SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Scottish Borders Council

Annual Audit Report to Scottish Borders Council and the Controller of Audit 2005/06

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1 Summary

Governance

- Scottish Borders Council's audit committee has had a positive impact on the Council's overall corporate governance framework. The Council's audit committee arrangements are in line with best practice as set out in CIPFA's position statement.
- During 2005/06 the Council has made considerable progress towards the development of a robust risk management strategy and has developed clear structures and processes which should support the successful implementation of its risk management framework.
- Audit work has confirmed that controls operating during 2005/06 within Scottish Borders Council were generally adequate to prevent and detect fraud and other irregularities

Performance

- Adequate arrangements are in place at Scottish Borders Council to ensure that published statutory performance indicators are accurate and complete.
- The Council is currently working on a number of specific key projects which have the potential to significantly impact on services and financial governance within the authority. These include the Waverley Railway Project, 3 High School PPP Project, Galashiels Development Project and the Primary School Project.
- A Best Value Audit is currently being undertaken at Scottish Borders Council. This audit is being led by a team of specialist staff from Audit Scotland together with a member of our Business Improvement Consultancy Team. Audit Scotland estimates that the findings from this review will be published in late 2006/early 2007.
- The Efficient Government agenda required councils to establish targets for both cash releasing and time releasing savings. Whilst Scottish Borders Council has identified a number of initiatives which may deliver efficiencies it has not identified how it intends to deliver the level of efficiency savings anticipated by the Scottish Executive targets.

Finance

- We are pleased to report that in 2005/06 the Council complied with The Code of Practice on Local Authority Accounting in Great Britain in all material aspects. Overall we believe that significant progress has been made over the course of our appointment in financial reporting and financial management at Scottish Borders Council.
- The Authority achieved a general fund deficit of £3.155 million in 2005/06 compared with a budgeted deficit of £3.290 million. A contributing factor to this deficit is a provision

made for equal pay claims. In 2005/06 this provision amounted to £4.6 million.

- The Council has an available non-earmarked general fund balance of £5.706 million at 31 March 2006. This equates to 2.5% of 2005/06 budgeted expenditure which is at the lower end of the Council's approved levels of 2-4%.
- The Council's final capital outturn showed an overall variance against the capital budget of £0.437million. Over 40% of the budget was spent in the last two months of the year. Over the next few years the Council has committed to delivering a number of large capital projects. The Council will need to continue to improve its project management arrangements if it is to deliver these ambitious plans.
- The Council's Roads significant trading operation is in its third year of operation and has delivered a surplus of £0.482 million in 2005/06 which has resulted in the STO achieving a cumulative surplus of £1.017million as at 31 March 2006. As a result, the service has met the statutory target to breakeven over the course of the three year period to 31 March 2006
- The Council has prepared group accounts for 2005/06. The Council's interests in the Lothian and Borders Fire and Rescue Board and Police Board have not been included within the group accounts. The Council do not consider that they have the ability to exercise significant influence over these Boards without the support of other participants. Based on representations and evidence from the Council we have accepted the exclusion of the Council's interests in these entities from the group accounts.
- In overall terms we found the Council's accounting systems and internal financial controls to be operating effectively.

Conclusion

This report concludes the 2005/06 audit of Scottish Borders Council. We have performed our audit in accordance with the Code of Audit Practice and Statement of Responsibilities published by Audit Scotland. Subject to the weaknesses identified in this report, we are satisfied that Scottish Borders Council has properly discharged its duties in accordance with the Statement of Responsibilities.

This report has been discussed and agreed with the Chief Executive and Director of Corporate Resources and has been prepared for the sole use Scottish Borders Council, the Controller of Audit and Audit Scotland.

