.</i></p> <p><i>The effect of debt on accounting areas such as cash flow forecasts, budgetary control and the financial statements is not formally considered, recorded and approved.</i></p>	Proper Officer	<p>While most of the prudential indicators are not relevant to Tayside Contracts, a review of borrowing requirements and limits will be carried out as part of the investment planning process to ensure ongoing affordability and sustainability.</p> <p>All loans have been arranged through the Treasury group in DCC, who provide treasury services to Tayside Contracts in line with the service agreement. All loans have been properly accounted for and fully considered in budgets and forecasts. Discussions will be held with DCC Treasury to determine in what form a more formal process should be introduced.</p>	31 Dec 2007