HENDERSON LOGGIE

Angus Council

Report to Members and the Controller of Audit

2007/2008

External Audit Report No: 2008/07

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Executive Summary

1.1 Introduction (Section 2, page 6)

1.1.1 We are pleased to submit our annual report for the second year of our five year appointment as external auditors of the Council. The report highlights key issues grouped under three distinct headings of financial, governance and performance.

1.1.2 Together with officers from across all of the Council's services an effective working relationship has been developed. This will greatly aid the audit process for both the Council and us over the remaining term of our appointment.

1.2 Financial (Section 3, page 7)

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 29 September 2008.

1.2.2 On 25 September 2008 we issued our ISA 260 report to the Head of Finance and the Leader of the Council, as the Council's representatives of those charged with governance, to advise them of the issues arising from the audit, and the final audit adjustments to the draft accounts were agreed.

1.2.3 We were not obliged to make any adverse comment on the Council and its group's Statement on the System of Internal Financial Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

1.2.4 The financial statements presented for audit had been prepared incorporating the new requirements introduced by the 2007 Statement of Recommended Practice (SORP), where significant.

1.2.5 A number of significant audit adjustments were identified during the course of our audit, mainly to ensure that the requirements of the SORP were met. The majority of the proposed audit adjustments were agreed and the financial statements amended.

1.2.6 Two significant audit adjustments were not made relating to capital contract retention payments and Archimedes creditors. They would not have had a material impact on the Council's accounts. Details of these audit adjustments were highlighted in our ISA 260 report issued to the Head of Finance and Leader of the Council on 25 September 2008.

1.2.7 The Council's Significant Trading Operations (STO) met their statutory three-year break-even target covering the three years of operation to 31 March 2008.

1.2.8 There was a delay in revising the contracts / Service Level Agreements (SLAs) between the STOs and the service department compared to the timetable envisaged in the 2006/07 audit action plan, but all three areas have now signed SLAs.

1.2.9 A full best value review of the Waste Management STO is underway and we have accepted assurances from the Head of Finance that a formal review of the Council's three STOs will be carried out during 2008/09 to determine whether they still meet the criteria for significant trading organisations and whether the results should be disclosed separately or included in the Cost of Service figures.

1.2 Financial (Section 3, page 7) (Cont'd)

1.2.10 The Council's net operating expenditure of £213.579 million exceeded its income from government grants and local taxation, resulting in a deficit on the Income and Expenditure Account for the year of £0.118 million (2006/07 – Surplus of £2.547 million). After the necessary adjustments to the General Fund movements for the year this resulted in an overall surplus of £0.721 million on the total General Fund (2006/07 – Surplus of £6.322 million).

1.2.11 The Council's General Fund Balance for the year shows an underspend of £7.168 million against a budgeted use of resources of £6.210 million, resulting in a favourable movement on the General Fund for the year of £0.958 million. Details of the significant underspends are given in Table 1.

1.2.12 The Housing Revenue Account (HRA) Income and Expenditure Account reported a surplus of £0.863 million (2006/07 –Surplus of £0.516 million). The final outturn for 2007/08, after the necessary adjustments to the HRA movements, resulted in a small adverse variance £0.460 million against a budgeted surplus of £0.137 million. This variance was mainly due to additional CFCR contributions to fund the overall Housing Capital Programme improvements.

1.2.13 Commitments against the General Fund balance total £15.383 million, leaving £2.093 million of uncommitted funds at 31 March 2008. The HRA balance at 31 March 2008 of £3.181 million is over the policy minimum level of £0.500 million and will be taken into account in the ongoing commitment and review of programmes of property improvements for the Council's housing stock required to meet the Scottish Housing Quality Standard as early as possible.

1.2.14 The Council's net pension liabilities at 31 March 2008, estimated by the Actuary, exceeded its share of pension scheme assets by £39.046 million (2006/07 - £54.981 million). The favourable movement of £15.935 million is mainly as a result of changes in the financial assumptions underlying the present value of the scheme's liabilities and the discount rates used.

1.2.15 The Council has carried out a job evaluation exercise as part of Single Status and implemented the new rates and conditions on 1 April 2008. The Council had earmarked £3.3 million in its General Fund Balance at 31 March 2007 to allow the budgetary impact of Single Status to be phased in and had also included a further provision of £2.2 million in its 2007/08 budget. At 31 March 2008 there was £1.590 million earmarked within the General Fund to help with costs of this in future years.

1.2.16 At 31 March 2008 the Council had a provision within its accounts of £1.177 million for settlement of equal pay claims; £0.307 million in respect of the Council's employees up to 31 March 2008 and £0.870 million in respect of its share of claims for Tayside Contracts' employees. The Council's draft accounts had included a higher provision of £2.945 million but based on more up-to-date information of the known liabilities following implementation of Single Status for its own employees an adjustment of £1.768 million was accepted. The Council recognises that it may have further liabilities beyond the amount provided for, but due to the uncertainties around the legal position are unable to determine the probable outcome. A prudent approach has been adopted by the Council with an amount currently being earmarked within the General Fund balance. Further details are provided in the accounts in note 28 on page 27.

1.2 Financial (Section 3, page 7) (Cont'd)

1.2.17 Other significant cost pressures include increasing energy and recycling costs, and free personal care costs which are being contained within the existing available resources. Use of balances and budgets from previous years, approved for carry forward under the budget flexibility scheme, are helping to smooth the budgetary impact of such pressures in the 2008/09 budget.

1.2.18 In our ISA 260 Report we highlighted capital accounting entries within the Common Good Fund Accounts and the audit adjustments relating to the other gains and losses included in the Statement of Total Recognisable Gains and Losses as areas where the Council's practices could be improved. We also reported that the Council's current policy not to accrue capital contract retentions should be reviewed and updated if the amounts involved are significant and that the balance on the Archimedes system should also be reviewed to determine whether some of the older creditors balances still exist.

1.2.19 In December 2007, LASAAC issued a guidance note on Accounting for the Common Good. Paragraph 3.14 of the guidance states that *the loans fund shall not apply to money borrowed for the Common Good of the council* (per paragraph 12(2), section 16 of the Local Government (Scotland) Act 1975). Following discussions with the Head of Finance, it was agreed that the Common Good borrowing to fund improvements to the Webster Theatre in Arbroath will be from General Fund balances rather than from the Loans Fund. This was a technical accounting change which has not affected either the Arbroath Common Good Fund or the level of General Fund balances available. The relevant journal entries were processed to record this in the financial statements.

1.3 Governance (Section 4, page 20)

1.3.1 The Council's committee structure is now fully aligned with the revised senior management structure. Revised Corporate and Community Plans have been approved, covering the period 2007 to 2012. As part of the 2008/09 budget setting process, further work was undertaken to improve the transparency of the linkage between the budget setting and service, corporate and community planning.

1.3.2 Both the Chief Executive and the Chief Internal Auditor carry out an annual review of compliance with the Local Code of Corporate Governance (the Local Code). These reviews form the basis of the annual corporate governance statement included in the Council's annual report and accounts document. The 2007/08 reviews concluded that the core governance arrangements are sound, but further work is required to ensure full compliance with the Local Code.

1.3.3 We are satisfied that the Statement on the System of Internal Financial Control, included in the annual accounts, complies with the 2007 SORP.

1.3.4 In June 2007, CIPFA/SOLACE published a revised framework – ***Delivering Good Governance in Local Authorities.*** A guidance note for Scottish authorities was issued in May 2008. The Council has put in place arrangements to revise the Local Code to ensure compliance with the revised framework; it is intended that the revised code and associated action plan would be operative from 1 April 2009.

1.3 Governance (Section 4, page 20) (Cont'd)

1.3.5 Job descriptions are in place for all members. 26 of the 29 members have accepted the opportunity for a one-to-one training needs assessment and have a Personal Development Plan in place.

1.3.6 Angus Community Planning Partnership (ACPP) planning is linked with Council planning and the community planning themes. Consideration of the identified resource gaps will be an integral part of the various partners' budget and planning process for 2009/10. The ACPP has developed outcome measures, indicators and targets for each community planning theme. These indicators and targets have been included in the Single Outcome Agreement for Angus covering the period 2008/09.

1.3.7 We agreed to place reliance on a number of internal audit's reviews, as detailed in our *Risk Assessment, Audit Plan and Fee Proposal for 2007/08* (report 2008/01). Four of the reports on which we planned to place reliance had not been finalised prior to the completion of our year-end audit. Only one of these, Payroll, impacted directly on the financial statements. It had previously been agreed that internal audit would rely on the high level control testing carried out by us as part of our financial control evaluation work, and that they would carry out more detailed transaction testing. The results of our financial control evaluation testing were reported in our *Financial Statements Audit Plan* (report 2008/04).