We would like to thank all members of Scottish Borders Council management, staff and members who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff
September 2006

2 Introduction

2.1 Audit Framework

The Accounts Commission for Scotland is a statutory independent body which, through the audit process, promotes the highest standards of financial stewardship and public accountability in local authorities and assists them in achieving value for money. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end. The Accounts Commission has appointed Scott-Moncrieff as auditors of Scottish Borders Council for the 5 year period 2001/02 to 2005/06.

2.2 Responsibilities of Scottish Borders Council

The Council is accountable to the public for the conduct of public business and the stewardship of funds under its control. The Council is therefore responsible for:

- Establishing proper corporate governance arrangements
- Maintaining proper accounting records
- Preparing the financial statements
- Safeguarding assets
- Taking reasonable steps for the prevention and detection of fraud and other irregularities
- Managing its affairs to secure the economic, efficient and effective use of resources
- Publishing statutory performance indicators
- Making arrangements to secure best value

2.3 Responsibilities of Auditors

Our responsibilities as external auditors to the Council, which are significantly greater than those of auditors in the private sector, are derived from statute (principally the Local Government (Scotland) Act 1973) and from the Code of Audit Practice.

Our work can be classified under the following three headings: performance audit, governance audit and financial audit. The main objective for each of these areas is summarised below.

Audit Area	Audit Objective
Governance Audit	To review and report on the Council's corporate governance arrangements in relation to: • The prevention and detection of fraud and corruption • Standards of conduct, accountability and openness • The Council's financial position • The Council's review of its systems of internal financial control, including risk management
Performance Audit	To review and report on the Council's arrangements for: • Managing its performance and for securing economy, efficiency and effectiveness in its use of resources • Collecting, recording and publishing performance information
Financial Audit	To provide an opinion on the financial statements and any related grant claims.

2.4 Audit Reporting

We have prepared the following detailed audit reports during 2005/06:

- Corporate Governance Arrangements
- Transitional Best Value Follow Up Report
- Interim Management Report – financial statements and accounting systems
- Efficient Government

This annual report summarises all of our work during the year and highlights the key issues we have identified under the headings of governance, performance and finance. The action plan in section 6 details the significant recommendations we have made with regard to the findings in this report, along with management's responses.

3 Governance

3.1 Governance Arrangements

The Code of Audit Practice gives the external auditor a responsibility to review and, where appropriate, report findings on the audited body's corporate governance arrangements. In discharging this responsibility we carried out a review of the Council's governance arrangements during 2005/06. This review included consideration of the Council’s codes of conduct, procedures for the prevention and detection of fraud and irregularity and risk management arrangements. Our work in this area concluded that whilst the Council’s corporate governance arrangements are generally robust there are a number of areas with scope for improvement which, if addressed, would bring the Council’s corporate governance regime in line with best practice. These issues were brought to the attention of Council officials and elected members through the issue of our interim management report on corporate governance arrangements. The report contained an agreed action plan which committed the Council to addressing each audit issue within an agreed timescale. The key findings from this work are outlined below.

3.1.1 Audit Committee Principles

We assessed the effectiveness of the audit committee arrangements in place within the Council. We concluded that Scottish Borders Council’s audit committee was largely able to deliver the audit committee principles set out in the CIPFA publication ‘Audit Committee Principles in Local authorities in Scotland – A Guidance Note’ and has had a positive impact on the Council’s overall corporate governance framework.

We also reviewed the Council’s arrangements against the recent position statement on audit committees in local government and associated guidance which reflects the views of CIPFA’s Audit Panel on the role of audit committees.

We concluded that the Council’s arrangements are in line with best practice as set out in CIPFA’s position statement. We recommended that the Council’s audit committee undertook a regular assessment of its performance using the criteria in the CIPFA documents to ensure it continued to deliver best practice audit committee principles. We are pleased to note that since our audit two workshops have been held with the audit committee to consider their effectiveness.

Overall, we consider the Council’s audit committee arrangements to be an example of good practice for Scottish local authorities.