1.3.8 During 2007/08, the Council completed work on the 2006/07 National Fraud Initiative. Total overpayments identified amounted to £0.040 million and recovery proceedings have begun for £0.031 million of this total. Our review found that the Council was fully committed to the exercise, expending considerable resource and effort in checking potential matches. We have recommended that the Council consider making greater use of the filtering facility available in the software to help target effort and reduce the resources required to check potential matches.

1.3.9 The 2008/09 National Fraud Initiative began in October 2008. We will again monitor the Council's participation in the exercise and have confirmed that preparations for the new exercise have been full and efficient and that the data planned to be submitted is in place.

1.3.10 From our attendance at the Audit Sub-Committee meetings, we noted a good level of scrutiny and debate.

1.4 Performance Management and Reporting (Section 5, page 25)

1.4.1 The Excelsis performance management system is in place throughout the Council and is used for service planning, updating risk registers and reporting to Council groups and committees and to the Angus Community Planning Partnership.

1.4.2 Council publications include annual departmental performance reports, *Putting You First,* an annual review of performance against the key objectives of the Corporate Plan, and the *Annual Report and Accounts,* which includes commentary on the financial outturn for the year and the Statutory Performance Indicators.

1.4.3 The Single Outcome Agreement (SOA), which was developed with input from community planning partners, was signed in July 2008. Work is underway to develop a governance framework and performance management arrangements which will be crucial to the delivery and monitoring of the SOA.

1.4.4 The Council has recognised the need to review its corporate risk management strategy and this is currently in progress.

1.4.5 The Council's 2007/08 Efficiency Statement was submitted to the Scottish Government in August 2008. The Council exceeded its notional target for the year by £0.002 million. The target for cashable efficiency savings for the three year period 2005-2008 was exceeded by £0.403 million (11%). For the period 2008-2012, the Council aims to deliver savings of £1 million to £1.25 million per annum and has in place a planned approach to delivering efficiency savings via Best Value reviews and departmental savings identified as part of the annual revenue budget setting process.

1.4.6 Further efficiencies are anticipated in 2008/09 from the Council's membership of the Tayside Procurement Consortium and Scotland Excel and from the implementation of the PECOS e-procurement system, which will be rolled out during 2008/09.

1.4.7 The Accounts Commission and Audit Scotland are currently reviewing the Best Value audit approach. Information about the "BV 2" process will be available soon. We have undertaken transitional Best Value work as part of the 2007/08 audit and the recommendations in our report (planned for November 2008) will be designed to help the Council prepare for BV 2.

1.4.8 The 2007/08 return to Audit Scotland for Statutory Performance Indicators was made by the 31 August 2008 deadline and publication met the 30 September deadline. We concluded that the systems were reliable for all of the indicators reported with the exception of the Teachers' element of Corporate Management 1: Sickness Absence.

1.4.9 Our review of *Corporate Asset Management* (report 2008/02) concluded that the Council has made good progress in a number of areas, particularly in corporate property management. The Council acknowledges that there are areas where further improvement can be made, such as a reconciliation of the fixed asset register with other databases and introduction of a formal impairment review as part of the year-end process. The Council need to continue to improve the linkage between asset management plans and the overall budgeting and planning processes. This work will build on the review of the affordability of the General Fund Financial Plan.

Introduction

2.1 Introduction

2.1.1 We are pleased to submit our second annual report, covering significant matters arising during the course of our audit of Angus Council for the year ended 31 March 2008.

2.1.2 The framework under which we operate under appointment by Audit Scotland and our audit approach are as outlined in our report 2008/01: *Risk Assessment, Annual Audit Plan and Fee Proposal for 2007/08* issued on 22 February 2008. The respective responsibilities of Council members, officers and auditors are set out in appendix I to this report.

2.1.3 Broadly the scope of our audit was to:

- provide an opinion on the financial statements in accordance with relevant legal and regulatory requirements and international standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission;
- review and report on the Council and its group's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Council's financial position;
- review and report on the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value; and
- review and report on whether the Council has made adequate arrangements for collecting, recording and publishing prescribed performance information.

2.1.4 Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Council.

2.2 Basis of Information

2.2.1 External auditors do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.

2.2.2 We have raised a number of issues during the course of the audit, including matters highlighted in our *Report to those charged with Governance on the audit of Angus Council*: (ISA 260 Report) Report 2008/05, issued on 25 September 2008. The main points from our audit are summarised in this report.

2.2.3 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Council. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

2.2.4 We take this opportunity to remind you that this report is prepared for the sole use of Angus Council and the Audit Sub-Committee and will be shared with Audit Scotland. No responsibility is assumed by us to any other person who may chose to rely on it for his or her own purposes.

2.3 Acknowledgements

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

Financial

3.1 Audit Completion

3.1.1 The target date for submission of the 2007/08 audited accounts of the Council was 30 September 2008. We are pleased to report that the target date for the audit completion and certification of the annual accounts was met.

3.1.2 On 25 September 2008 we issued our ISA 260 report and met with the Head of Finance and the Leader of the Council as representatives of those charged with governance to discuss issues arising from the audit and agree the final audit adjustments to the draft accounts.

3.2 Accounts Certification

3.2.1 On 29 September 2008 we issued our audit report expressing an unqualified opinion on the financial statements of the Council for the year ended 31 March 2008. We set out below a summary of the audit certification issues.

- ❑ The financial statements present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position at 31 March 2008 and the income and expenditure for the year then ended.
- ❑ The Council's Significant Trading Operations (STO) met their statutory three-year break-even target.
- ❑ The Statement on the System of Internal Financial Control complies with the SORP. We were not required to consider whether the statement covers all risk and controls or form an opinion on the effectiveness of the Council's corporate governance and risk and control procedures.

3.3 Audit Adjustments

3.3.1 In accordance with the changes in the 2007 SORP the Council made the appropriate entries and disclosures required in the accounts for pension funds and FRS 17 accounting requirements, capital adjustment account, revaluation reserve and financial instruments. A minor exception is investments of £10,000 recorded at historical cost.

3.3.2 A number of significant audit adjustments were identified during the course of our audit. The majority of the proposed audit adjustments were agreed and the accounts amended. Two significant audit adjustments were not made, relating to capital contract retention payments (estimated £0.362m) and Archimedes creditor balances (£0.458m). We have accepted assurances that the Council will review its current practice of not accruing retentions on capital projects and consider accruing if the amounts involved are significant. We have also accepted assurances that the Archimedes balances are currently being reviewed and that old balances that do not represent true liabilities will be written off to revenue in next year's accounts. Neither of these adjustments would have had a material impact on the reported results.

3.3 Audit Adjustments (Cont'd)

3.3.3 In December 2007, LASAAC issued a guidance note on Accounting for the Common Good. Paragraph 3.14 of the guidance states that *the loans fund shall not apply to money borrowed for the Common Good of the council* (per paragraph 12(2), section 16 of the Local Government (Scotland) Act 1975). Following discussions with the Head of Finance, it was agreed that the Common Good borrowing to fund improvements to the Webster Theatre in Arbroath will be from the General Fund balances rather than from the Loans Fund. This was a technical accounting change which has not affected either the Arbroath Common Good Fund or the level of General Fund balances available. The relevant journal entries were processed to record this in both the Council's and the Common Good Funds' Accounts.

3.3.4 Paragraph 4.12 of this guidance reiterates LASAAC's 2001 decision that FRS 15 should be applied to the Common Good. Presentational adjustments were required to the Common Good statements to remove Capital from Current Revenue (CFCR) and the Capital Adjustment Account, which are specific to local authority capital accounting arrangements and should not be applied to the Common Good. The Accounts on page 49 and note 2 on page 50 were revised to reconcile the revenue position to the cash position for each fund.

3.3.5 While the majority of the agreed adjustments impacted on the Balance Sheet, some impacted on the Income and Expenditure Account. The net effect on this account was a decrease of £1.753 million on the deficit for the year. Most of this impact was due to an equal pay claim provision that upon review by the Head of Finance was deemed not to be required at the level identified in the draft accounts. £1.768 million was accordingly written back to revenue. The remaining agreed adjustments related to technical entries to correctly account for other gains and losses within the Statement of Total Gains and Losses and transfers to and from reserves within the Statement of Movement on the General Fund Balance. These corrections did not impact significantly on the Council's true outturn position. The net effect on the General Fund balance at 31 March 2008 was an increase of £1.530 million.

3.3.6 The audit adjustments impacting on the Balance Sheet resulted in an increase to the Total Net Worth of £0.291 million. This was mainly due to correction of errors in the Government Grants classification and an additional charge to the Financial Instruments Adjustment Account for the effective interest rate calculations in relation to variable rate loans, together with the equal pay claim provision that was not required and written out to revenue.

3.3.7 A number of presentational changes to the notes to the accounts were required to ensure compliance with the SORP.

3.3.8 The Council's Group Accounts were adjusted to include the final audited results of the Tayside Police, Tayside Fire and Rescue and Tayside Valuation Joint Boards, Tayside Contracts, Charitable Trusts and Common Good Funds. The Group Accounts were also adjusted for the agreed changes to the Council's single entity accounts. This resulted in a decrease in the group's deficit for the year of £1.798 million and an increase in the group's Total Net Worth of £0.378 million. Appropriate adjustments were also made to the Notes to the Group Accounts where individual entity's accounts had been audited.