3.1.2 Freedom of Information (Scotland) Act 2002

The Freedom of Information (Scotland) Act 2002 came into effect on 1 January 2005. The Act introduced a general statutory right of access to all types of 'recorded' information held by Scottish public authorities. Subject to certain conditions and exemptions, any individual who makes a request to the Council for information will be entitled to receive it. The Council is required to respond to requests for information within 20 days. A person who has made a request for information may apply to the Scottish Information Commissioner for a decision as to whether the Council has dealt with the request in accordance with the Act.

As part of our 2005/06 corporate governance review we reviewed the Council's arrangements for processing freedom of information requests. A number of recommendations were made and reported in our interim report on corporate governance. These included the need to:

- Ensure that procedure notes were updated to specifically require staff to notify the Access to Information Officer of all requests for information.
- Ensure adequate arrangements are established to ensure requests for information are logged and responses issued in the absence of the Access to Information Officer.

An action plan was agreed with the Council to address these weaknesses.

3.2 System of Internal Financial Control

Local authorities are required to include within their statement of accounts a statement on the system of internal financial control. This statement sets out the framework within which financial control is managed and reviewed and the main components of the system including the arrangements for internal audit.

In previous years we have assessed the Council's compliance against this framework. As part of our 2005/06 audit we updated our assessment and followed up recommendations made in previous years. Our review concluded that the system in place at Scottish Borders Council is generally robust. However we did identify the following issues where scope for further development exists:

- The Council requires to update its Financial Regulations and to incorporate the Capital Financial Plan Monitoring Code of Practice into these regulations. We understand that the Council is currently taking this recommendation forward and draft Financial Regulations have been circulated for consultation. ***Recommendation 1***

- A series of manuals, procedural instructions and guidance notes are available to instruct staff on operating procedures of the Council's key financial systems. In previous years we recommended that the Council review and update this material. Limited progress has been made in updating these guidance notes during 2005/06. As identified in our

Corporate Governance report, the Council has committed to progressing with this recommendation by 30 September 2006. ***Recommendation 2***

Both of these issues have been highlighted in the statement of internal financial control.

3.2.1 The Statement of Internal Financial Control

The 2005/06 statement of internal financial control has been informed primarily by the work of internal and external audit, and assurance statements and representations from Directors and Heads of Service at Scottish Borders Council.

The Director of Corporate Resources has concluded that the Council's system of internal financial control was largely effective. The statement identifies certain areas where internal financial control can be improved and provides assurance that appropriate plans are in place to address these issues.

As part of our audit work we are required to review the statement on the system of internal financial control and assess whether it is consistent with our understanding of the Council's internal financial control framework. We have reviewed the sources of assurance provided to the Council's Director of Corporate Resources in making his assessment.

In considering the work of internal audit during 2005/06, we noted that a total of eighteen "Priority 1" internal financial control recommendations were identified. Priority 1 issues are described as "recommendations relating to significant weakness in a fundamental system of internal financial control, likely to give rise to a significant loss or error and requiring immediate action". A progress report presented to the Audit Committee in March 2006 noted that all of these recommendations had either been fully implemented or are in the course of being implemented.

The statement on the system of internal financial control requires the disclosure of a concise explanation of any identified significant weaknesses in the system of internal financial control together with the actions undertaken or planned to address these. In 2005/06, our review has led us to conclude that the statement is generally representative of the internal financial control environment operating within Scottish Borders Council. At the time of our initial review of the statement, however, we considered that more specific disclosure, to supplement the current content, would assist potential readers of the financial statements in understanding the financial control environment that has existed within the Council over the 2005/06 period. Following further discussion with the Council we are pleased to report that the statement on the system of internal financial control has been updated.

3.3 Codes of Conduct

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. In 2005/06, our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We have also placed reliance on the work of internal audit in relation to registers of members and officers interests. Overall we concluded that controls at Scottish Borders Council are satisfactory in relation to standards of conduct.