3.3.9 Details of these audit adjustments were highlighted in our ISA 260 report issued to the Head of Finance and Leader of the Council on 25 September 2008.

3.4 Financial Position

3.4.1 The Council's net operating expenditure of £213.579 million exceeded its income from government grants and local taxation, resulting in a small deficit on the Income and Expenditure Account for the year of £0.118 million (2006/07 – Surplus of £2.547 million). After the necessary adjustments to the General Fund movements for the year this resulted in a surplus of £0.721 million (2006/07 – Surplus of £6.322 million) on the total General Fund (including the HRA and other earmarked funds within the General Fund).

3.4.2 The Housing Revenue Account (HRA) Income and Expenditure Account reported a surplus of £0.863 million (2006/07 – Surplus of £0.516 million). The final outturn for 2007/08, after the necessary adjustments to the HRA movements, resulted in a small adverse variance of £0.460 million against a budgeted surplus of £0.137 million. This variance resulted in a decrease on this balance from £3.504 million at 31 March 2007 to £3.181 million carried forward at 31 March 2008.

3.4.3 For statutory accounting purposes the HRA balance requires to be included as a ring-fenced amount within the General Fund balance albeit that for internal and budget purposes the Council treats HRA and General Fund entirely separately. The total on the General Fund, including the HRA balance (£3.181 million) and other earmarked funds which require to be included within the General Fund (£0.719 million), carried forward at 31 March 2008 is £21.376 million.

3.5 Financial Performance

3.5.1 Financial performance can be measured against the financial budget set by the Council in February 2007 (and subsequent approved amendments) for 2007/08. In this regard the Council's General Fund Balance for the year shows an underspend of £7.168 million against a budgeted use of resources of £6.210 million, resulting in a favourable movement on the General Fund for the year of £0.958 million. The HRA balance for the year is accounted for separately and not included in the General Fund Balance for budget performance purposes.

3.5.2 A number of factors have contributed to the final outturn on the General Fund. Details of the main variances are given in the Explanatory Foreword to the accounts. Table 1 highlights the significant factors as follows:

Table 1 – Financial Performance against 2007/2008 budget

General Fund Balance		
	£m	**£m**
Budgeted General Fund movement		(6.210)
Significant factors		
Underspends on departmental budgets	3.741	
Reduction on equal pay provision	1.768	
Additional interest on balances held	0.672	
Treasury management activity savings	0.252	
Additional Council Tax income	0.812	
Miscellaneous Others	(0.077)	
Overall variance		7.168
Actual General Fund Balance surplus		0.958
		======

3.5 Financial Performance (Cont'd)

Housing Revenue Account

3.5.3 The HRA budget was set to give a small surplus of £0.137 million for the year. The actual figures resulted in a deficit of £0.323 million. The main reason for this variance was due to additional CFCR contributions to fund the overall Housing Capital Programme improvements.

3.5.4 The HRA balance at 31 March 2008 of £3.181 million is over the policy minimum level of £0.500 million and will be taken into account in the ongoing commitment and review of programmes of property improvements for the Council's housing stock required to meet the Scottish Housing Quality Standard as early as possible.

Significant Trading Operations (STO)

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

Table 2 – Financial performance against break-even target

Significant trading operations –	**Grounds Operations**	**Sports Services**	**Waste/Cleaning Operations**
Financial year	**£m**	**£m**	**£m**
2005/2006 - surplus	0.171	0.318	(0.051)
2006/2007 - surplus	0.372	0.553	0.040
2007/2008 - surplus	0.299	0.582	0.201
	_______	_______	_______
Three-year outturn	0.842	1.453	0.190
Break-even Target	0.000	0.000	0.000
	_______	_______	_______
Excess over break-even target	0.842	1.453	0.190
	======	======	======

3.5.6 The Council had budgeted for an overall surplus from trading operations of £0.980 million and the actual results exceeded this target by £0.102 million. Waste and Cleaning Operations STO produced a surplus for the year of £0.201 million on annual turnover of £7.946 million; however this includes a negotiated increase in management fees to cover increased fuel costs that have been recharged to the client service.

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3.5 Financial Performance (Cont'd)

3.5.7 Last year we reported that we were concerned over the lack of appropriate management action over recent years to fully address the contractual and operational issues between the STOs and the client service. We made three recommendations in our report and an update from management is included at appendix II.

3.5.8 Although there was a delay in revising the contracts / Service Level Agreements (SLAs) between the STOs and the service department compared to the timetable envisaged in the 2006/07 audit action plan, all three areas have recently signed new SLAs.

3.5.9 A full best value review of the Waste Management STO is underway and we have accepted assurances from the Head of Finance that a formal review of the Council's three STOs will be carried out during 2008/09 to determine whether they still meet the criteria for significant trading organisations and whether the results should be disclosed separately or included in the Cost of Service figures.

3.6 Pensions

3.6.1 Accounting for the costs of pensions presents a difficult challenge for local authorities. The amounts involved are large, the timescales long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.

3.6.2 The Council participates in two pension schemes on behalf of its employees: the Scottish Teachers' Superannuation Scheme (Teachers) administered by the Scottish Government; and the Local Government Pension Scheme (LGPS), the Tayside Superannuation Fund administered by Dundee City Council. Both schemes provide members with defined benefits related to pay and service.

3.6.3 The Council disclosed the FRS 17 requirements for the LGPS whereas the Teachers' scheme is an unfunded scheme which is excluded from the accounting requirements of FRS 17 as it is a national scheme that cannot separately identify the pension liabilities of the individual contributing bodies. The exception to this is payments in relation to unfunded pension enhancements for teachers as they are administered by the LGPS and taken into consideration for liabilities under FRS 17. The amounts paid in the year have been disclosed in note 9 to the accounts but the estimated cost of future liabilities was not provided by the actuary and therefore has not been disclosed in the 2007/08 accounts. However the Council has advised that arrangements will be put in place to obtain this information for next year's accounts.

3.6.4 The Council's net pension liabilities at 31 March 2008, estimated by the Actuary, exceeded its share of pension scheme assets by £39.046 million (2006/07 - £54.981 million). The favourable movement of £15.935 million is mainly as a result of changes in the financial assumptions underlying the present value of the scheme's liabilities and the discount rates used.

3.6 Pensions (Cont'd)

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

3.7 Financial Instruments

3.7.1 In accordance with the new requirements of the 2007 SORP relating to financial instruments the Council made the appropriate accounting entries and disclosure notes in the accounts.

3.7.2 Guidance was issued by the Scottish Ministers under section 12(2) (b) of the Local Government Scotland Act 2003 to ensure that adjustments required to the opening balance had no impact on the General Fund Balance. The main impact of these new requirements on the Council's accounts is as follows.

Deferred Premiums/Discounts on Early Repayment of Debt

3.7.3 The Council's Balance Sheet at 31 March 2007 included £2.835 million relating to premiums and £0.049 million relating to discounts incurred on the early redemption of debts which were replaced as part of debt restructuring exercises in previous years. In accordance with the requirements of the 2007 SORP these balances have been charged to the opening General Fund Balance and subsequently reversed out to the Financial Instruments Adjustment Account (FIAA) in line with the statutory guidance.

3.7.4 An annual charge in relation to this balance of £0.200 million has been written off in line with the existing schedules to the General Fund in accordance with the guidance.

3.7.5 In line with the new requirements, premiums (£0.622 million) and discounts (£0.621 million) on debt rescheduling arising during the year have been charged/credited to the Income and Expenditure Account (net charge £0.001 million).

Stepped Loans

3.7.6 The Council's long term borrowing portfolio includes market loans with variable rate terms which are lender option borrower option arrangements (LOBOs) and in accordance with the new SORP their effective interest rate must be calculated to meet the new requirements.

3.7.7 The carrying value of £20 million for these loans at 31 March 2007 has been adjusted by £0.445 million against the opening General Fund Balance. In line with the statutory guidance this adjustment has then been transferred to the FIAA, cancelling the impact on the General Fund.

3.7.8 An annual charge of £0.074 million, based on the difference between the effective interest rate due and the actual amount paid on these loans at the start and end of the year, has been charged to the Income and Expenditure Account and credited to the movement on the General Fund in 2007/08 in accordance with the statutory guidance.

3.7 Financial Instruments (Cont'd)

3.7.9 Further detail of all of the new required disclosures for the Council's financial instruments are included in note 33 to the accounts on pages 30 to 35. As required the fair values of all financial instruments have been disclosed in these notes based on information provided by the Council's professional advisers Sector, other than the Council's investments of £10,000 that are considered to be immaterial.

3.7.10 In calculating the fair value of the Public Works Loan Board (PWLB) loans, Sector used the rate for new borrowing as per interest rate notice number 064/08 for fixed rates as at 31 March 2008. The PWLB has also provided figures based on the prevailing interest rate of the loans which is significantly different from the Sector figures as follows:

Sector (as disclosed in the accounts)	£134.246 million
PWLB	£142.789 million
Difference	£8.543 million

The carrying value of these loans is £124.245 million.

The SORP and statutory guidance do not state which rates are to be used for calculating the fair values of this type of loan, therefore either method is deemed to be acceptable.

3.8 Financial Pressures

Single Status

3.8.1 The Council has carried out a job evaluation exercise as part of Single Status and implemented the new terms and conditions on 1 April 2008. At 31 March 2008 the Council had earmarked £1.590 million within the General Fund balance to help fund these costs in future years. The full additional cost of the new pay and grading structure at £3.165 million has been allowed for in the Council's 2008/09 budget and the funding of this will be phased in using the balances set aside for this purpose.

Equal Pay

3.8.2 Following the implementation of Single Status for its own employees on 1 April 2008 the Council revised the provision it had included in the draft accounts. A revised provision of £1.177 million for the settlement of equal pay claims was included in the final accounts: £0.307 million in respect of the Council's employees up to 31 March 2008 and £0.870 million in respect of its share of claims for Tayside Contracts' employees.

3.8.3 The Council recognises that it may have further liabilities beyond the amount provided for within the accounts but due to the uncertainties around the changing legal position is unable to determine the potential financial liability as the outcomes are currently unknown.

3.8.4 A prudent approach has been adopted by the Council with around £0.900 million being earmarked within the General Fund balance at 31 March 2008 to fund any additional liabilities.

3.8 Financial Pressures (Cont'd)

Energy, Fuel and Pay Costs

3.8.5 Both energy and fuel costs have increased substantially over the past year and although fuel prices have fallen recently energy costs are likely to increase again over the winter months. A report to the Council in June 2008 indicated that the overall increase in fuel costs in 2008/09 could be around £0.500-£0.600 million in excess of budgeted fuel costs. The 2008/09 pay award for Local Government employees has still to be settled but the latest employer offer exceeds the Council's budget allowance by 0.5% (£0.5m) and represents an area of financial risk.

General

3.8.6 The Council recognises that there is a significant cost pressure associated with the delivery of its recycling policy within Waste Management. This is subject to an ongoing Best Value review. Other significant cost pressures, including increased free personal care costs, are being contained within the existing available resources. In setting the 2008/09 budget, £2.484 million from previous years, approved for carry forward under the budget flexibility scheme, is being used to help smooth the budgetary impact of such pressures. The Council has also approved the use of £3.563 million of balances for this purpose.

3.9 Reserves and Balances

3.9.1 All Councils hold reserves which consist of earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. At 31 March 2008 the "cash-backed" fund balances and reserves held by the Council totalled £30.353 million (at 31 March 2007 - £29.679 million). Table 3 details the balances and movements on these reserves. The Revaluation Reserve, Capital Adjustment Account, Financial Instruments Adjustment Account and the Pensions Reserves are specific accounting reserves relating to book entries and have been excluded as these are not "cash backed" reserves.

Table 3 – Fund balances and reserves

Fund balances and reserves	2007/08	2006/07	Movement
	£m	£m	£m
General Fund	17.476	16.518	0.958
Housing Revenue Account#	3.181	3.504	(0.323)
Other Funds#	0.719	0.633	0.086
Total General Fund	21.376	20.655	0.721
Capital Fund	2.567	3.270	(0.703)
Renewal and Repair Fund	3.784	3.059	0.725
Insurance Fund	0.985	0.905	0.080
Usable Capital Receipts	1.641	1.790	(0.149)
At 31 March	30.353	29.679	0.674
	=====	=====	=====

Balances included in the overall General Fund of £21.376m balance in the Statement of Movement on General Fund Balance in paragraph 3.4.3

3.9.2 The total General Fund balance including the HRA balance (£3.181 million) and other earmarked funds which require to be included within the General Fund (£0.719 million) has increased by £0.721 million in 2007/08 as a result of the surplus for the year leaving a closing total General Fund balance of £21.376 million.

3.9 Reserves and Balances (Cont'd)

3.9.3 Commitments total £15.383 million against the General Fund balance the Council uses for budget purposes (i.e. excluding HRA and other earmarked funds) of £17.476 million leaving £2.093 million of uncommitted funds at 31 March 2008. The committed balances include ring-fenced monies of £6.117 million, a contingency of £3.250 million, £1.590 million for the implementation of Single Status, £3.747 million of 2008/09 Budget Commitments and £0.304 million for asset replacement. Under the Budget Carry Forward Scheme a further £0.375 million is committed. Ring-fenced monies include a small balance on the Devolved School Management (DSM) reserve of £0.326 million and funds which are earmarked for specific purposes, including affordable housing of £0.498 million.

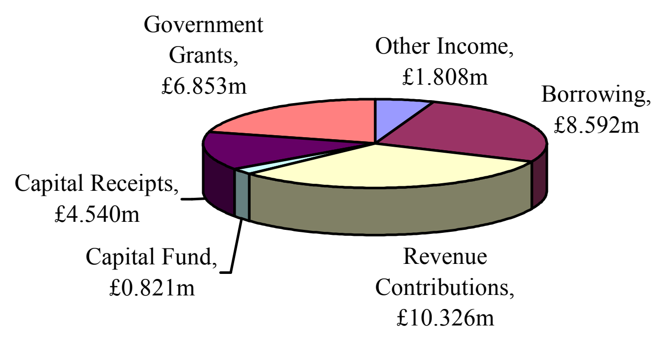
3.9.4 The HRA balance at 31 March 2008 of £3.181 million will be used to support the approved programme of property improvements for the Council's housing stock required to meet the Scottish Housing Quality Standard over the next few years.

3.9.5 The Council also has significant commitments against both the Capital Fund and Renewal and Repair Fund balances at 31 March 2008 and the approved 2008/09 budget included a further £3.775 million contribution to the Council's Renewal and Repair Funds to ensure that a reasonable level of funding is available to meet unforeseen expenditure on essential and urgent repairs. At 31 March 2008 there was also a balance on the Useable Capital Receipts Reserve of £1.641million which has been earmarked for use to take forward capital developments within the Council's Financial Plan.

3.10 Capital Expenditure

3.10.1 Gross capital expenditure on the Council's fixed assets for 2007/08 amounted to £32.935 million of which £10.395 million was on the Housing Programme. The Council also financed advances for home loans of £0.005 million during the year. The total capital expenditure of £32.940 million was financed as follows:

Capital Expenditure Funding Sources 2007/08



HENDERSON LOGGIE

3.10 Capital Expenditure (Cont'd)

3.10.2 The gross capital budget for 2007/08 was £37.921 million and the variance of spend against the budget of £4.981 million is due to significant slippage in the capital programme across most services, with the exception of the Housing Programme. The budgeted level of slippage at the start of the year was £0.5m. The main area of slippage on budget was in Roads, £2.626 million, but this was caused partly by year end reclassification of expenditure from capital to revenue rather than actual project slippage. The Council is taking steps in the current year to address capital budget slippage issues.

3.10.3 Further detail of the split of capital expenditure across the services and an analysis of what type of assets the money was spent on is provided in Statement 9 in the notes to the accounts on page 45.

3.11 Capital Accounting

3.11.1 The Council complied with the 2007 SORP's new requirements and introduced a Revaluation Reserve and a Capital Adjustment Account (amalgamating the balances on the Fixed Asset Restatement Account and Capital Financing Account) at 1 April 2007.

3.11.2 Revaluations in line with the Council's five year rolling programme included property gains of £3.504 million together with the annual update on the council dwellings of £17.806 million, giving rise to a £21.310 million gain on revaluation for 2007/08. This represents the balance on the new Revaluation Reserve at 31 March 2008. Next year the Council also need to account for the difference in the depreciation on the revalued assets between the amount charged to the Income and Expenditure accounts and the depreciation charge on an historical cost basis. This adjustment was not required this year as the valuations occurred on 31 March 2008 and depreciation is charged on the opening balance.

3.11.3 Our year-end testing of capital accounting entries gave rise to a significant adjustment required to properly record the Government Grants received but not yet applied and transfer grants received out of the Usable Capital Receipts Reserve to a new account in the Balance Sheet, Government Grants Unapplied.

3.11.4 There is a requirement under LAAP 73 for Councils that wish to carry grants as deferred on their Balance Sheets to match government grants and contributions received with specific expenditure on individual fixed assets or write it off to the Income and Expenditure Account when received. We have been assured that the amounts held as unapplied will be expended on fixed assets for specific projects during 2008/09 and a full review of government grants accounts will be carried out with any unmatched element written back to Income and Expenditure.

3.11.5 Last year we reported that there were a number of fixed asset disposals where the asset was not included in the Fixed Asset Register and we accepted assurances from the Head of Finance that the Council would review the assets held on the fixed asset register in conjunction with both Property and Legal and establish an appropriate value for all Council property assets currently held to be recorded in the Fixed Asset Register and the accounts.