3.4 Fraud and Irregularity

The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

As part of our 2005/06 corporate governance review we reviewed the controls for the prevention and detection of fraud, irregularity and corruption. Our review concluded that controls at Scottish Borders Council were generally satisfactory to prevent and detect fraud and other irregularities. However we did identify one area for improvement. Whilst a training programme is available to support staff involved in the investigation of housing and council tax benefit fraud no similar training has been provided to staff responsible for the investigation of fraudulent activity associated with other aspects of the Council's business. The Council have agreed to identify the relevant staff and develop a training programme to ensure that where instances of potential fraud, theft or corruption are reported these are dealt with consistently.

3.5 Risk Management

An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation.

The results of our work in 2005/06 were reported in our interim management report on corporate governance. Overall we concluded that the Council has made considerable progress in developing a robust risk management strategy and has developed clear structures and processes which should support the successful implementation of its risk management framework. Our work identified a number of areas which, if addressed, would in our view further strengthen the Council's position in this area:

- The Council has identified risk management as a core management competency which senior/middle management are expected to possess or develop. The Council has still to develop a formal training programme which will support managers in developing/maintaining the required level of competency.

- The Council's risk management strategy is effective in communicating the high level roles and responsibilities for the implementation and ongoing delivery of the Council's risk management system. However this could be enhanced through the introduction of risk management responsibilities into the job descriptions for operational managers and above. This will assist in ensuring all key staff are sufficiently clear regarding their specific risk management roles and responsibilities.

- The Council has still to develop a clear relationship between its business planning and risk management arrangements. Currently it is unclear how the information derived from the Council's risk management activity is used to inform the preparation of corporate plan and business plans.

An action plan was agreed to address these issues and strengthen the risk management arrangements further during 2006/07.

3.6 Internal Audit

During the course of our audit we carry out an assessment of the internal audit function to assess its effectiveness and ascertain whether specific areas of internal audit work can be relied upon to inform the external audit of the Council's financial statements.

Our review concluded that the Council maintains an effective internal audit function and that we were able to rely on the work of internal audit during 2005/06 in a number of areas. Areas with scope for improvement were identified and included within our interim management report on corporate governance. These included:

- The need to integrate internal audit work plans with the Council's risk management system. This will enable internal audit to direct its work to high risk areas identified by the Council.
- Minor improvements to the documentation and procedures followed in undertaking individual audit assignments
- The requirement to update the section's defined standards and procedures as set out in the Council's internal audit manual to reflect the requirements of the CIPFA Local Government Internal Audit Manual.

An action plan was agreed with the Chief Internal Auditor to address the recommendations made. We understand that these actions have now either been fully implemented or are close to completion.

4 Performance

4.1 Statutory Performance Indicators

The Local Government Act 1992 set out the requirement for councils to prepare and publish performance indicators. In meeting this duty, Scottish Borders Council must ensure that it:

- establishes systems and procedures to ensure that the required information is gathered;
- undertakes checks to ensure that, as far as practicable, the information gathered for publication is accurate and complete;
- arranges to keep all working papers and any other sources which may be examined by appointed auditors, and is able to make these available on request; and
- maintains a publicly available record of the reported information.

As external auditors we have a statutory duty to ensure that the Council has made such arrangements for collecting, recording and publishing performance data as required to ensure as far as practicable that published information is accurate and complete. We can confirm that adequate arrangements have been put in place in 2005/06 to ensure that published information is accurate and complete.

Over the past 3 years we have reported that supporting documentation was not readily available to us at the commencement of the audit. This was again an issue for us during our 2005/06 audit resulting in unnecessary delays in completing our audit work. The Authority must ensure that steps are taken to put in place effective procedures to ensure that supporting documentation is available when the Statutory Performance Indicators are made available for audit.

Since 2003/04 we have also reported that the Council, has ‘Failed to Report’ on Benefits Administration SPI 3b) Accuracy and Security of Processing – percentage of recoverable overpayments owing to systems constraints. The Council believed that the definition used was inappropriate and, in common with other authorities, concluded that reporting this indicator would provide little benefit. As a consequence of representations made by Councils, the definition of this indicator was updated in 2005/06. We are pleased to report that in 2005/06 the Council has successfully reported on this indicator and a review by the Council’s Internal Audit team found the 2005/06 statistics to be reasonable.

From our review we also noted three indicators which have changed significantly during 2005/06. The indicators and an explanation of the movements are noted below:

- Benefits Administration SPI 2 – Processing Time for Change in Circumstances. This indicator has significantly increased from 9.1.days in 2004/05 to 17.2 days to process in

2005/06 Changes to the revenues and benefits system and the definition of what is considered to be a change in circumstance have resulted in this increased processing time. The Government has however set top quartile targets for this indicator of 9 days. Whilst the targets do not represent a fixed statutory standard for all authorities to meet, they are intended as a guide to the performance levels they would hope councils to achieve and exceed.

We understand that since the 2005/06 results have been reported, the Council has taken action to improve performance in this area and as at 30 June 2006 the processing time has reduced to 11.9 days. We would encourage the Council to continue identifying steps to improve performance in this area. ***Recommendation 3***

- Waste Management SPI 1 – Cost of Refuse Collection. The Council has reported a 16.7% increase in its net cost of refuse collection. The increase from £2,822,915 (2004/05) to £3,293,462 (2005/06) is owing to the additional costs incurred during the kerbside collection service implementation. Refuse collection complaints have also increased from 322 in 2004/05 to 1690 in 2005/06 which is considered to be due to the new kerbside collections and the establishment of a new call centre to handle enquiries - The Recycling Helpline launched in May 2005. Various issues arose during the launch of kerbside collection presenting a variety of complaints. The change of waste collection days from one per week to three per week and the wrong waste being placed in the new recycling bags which resulted in missed collections has been the main factor in this increase in the number of complaints.

- Homelessness SPI 6 – the number of households assessed as homeless or potentially homeless during the year has risen from 480 in 2004/05 to 560 households in 2005/06, an overall reported increase of 17%. We recognise that as a result of recent government initiatives to improve the rights of homeless people to provide them with greater access to services that this may have impacted on the increased level of recorded homelessness applications. Nevertheless this increase in recording is of concern given that in 2004 the Housing Minister announced initiatives to increase the level of affordable housing available to reduce the level of homelessness within Scotland. To enable the Council to meet these targets a Homelessness Improvement Group was established. Membership of this Group consisted of the Council, NHS Borders and the four Chief Executive Officers of the local Registered Social Landlords. The Council indicated during our fieldwork that it does not expect to be able to meet the homelessness targets set by the Executive. The expected failure to meet these targets is attributed to a lack of affordable housing being available within the Borders region. Steps therefore need to be taken to address the Council's inability to meet the Executive's target. ***Recommendation 4***

4.2 Priorities & Risks

Against the backdrop of Best Value, the Efficient Government Agenda and joint working initiatives Audit Scotland developed the Priorities and Risks Framework (PRF) for local authority auditors. This tool enables auditors to gain a better understanding of the business priorities and risks facing the organisations they are auditing. This in turn assists auditors in identifying and assessing audit risk and in deciding where to target audit resources.

In undertaking the PRF work at Scottish Borders Council we met with relevant officers across departments within the Council. A number of the key findings were expanded upon in our Best Value Transitional report (October 2005). In particular our report highlighted the need for the Council to further develop its target setting and performance monitoring arrangements.