3.11 Capital Accounting (Cont'd)

3.11.6 There were a few fixed assets disposed of again this year that were not on the Fixed Asset Register. The disposal proceeds for these assets have therefore been recorded as gains on disposal.

3.11.7 The Council is still in the process of reviewing the Fixed Asset Register. This will now be in conjunction with the review of Common Good Fund fixed assets as recent LASSAC guidance requires this exercise to be completed by 31 March 2009.

3.11.8 Following the agreed adjustments to the accounts we were satisfied that the Council's capital accounting arrangements for 2007/08 had improved and that the entries for additions, disposals, transfers, revaluations and impairments were not materially misstated.

3.12 Group Accounts

3.12.1 The SORP requires authorities to prepare a full set of group accounts in addition to their single-entity accounts where they have an interest in other entities (excluding the Pension Fund). The Council has prepared group accounts in accordance with these requirements and the following table details their interest in other entities and the basis of consolidating the results within the Council's group accounts.

Table 4 – Group entities

	Council Control	
	2007/08	**2006/07**
Subsidiaries		
Common Good	100%	100%
Charities	100%	100%
Associates		
Tayside Fire and Rescue Board	19.00%	19.00%
Tayside Joint Police Board	24.40%	24.40%
Tayside Valuation Joint Board	26.71%	26.69%
Joint Arrangement		
Tayside Contracts	29.00%	29.00%

3.12.2 The Group's net operating expenditure of £231.950 million exceeded the income from government grants and local taxation, resulting in a deficit for the year ending 31 March 2008 of £8.159 million.

3.12.3 The Group Balance Sheet shows the Total Assets less Liabilities to be £261.022 million at 31 March 2008 compared with the Council's single entity Balance Sheet total of £391.332 million. This material decrease is mainly due to the Share of the Net Liabilities of Associates including the Council's share of the pension liabilities of the Joint Boards. These have been accounted for under FRS 17 'Retirement Benefits' in accordance with the SORP.

3.12.4 All of the associates' accounts have been prepared on a going concern basis. These accounts have been audited and there were no qualifications included in the audit opinions. The Council's group accounts have also been prepared on a going concern basis.

3.12 Group Accounts (Cont'd)

3.12.5 The 2007 SORP introduced new requirements that additional details of registered charities and trusts should be disclosed in the accounts. The Council included the additional disclosures for the Charitable Trusts Reserve as a number of the Council's charitable trusts are registered charities and the related reserve is therefore not available for general use. Details are included in Note 11 to the Group Accounts.

3.13 Public Private Partnership (PPP) Projects

3.13.1 The Council has three Public Private Partnership (PPP) schemes. The first is a contract to facilitate dualling works of the A92 which opened to traffic in September 2005.

3.13.2 The capital value is approximately £50 million and the annual unitary charges are included in the Roads & Transport Services costs, apart from £0.129 million being charged to a long term debtor, which at the end of the contract will represent the residual value of the road to be transferred back into the Council's fixed assets on the Balance Sheet.

3.13.3 The second PPP project is a joint arrangement with NHS Tayside for the refurbishment and provision of Beechhill House that has been in operation since March 2005. The capital value is approximately £1.900 million and the annual unitary charges are included in the Social Work Service costs apart from £0.147 million being charged to a long term debtor, which at the end of the contract will represent the residual value of the property to be transferred back into the Council's fixed assets on the Balance Sheet.

3.13.4 The third project is a contract to facilitate the refurbishment and replacement of eight schools in Forfar and Carnoustie with anticipated education start dates in 2007/08 and 2008/09. Four primary schools became operational during 2007/08 and had a total works value of £19.200 million. The annual unitary charge for the new schools was charged to the Education Revenue account apart from £1.308 million being charged to a long term debtor, which at the end of the contract will represent the residual value of the schools to be transferred back into the Council's fixed assets on the Balance Sheet.

3.13.5 Accelerated depreciation of £3.032m was charged to the Education Revenue account for two schools that are/will be demolished and replaced with new builds.

3.14 Standard Security and Orchardbank Business Park

3.14.1 The Council entered an agreement in 2003 to jointly develop land owned by itself and the developer at Orchardbank, Forfar. To support the arrangement the Council and the developer granted each other security over the land involved in the development. The value of the land in each case was broadly similar (55% Council/45% developer). A substantial part of the development has now been completed and the relevant securities released. Some security granted by both the Council and the developer remains in place, as discussed in note 34 to the accounts.

3.14 Standard Security and Orchardbank Business Park (Cont'd)

3.14.2 The value of the land in question at the time the arrangement was made was approximately £3.6 million. At 31 March 2008 the Council estimates the value of its land still covered by the security to be approximately £1.400 million. The excess of the value of the Council's assets over its borrowing from external bodies at 31 March 2008 is £424.348 million.

3.14.3 We considered whether or not the Council can grant such a security on the basis that S8 of the Local Government (Scotland) Act 1975 states "*… …all money borrowed under any statutory borrowing power by a local authority shall be secured upon the whole funds, rates and revenues of the authority, and not otherwise… …"*. This has generally been held to mean that a Council cannot grant any other security over its assets. However the Council took the view that Section 8 only precludes the Council from granting security to support borrowing, and therefore the granting of a security for another purpose could be allowed.

3.14.4 A strict interpretation of section 8 could mean an authority cannot grant security to a third party as this would mean borrowing could not be secured on the whole of an authority's funds, rates and revenues. However, we concluded that the meaning and intention of this section is open to interpretation and therefore since the values involved are approximately 0.5% of the Council's net asset base at 31 March any move to invoke them would not affect the Council's ability to satisfy any floating charge created under Section 8 should that be required.

3.14.5 Our decision not to include comment in our audit report this time does not mean that other apparently similar situations would be treated the same way in future. The precise nature of the situation would need to be considered on its own merits and legal advice sought if necessary before a decision might be taken on whether or not the action was lawful.

Governance

4.1 General Governance

4.1.1 The senior management structure was revised during 2006 and the committee structure has been fully aligned with the management structure since early 2007. Phase 2 of the management restructure is ongoing.

4.1.2 The Council's Corporate Plan has been reviewed and the Corporate Plan 2007-2012 was approved by the Strategic Policy Committee on 30 October 2007. The plan sets out the key corporate objectives and priorities for the Council, identifying how performance will be measured. Annual action plans will be used to implement the objectives.

4.1.3 A new Community Plan 2007-2012 has been agreed by the Angus Community Planning Partnership.

4.1.4 During 2007/08 the Council again refined its budgeting procedures so as to allow decisions on planning and resource allocation to be more closely linked. A key feature of this was that for the first time the budget and planning timetables are fully aligned. Further action was taken in the 2008/09 budget and service planning round to build on the successes and make improvements in other areas, primarily in the transparency of linkage between the budget setting and planning at service, corporate and community planning levels.

4.2 Annual Governance Statement

4.2.1 The Council has a Local Code of Corporate Governance adopted in May 2002 (the Local Code). Both the Chief Executive and the Chief Internal Auditor independently carry out an annual review of compliance across the Council and report their findings to the Strategic Policy Committee. These reports form the basis of the annual corporate governance statement included in the Council's annual report and accounts document.

4.2.2 In June 2008, the Chief Executive reported that *"the Council continues to demonstrate compliance with the requirements of the local code of corporate governance"*. His report also noted "*that there are a number of areas which require to be actioned/further developed to ensure continued compliance with the code and that these will be progressed in 2008/09*".

4.2.3 The Chief Internal Auditor's Statement on the Local Code of Corporate Governance reported that *"the slippage noted in taking forward the corporate governance action plans mean that while core governance arrangements and framework remain sound, the council has identified some outstanding actions to be developed to allow it to be wholly compliant with the requirements of the local code"*. The report notes the more material areas where further work is required: finalisation and implementation of the Performance Management Framework; review and implementation of the risk management strategy and delivery structures; and completion of service standards development linked to the performance management framework.

4.2 Annual Governance Statement (Cont'd)

4.2.4 Although we are not required to audit compliance with the Council's Code we review these statements and the Council's processes to inform our view of the governance arrangements in place. We are satisfied that the Council has identified the key areas where work is still required to ensure full compliance with the Code.

4.2.5 In the Statement on the System of Internal Financial Control, included in the Council's annual accounts, the Head of Finance reported that he was satisfied that the Council has in place an adequate and effective system of internal financial controls. We are satisfied that this statement complies with the 2007 SORP.

4.2.6 In our ***Financial Statements Audit Plan 2007/08*** (Report 2008/04 issued on 28 June 2008) we also concluded that for the main financial systems reviewed, with the exception of fixed assets and capital accounting, the expected key controls appear to be in place and no material weaknesses were identified that would impact significantly on our year-end audit testing. The key controls for fixed assets and capital accounting are mainly covered by year-end processes and our detailed testing of these areas during our audit of the accounts did not reveal any material errors or control weaknesses. We therefore concur with the Head of Finance's assessment that the systems of internal financial control are sound.