The Council consider they have made significant progress in this area since the Best Value Transitional audit. In particular, in February 2006, the Council's Corporate Plan and Corporate Improvement Plan were approved. These plans include a set of key actions and key performance indicators. The 2006/07 Business plans have been prepared in such a way to demonstrate clear links with the Corporate Plan and Corporate Improvement Plan. A performance monitoring framework has also been agreed by the Executive. Under this framework there is quarterly monitoring to the Performance Monitoring Panel on progress against the Corporate Plan and Corporate Improvement Plan. Regular monitoring is also undertaken by the Corporate Management Team and Departmental Management Teams. The Council has also implemented a performance management system "Covalent" which contains all actions from the Corporate Plan, Corporate Improvement Plan and Business Plans.

These developments will be considered in more detail as part of the Best Value Audit (see paragraph 4.3).

In addition to the national priorities and risks identified with the PRF tool the Council has a number of specific key projects which have the potential to significantly impact on services and financial governance within the authority. These are highlighted below.

4.2.1 Waverley Railway Project

The Waverley railway project is a tripartite project between Scottish Borders Council, Midlothian Council, and City of Edinburgh Council. The project aims to re-establish a passenger rail link between Edinburgh and the Scottish Borders. The project baseline has been revised during the year with construction due to start in winter 2008 and the line becoming operational during 2011. The project received Royal Assent in July 2006 which was ahead of programme.

At present, the authorities are in discussion with the Scottish Executive over the procurement approach. Options currently being appraised are:-

- Network Rail/sponsor procured Design and Build
- Sponsor procured Design, Build, Finance and Transfer
- Sponsor procured Design, Build, Finance and Maintain.

Financial Consultants have produced a report and discussions are continuing with the Scottish Executive regarding the procurement options. A Strategic Board constitution was approved in April 2006 and replaces the Waverley Railway Joint Committee. This realignment was felt to be necessary to meet the aims and achievements of the next stage of the project in relation to procurement and delivery.

The majority of the funding for the project is to be provided by the Scottish Executive but contributions have been secured from Scottish Enterprise Borders, housing developers and City Growth Fund.

The total estimated capital cost of the project was £129.6 million in 2002. Adjusted for variations to the project and the effects of inflation, the equivalent cost in 2011 prices is approximately £174 million, of which around 85% will be funded by the Scottish Executive. The total estimated value of benefit to the areas served by the railway has been assessed at over £500 million over a 30 year period.

4.2.2 Public Private Partnership (PPP)

Scottish Borders Council has a policy commitment to build three new high schools within the Borders area using PPP arrangements. The existing school buildings at Earlston, Eyemouth and Duns will be replaced. In addition to the construction of new school buildings additional facilities will be created that will be available for community use.

During the year the scope of the project was revised, to provide new schools on new sites for all three high schools. This was as a result of responses from bidders, and represents a deviation from the combination of new and refurbished schools previously agreed. This revised approach has received approval from the Scottish Executive.

Contract negotiations were finalised by June 2006. Originally financial close was to be completed by July 2006 but was delayed due to planning issues. Despite the delay in financial close, full completion for the project is still targeted at the academic year 2008/09.

4.2.3 Broadband Pathfinder Project

This is a partnership project between Scottish Borders Council and Dumfries and Galloway Council, which aims to provide broadband services to the two local authorities (including the schools and libraries managed by them) in the Pathfinder area at an affordable price. There will also be the option for other public sector organisations to procure services from the selected supplier at a later stage.

In August 2004 funding of £27 million was made available by the Scottish Executive to meet the cost of broadband services to schools and other local authority sites. In addition the Scottish Executive has provided £850,000 towards funding external project costs (i.e. the cost of external advisers and dedicated project team staff).

Six organisations were invited to submit detailed, costed preliminary replies to an Invitation to Negotiate. Three of the six companies submitted responses to this invitation, and two companies were subsequently selected to proceed to the negotiation stage. The best and final offer was received by two companies at the end of August 2006 and this has been issued to the core teams to evaluate. The final offer is to be accepted by October 2006, with the contract effective from November 2006.