4.2.7 In Scotland there is no statutory requirement for local authority bodies to conduct a review at least annually of the effectiveness of their system of internal control and prepare a Statement on the System of Internal Control (SIC), as there is for bodies in England and Wales. However authorities in Scotland are encouraged to produce a SIC on a voluntary basis.

4.2.8 The Council already has in place arrangements for an annual review of the Local Code which covers both financial controls and all other governance arrangements, including risk and asset management that would be required for an annual governance statement.

4.2.9 In June 2007 CIPFA, in association with SOLACE, published a revised framework **- *Delivering Good Governance in Local Government***. This framework represents a change in the available good practice and recommends that the annual review of internal controls should be reported in an Annual Governance Statement. The 2008 SORP will be revised to incorporate this change.

4.2.10 A guidance note for Scottish authorities was issued by CIPFA/SOLACE in May 2008, to assist authorities in complying with the Delivering Good Governance in Local Government Framework. As reported to the Strategic Policy Committee in September 2008, an officer group will draft a revised code of corporate governance based on the new guidance and will draft an action plan to ensure compliance. It is intended that the code and action plan would be operative from 1 April 2009. The 2008/09 review of compliance by the Chief Executive and the Chief Internal Auditor and the subsequent statement of assurance will be based on the current code of corporate governance.

4.3 Members

4.3.1 The Council put a training programme in place for all members following the May 2007 elections. Initial training, attended by all members, provided a broad understanding of the Council and its business and covered a range of regulatory and legislative issues, including planning regulations, licensing, the Code of Conduct and financial regulations. Further training has been undertaken during 2007/08 by all members, with one exception due to long-term sickness.

4.3.2 Job descriptions are in place for all members. Personal Development Plans (PDPs) have not been compulsory but all members are being actively encouraged to have one. To date 26 of the 29 members have accepted the opportunity for a one-to-one training needs assessment interview and have a PDP in place.

4.3.3 We are not aware of any problems arising from the introduction of multi-member wards. Members have worked out their own ways of working informally together.

4.4 Partnership Working

Community Planning

4.4.1 Following a review of Audit Scotland's publication on community planning an action plan was agreed by the Angus Community Planning Partnership (ACPP) in January 2007 and is currently being implemented. An annual report is considered by the ACPP on progress against the action plan.

4.4.2 Internal Audit issued their report on Community Planning Finance in February 2007. They concluded that "*procedures and processes in relation to Community planning resources are still being established. Further work is now needed to link the priorities identified for the partnership to resources and to put in place financial governance and performance management arrangements*". A number of good practice areas were also identified. A Community Plan Resource Plan has been reviewed and other agreed actions from this review are being implemented.

4.4.3 Resource planning is linked with Council resource planning and the community planning themes. Resource gaps have been identified and are now being considered. Consideration of the resource gaps will again be an integral part of the various partners' budget and planning process for 2009/10. Revised risk management arrangements have been agreed and an annual report on progress considered. The ACPP has developed outcome measures, indicators and targets for each new community planning theme. These indicators and targets have been included in the initial Single Outcome Agreement for Angus covering the period 2008/09.

4.5 Reliance on Internal Audit

4.5.1 At the start of our appointment we reviewed the Council's internal audit provision and determined that we could rely on their work. We reported our findings in our *Financial Statements Audit Plan* (Report 2007/03 issued on 28 June 2007).

4.5.2 To minimise audit duplication we liaise with internal audit during our planning to identify areas of their work that we can place reliance on. For 2007/08 we agreed to place reliance on work covering a number of areas, as detailed in paragraph 3.3.2 of our *Risk Assessment, Audit Plan and Fee Proposal for 2007/08* (report 2008/01 issued on 22 February 2008).

4.5.3 Most of the expected work was received and our review of their reports and working paper files allowed us to place reliance on the work of internal audit. We reviewed the weaknesses identified by internal audit and concluded that these were unlikely to have a material effect on the financial statements, allowing us to reduce the level of detailed testing during our year-end audit.

4.5.4 Four of the reports on which we planned to place reliance had not been finalised prior to the completion of our year-end audit. Only one of these, Payroll, impacted directly on the financial statements. Payroll testing was discussed with internal audit when we carried out our financial control evaluation work and it was agreed that internal audit would rely on the high level control testing carried out by us and would carry out more detailed transaction testing. The results of our financial control evaluation testing were reported in our *Financial Statements Audit Plan* (report 2008/04 issued on 18 June 2008).

4.6 National Fraud Initiative

4.6.1 During 2007/08 we continued to monitor the Council's participation in the 2006/07 National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from Councils, Police and Fire and Rescue Boards, Health Bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified by a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

4.6.2 During 2007/08 the Council completed work on the 2006/07 exercise. Five frauds were discovered, and the total overpayments identified (including error as well as fraud) amounted to £40,093, which includes notional savings of £6,800. Recovery proceedings have begun for £30,776 of this total. The Council was not specifically mentioned in Audit Scotland's national report on the exercise published in May 2008, suggesting that its conduct of the exercise and findings are in the middle of the spectrum. Our detailed review found that the Council was fully committed to the exercise, expending significant time and effort in checking potential matches.

4.6 National Fraud Initiative (Cont'd)

4.6.3 We reported last year that the Council would be involved in a new data matching area, that of single person discounts for Council Tax. In fact, early this year a number of councils and assessors throughout Great Britain became concerned about the legality of the use of the Electoral Roll, and so the Council did not take part in this exercise during 2007/08. At this stage participation in this part of the 2008/09 exercise seems unlikely but instead of this the Head of Finance intends carrying out an in-house matching exercise upon availability of the updated Electoral Register in November 2008.

4.6.4 The 2008/09 exercise began in October 2008 with the upload of data via the new secure Data File Upload facility which removes the need to send data by post. Following changes to the legislative framework in England and developing understanding of data protection good practice, new guidance has been issued on the fair processing notices issued to possible data subjects. The approach should be 'layered'; subjects receive a summary which directs them to condensed text which in turn directs them to the full text. Although legislation is not yet in place in Scotland requiring bodies to adopt this approach, it is regarded as good practice. The Council has put arrangements in place to comply with the new guidance in time for the 2008/09 exercise.

4.6.5 The 2008/09 exercise covers the same datasets as in 2006/07, but Disabled Parking Permits and Private Care Home Residents datasets are now mandatory, rather than risk-based. We will again monitor the Council's participation in the exercise. Corporate preparations for the new exercise have been full and efficient, and the data planned to be submitted is in place.

4.7 Audit Sub-Committee

4.7.1 The Audit Sub-Committee usually meets three times in the financial year, in June, October and March. Due to difficulties with scheduling meetings, in 2007/08 the Audit Sub-Committee met twice, in September and December. Although this delayed the Sub-committee's review of the 2008/09 Internal Audit Plan, this has not affected the work undertaken.

4.7.2 From our attendance at the Sub-Committee meetings, we noted a good level of scrutiny and debate.

Performance

5.1 Performance Management and Reporting

Excelsis Performance Management System

5.1.1 The Excelsis performance management system has now been rolled out to all Council departments for use in service planning and updating risk registers. Information from Excelsis is also used in reporting to officer and member groups and committees and to the Angus Community Planning Partnership (ACPP).

5.1.2 As previously noted at paragraph 4.2.3, the Council has still to finalise the Performance Management Framework and its implementation throughout the Council. Plans are in place to complete this during 2008/09. It is too early for us to comment on the impact of the use of Excelsis in affecting performance management.

Public Performance Reporting

5.1.3 For 2007/08 every department has produced an annual report following a standard format. These have been reported to committee and made available on the Council's website.

5.1.4 The Council publishes *"Putting You First"*, an annual review of performance against the five key objectives set out in the Corporate Plan. This document measures key performance indicators, clearly indicating improvements and drops in performance. A customer feedback survey is included in the document, which can be completed online, by phone or by post.

5.1.5 The Council's *"Annual Report and Accounts"* publishing and commenting on the financial outturn for the year includes the Council's Statutory Performance Indicators (SPIs).

5.1.6 The Council continuously reviews its arrangements for public performance reporting.

5.2 Single Outcome Agreement

5.2.1 In 2007 national and local government leaders signed a concordat which required each local authority to produce a Single Outcome Agreement (SOA) detailing how it would contribute to national outcomes whilst meeting its own local priorities. In return the Scottish Government pledged to allow councils greater freedom, for example, by removing ring-fencing of funds.

5.2.2 Members agreed a draft Council-only SOA in March 2008, but following workshops and intensive discussions with community partners a wider SOA was signed by John Swinney and the Leader of the Council in July 2008. Only activities for which resources have been made available by partners are included in the current SOA.

5.2.3 Work is underway within the Council and the ACPP to develop a governance framework and performance management arrangements which will be crucial to the delivery and monitoring of the SOA.

5.3 Risk Management

5.3.1 Corporate and service risk registers are in place, together with Management Action Plans (MAPs); both now form part of the Excelsis performance management system, which facilitates monitoring of responsibilities and actions with regard to individual risks. The Council has recognised the need for improvements in risk management in their review of corporate governance.

5.3 Risk Management (Cont'd)

5.3.2 The corporate Risk Management Strategy is in the process of being updated. A revised draft strategy has been prepared and is currently being considered at an officer level**.**

5.3.3 We are in the final stages of completing a review of Risk Management. A draft report should be issued before the end of October.

5.4 Efficient Government

Background

5.4.1 The Scottish Government issued a paper on Efficient Government Reporting *"Framework for Local Authorities in Scotland"* in 2007 which introduced arrangements for reporting on efficiency savings. Efficiency Statements are compulsory from 2007/08.

Efficiency Statement

5.4.2 The Council's 2007/08 Efficiency Statement was submitted to the Scottish Government by the suggested date of August 2008. Planning for producing the 2008/09 statement is already well underway. The Council is following COSLA guidance to ensure service standards are not being adversely impacted.

5.4.3 The Council delivered cashable efficiency savings of £1.199 million in 2007/08, slightly above the notional target of £1.197 million. For the three year period 2005-2008 the Council exceeded its cashable efficiency target of £3.604 million by £0.403 million (11%). The main efficiency savings in 2007/08 were from asset management (£0.374 million) and workforce planning (£0.284 million).

5.4.4 For the three year period 2008-2011, a cashable efficiency target of £174.700 million per annum has been set for local government as a whole. Targets have not been set for individual councils. The Council aims to deliver savings of £1 million to £1.25 million per annum and has in place a planned approach to delivering efficiency savings via Best Value reviews and departmental savings identified as part of the annual revenue budget-setting process.

Shared Services

5.4.5 The Council's Social Work and Health Service shares premises with Angus Community Health Partnership, and Tayside Police and Council staff share premises at a number of locations across Angus.

5.4.6 The Council is a member of the Tayside Procurement Consortium (TPC) together with Dundee City and Perth & Kinross Councils. Further efficiencies are anticipated in 2008/09 from collaborative buying through TPC, Scotland Excel and the implementation of the PECOS e-procurement system.

5.4.7 In March 2008 the Council approved membership of Scotland Excel for three years from 1 April 2008. PECOS has been implemented in three departments at 31 March 2008 and will continue to be rolled out across the Council during 2008/09 and 2009/10.

5.4.8 The Council continues to progress the shared services agenda as part of its work with Tayside Contracts and has recently begun using the national local government recruitment portal.

5.5 Best Value Audit

5.5.1 The Accounts Commission and Audit Scotland are currently reviewing the Best Value audit approach. Information about the "BV 2" process is expected soon, and will be discussed with Council officers once it is available.

5.5.2 We have undertaken transitional Best Value work as part of the 2007/08 audit. Fieldwork is underway and reporting is planned for November 2008. The report will include comment on the implementation of the Best Value Improvement Plan (BVIP) from 2004. As reported to the Strategic Policy Committee in September 2008, the BVIP is now regarded as discharged, with the three remaining partially implemented actions incorporated within the Chief Executive's Department Service Plan.

5.5.3 It is likely that the Council will feature early in the BV 2 reviews, given that it was the first council to be reviewed in the current programme. Recommendations in our transitional report will be designed to help the Council prepare for this review.

5.6 Statutory Performance Indicators (SPIs)

2007/08 Return

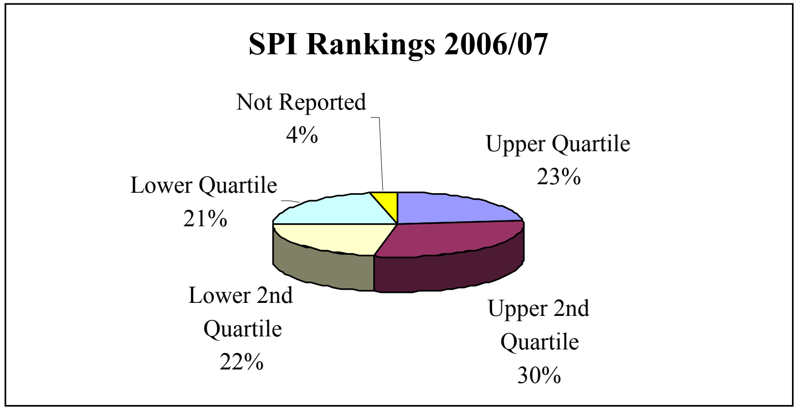
5.6.1 The 2007/08 return to Audit Scotland for Council SPIs was made by the 31 August 2008 deadline and publication was made by the 30 September deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all of the indicators reported, with the exception of the Teachers' element of Corporate Management 1: Sickness Absence, (see 5.6.9). For some indicators we placed reliance on work performed by Internal Audit.

5.6.2 Reporting for one Social Work indicator was subject to the collation of a wider range of data for reporting to the Scottish Government to meet other requirements. However, these requirements were withdrawn after the Direction was given by the Accounts Commission. Local authorities not in a position to provide information, without undue resources, were advised by Audit Scotland to state that they were 'unable to report'. In line with this advice, the Council carried out an exercise to identify the resources required to collate this data. Based on this analysis the decision was taken not to collect the data given the disproportionate level of resources required.

5.6 Statutory Performance Indicators (SPIs) (Cont'd)

Performance

5.6.3 The SPIs cover a wide variety of council functions and it can be difficult to make comparisons between councils and between the same council's performance across years. Nevertheless, there are some comments which can be made based on the Council's results for 2007/08 and the latest available published cross-council figures for 2006/07. In paragraphs 5.6.4 to 5.6.10 we have concentrated on the areas of relative strengths and weaknesses in performance, but to set these in context, overall 2006/07 performance in relation to other councils was as follows:



There are 32 councils, so if a ranking is within the range 1 to 8, the council is in the upper quartile, and so on. Rankings are available for 82 measures, and the chart shows that Angus Council was in the two upper quartiles for 43 of these, with 3 measures being not reported or unreliable, leaving 35 within the lower two quartiles.

5.6.4 *Cultural and Community Services 6: Use of learning centre terminals.* In 2007/08 there were 16,142 registered users, which is 14.7% of the population, a significant increase over 7.9% in 2003/04. Terminals were accessed on 83,608 occasions, which is 761 times per thousand population; although this is an increase from the 2003/04 figure of 598, it represents a decrease from the 2005/06 high of 860. The Council remains above average in Scotland for the number of users and number of times that terminals are accessed, which is relatively unusual for a predominantly rural area. This appears to be due to a high usage by seasonal agricultural workers.

5.6.5 *Corporate Management 4: Access to Council buildings by the disabled.* The Council ranked 4th in Scotland in 2004/05, the first year of this indicator, and 3rd in 2005/06 and 2006/07. The percentage of buildings accessible to the disabled has increased consistently over these years and also in 2007/08, when out of the 99 buildings from which services are delivered to the public, 82, or 82.8% were accessible. The Council began a programme of work as soon as the Disability Discrimination Act came into operation, and money continues to be spent every year on adaptations and improvements. The Council also has a high score in the percentage of operational accommodation that is in satisfactory condition and suitable for its current use.

5.6.6 *Corporate Management 6: Council Tax Income*
The Council was one of the highest performing councils in Scotland in 2006/07, collecting 96.4% of the income due during the financial year. This is above the average for rural councils, and represents an improvement over previous years. In 2007/08 the Council showed a further improvement, collecting 96.6% of income during the financial year.

5.6 Statutory Performance Indicators (SPIs) (Cont'd)

5.6.7 *Adult Social Work Indicator 4: Home Care.*
Figures are based on the same snapshot week for all councils and as a result figures fluctuate year on year reflecting, for example, hospital admissions and staff capacity. This indicator measures four items. In 2007/08 1,611 people in Angus received home care, following a continuing decline from 1,771 in 2004/05. 5,347 hours were provided in that week, which equates to 258 hours per thousand population over 65, and is a decline, although not a consistent decline, from 2004/05 when 275 hours were provided. Other measures relate to the type of service provided. In all the home care measures the Council shows in the lowest quartile of councils, and for the total hours provided it is 31st out of 32 councils. In 2006/07 the Council's ranking with regard to other councils had worsened for all bar one of the measures since 2003/04.

5.6.8 It should be noted however that the delivery of home care varies significantly across local authorities and not all activity which impacts to help people stay in their own homes is measured by the indicator. Angus Council data does not reflect, for example, the provision of meals and laundry services as these do not meet the criteria for the number of home care hours as defined for this indicator. The 2007 Social Work Inspectorate multi-agency inspection report for Tayside, whilst recognising that more work was needed (and planned) to be undertaken on the balance of care in relation to care homes and care at home in Angus, concluded on the services provided in the Angus area that *" The Angus partnership delivered good outcomes for older people. … … Most health, social work and social care frontline staff were committed to working together to ensure that … … people could live as independently as possible"*

5.6.9 *Corporate Management 1: Sickness Absence*
This is recorded for three major groups: teachers, Local Government Employees (LGE) and chief officials, and craft workers. Numbers for craft workers are so low in Angus as to make any comparison meaningless. With regard to teachers, the percentage of days lost compared to total available days was 4.7% in 2007/08, up from 3.6% in 2003/04, showing a consistent deterioration over that time. The Council's position relative to other councils has moved from high in the upper 2nd quartile in 2003/04 to the bottom of the lower 2nd quartile in 2006/07. For LGE and chief officials the percentage of time lost has gone from 3.9% in 2003/04 to 5.5% in 2007/08. However, despite this, this group has remained in the upper quartile.

5.6.10 As a result of the 2006/07 deterioration the Council took steps to improve performance by introducing return to work interviews and emphasising the need to fully implement already approved practices. The Council has further reviewed the available data and identified an error in the calculation of the teachers' sickness absence indicator. Further work is ongoing, but it is anticipated the corrected figures will show improvement on those currently reported, and as a result Audit Scotland has been asked to re-classify this indicator as unreliable for 2007/08.

5.6 Statistical Performance Indicators (SPIs) (Cont'd)

5.6.11 The remaining paragraphs in this section highlight indicators which, although not areas of high or low performance, are areas in which there is particular interest.

5.6.12 *Housing 1: Response Repairs*
Councils divide these into their own categories by the type of priority given, and the Council has identified six categories, recording the numbers completed within the target time. The percentage of all repairs completed within the target time improved between 2004/05 and 2007/08, from 92.6% in 2004/05, to 96.4% in 2007/08. Within that the three more urgent ones all improved, whereas the less urgent ones declined.

5.6.13 Benefits Administration 2: Processing Times
This relates to the average time to process new claims and also changes of circumstances. The time has fallen for both these measures, from 53 days in 2005/06 to 26 days in 2007/08 for new claims, and from 15.6 days to 10.9 days for change of circumstances. Comparisons are only available for new claims, and here the Council moved from 30th in 2003/04 to 16th in 2006/07.

5.6.14 *Corporate Management 7: Payment of Invoices*
This indicator relates to the number of invoices paid within 30 days of receipt. In 2006/07 the Council ranked in the lower 2nd quartile. The percentage paid within 30 days fell from 81.8% in 2006/07 to 80.6% in 2007/08. In the current economic climate the Council is intending to re-examine this area and improve their response.

5.6.15 *Housing 4: Rent Management*
This indicator looks at tenant arrears. In 2007/08, current tenants owed over £1million, which is 13.6% of the total amount due in the year. This has increased year on year for a number years, and is well above the Scottish average for 2006/07. In contrast, the number of tenants giving up their tenancies who were in arrears dropped sharply from 47.4% in 2006/07 to 29.0% in 2007/08 as a result of a more intensive approach by the Council to managing tenancy ends. However, the average amount owed increased, from 10.3 weeks equivalent in 2006/07 to 11.7 in 2007/08.

5.7 Asset Management

5.7.1 We reviewed Corporate Asset Management during 2007/08 and concluded that the Council has made good progress in a number of areas particularly in corporate property management. It has recently updated its Corporate Property Asset Management Plan, which now includes structural change aimed at improving asset management at a strategic level. It also records and uses detailed information about its properties and IT assets.

5.7.2 The Council acknowledges that there are areas where further improvement can be made, such as a reconciliation of the Fixed Asset Register with the other databases and introduction of a formal impairment review as part of the year-end process.

5.7.3 Roads Division is progressing asset management via SCOTS (the Society of Chief Officers of Transportation in Scotland), and has made some progress in data collection.

5.7.4 The main finding of our review relates to the need to continue to improve the linkage between asset management plans and the overall budgeting and planning processes. This work will build on the review of the affordability of the General Fund Financial Plan carried out as part of the 2007/08 budget process and updated for the 2008/09 budget.

5.7.5 Full details can be found in our report 2008/02, *"Corporate Asset Management",* issued on 11 July 2008.

5.8 Improving the School Estate

5.8.1 In March 2008 Audit Scotland published the national report *'Improving the School Estate'*. This considered the impact, at both local authority and Scottish Government level, of the Scottish Executive's strategy to improve the condition of the school estate.

5.8.2 The main findings were that by 2007 36% of Scottish schools remained in poor condition, and that it could take another 20 years to bring all up to standard. Many schools have been improved via Public-Private Partnership (PPP) schemes, and councils must ensure that they can fund them long term, but not at the expense of the maintenance of other schools. Better design is needed for new schools to improve environmental conditions (especially overheating), and sustainability should be built in as a matter of course. Long term demand planning varies considerably between councils, but should operate for at least ten years ahead to inform decisions on school property. Joint working between councils could be improved.

5.8.3 Angus Council is currently involved in a PPP scheme to build new community schools in the Forfar and Carnoustie areas. The Council has identified the projected costs over the 30 year contract term and has identified in detail the means of funding these costs. The Council intends to keep the position under review so that the project continues to be affordable. The Council's assessment of school rolls over the 30 year contract life, which was undertaken as part of the Accounting Treatment review of the project, indicates strong demand for the new schools but this is also something which will require regular review to ensure the new schools remain fit for purpose and meet future as well as current community needs.

5.8 Improving the School Estate (cont'd)

5.8.4 The Council believes that its funding strategy for the PPP schools will not impinge on the funds available for maintenance and investment in other schools, which will continue to be allocated funding taking account of the priorities identified in the Education Asset Management Plan and the Council's overall resource constraints. Investment in the school estate as a whole continues to be a high priority for the Council.

5.9 The Impact of the Race Equality Duty on Council Services

5.9.1 In November 2008, Audit Scotland will publish a national report about the impact of the race equality duty. The report will:

- Examine the impact of the duty on council services and people from minority ethnic communities;
- Consider the main factors that affect the performance of councils on race equality;
- Set out how councils can now improve their performance; and
- Make recommendations to councils as well as to national bodies that are active in the equalities field and have a role to play in supporting councils meet their race equality responsibilities.

5.9.2 Following publication, Audit Scotland will track councils' progress in addressing the recommendations.

Appendix I - Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

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

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

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

The Council and the Head of Finance's responsibilities for the Financial Statements are set out on page 11 of the Financial Statements. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

We are required to review whether the Council's Statement on the System of Internal Financial Control reflects the Council's and the group's compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Council's and group's corporate governance procedures or its risk and control procedures.

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at October 2008
3.5.4 to 3.5.10	**Financial Performance** ***Significant trading operations (STO)*** **Recommendation 1** The management arrangements for the Waste and Cleaning Operations STO should be reviewed to identify, and then implement, the measures necessary to improve the Operations' financial management and reporting.	Recommendation agreed and action is underway to address this	Yes	Directors of Corporate Services, Infrastructure Services and Neighbourhood Services. Head of Finance to lead.	January 2008	This area has received specific focussed attention during the 2007/08 and 2008/09 budget rounds to ensure that the budget was robust and reasonable given the scale of operations. Issues around financial management have also been addressed in preparing the Service Level Agreement for Waste & Cleaning Operations (see recommendation 2 below). In year budget monitoring is also specifically targeting this trading account and those areas such as fuel costs which have given rise to concerns in the past. The Waste Management Best Value Review (see recommendation 3 below) is likely to make recommendations to strengthen arrangements still further. **Completed**

Appendix II - Follow-up Action Plan for 2006/07

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at October 2008
3.5.4 to 3.5.10	**Recommendation 2** A revision of the contractual position and contract specification between the Waste and Cleaning Operations STO and the Service department should be undertaken without delay to ensure the contractual and pricing arrangements reflect the service specification being asked for and delivered.	This is to be looked at in terms of the immediate position but thereafter will be updated based on the outcome from the Best Value review (see recommendation 3 below)	Yes	As above.	January 2008	Revised Service Level Agreement covering all aspects of the Waste and Cleaning STO was signed in September 2008 but covers the period 1 April 2007 to 31 March 2010. A more detailed review of the necessity for these functions to operate as an STO has also been undertaken as part of the Waste Management Best Value Review (Phase 1). **Completed**
3.5.4 to 3.5.10	**Recommendation 3** The Best Value review of the Waste and Cleaning Operations STO as part of the Phase 2 management restructuring exercise should be completed as early as possible and that the outcome of the review should feed into service and operational planning for both the Waste and Cleaning Operations STO and its client service department.	This is to be progressed on a priority basis	Yes	As above.	June 2008	Waste Management is a significant element of Council business and the Best Value Review has accordingly been broken into 2 phases. Phase 1 was undertaken between June and October 2008 and a formal report will be issued shortly. Phase 2 of the review is now underway with a target date for completion by April 2009. **Phase 1 Completed, Phase 2 Underway**