4.2.4 Galashiels Development Programme

The Galashiels Development Programme is a series of linked projects to address transport and development issues in the town centre. The Programme comprises of a series of road and traffic management developments anticipated to be completed over the next 3 years and the development of a rail/bus/pedestrian/taxi/cyclist transport interchange facility to be tied into the Waverley Railway Project completion in 2011. The total cost of the programme is £12.4 million, with associated capital receipts estimated at £4.46m.

4.2.5 Heart of Hawick

Heart of Hawick is a substantial regeneration project led by Scottish Borders Council and supported by the European Regional Development Fund and the Heritage Lottery Fund. It involves the development of a number of historical sites in Hawick together with construction of a new footbridge over the River Teviot and the second phase of the Streetscape project.

The estimated capital cost of the project is £7.8 million, of which approximately 65% will be covered by external funding. Whilst progress is ahead of schedule for part of the project a number of elements of the project are still in design stage or await appointment of a contractor.

4.2.6 Primary School Project

Scottish Borders Council approved the construction of four primary schools at Caddonfoot, Lauder and Kingsland and Halyrude which are both in Peebles in August 2005 – the Borders Primary School Project. In February 2006 a fifth school at West Linton was added to the project. Statutory consultations have been completed and Council approval has been secured for the site selection for the first four schools.

In April 2006 Denholm Primary School was destroyed by fire. In September 2006, Council agreed to replace this with a new school, which will be managed through the same programme framework as the High School and Primary School Projects.

As at September 2006, £433,000 had been incurred on the project in relation to consultants fees and preparatory planning activities.

The inclusion of Denholm and West Linton, together with local objections and related stakeholder consultations at the planning stage on the other four schools has necessitated an extension to the project's timescale and the complete re-phasing of the budget between 2006 and 2013. This will be presented for approval to Council in October.

4.3 Best Value

The Local Government in Scotland Act 2003 repealed legislation on Compulsory Competitive Tendering (CCT), and established new duties on local authorities, which included making arrangements which secure Best Value, maintaining a Community Planning process and reporting to the public on the authority's performance. The Accounts Commission has therefore developed new arrangements to audit the way councils are responding to the new duties following consultation with stakeholders.

Scottish Borders Council was one of eleven councils that was selected for the full audit in the second year of the reviews. A team of specialist staff from Audit Scotland is currently carrying out the Best Value audit, together with a member of our Business Improvement Consultancy team. The on-site review began in August 2006 and Audit Scotland estimates that the findings from the review will be published in either December of this year or January 2007.

4.4 Efficient Government

The continuous improvement agenda has been a feature in Scottish local government for a number of years, but has been given added impetus by the Efficient Government initiative.

The Efficient Government initiative was launched by the Minister for Finance and Public Services in June 2004 and is a central part of a programme of investment, reform and modernisation. This initiative is a key issue for the Scottish Executive and Scotland's public sector.

One of the key features of this initiative is that it focuses on the public sector as a whole with the intention of realising efficiencies through joined up working. The primary objective is to deliver the same services with less money (cash releasing savings) or to enable frontline services to deliver more or better services with the same money (time releasing savings).

In accordance with our Annual Audit Plan for 2005/06, we have undertaken an initial review of the risks and management arrangements within the Council in relation to the Efficient Government initiative and this was reported in our Interim Management report.

The Efficient Government Plan sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, across Scotland's public sector by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target.

It is important that a local authority achieves the level of savings set by the Scottish Executive as it is likely that failure to do so will result in a high level of media attention or actions imposed on the Council by the Scottish Executive. Scottish Borders Council must therefore seek to ensure that efficiency savings are identified which will enable the Council to meet the level of cash releasing and time releasing savings required by the Scottish Executive.

It should be a key concern to the Council that to date insufficient levels of cash releasing and time releasing savings have been identified. It is important that the Council identifies efficiency savings which are of a sufficient level to guarantee that it can deliver against the Scottish Executive's efficiency targets. In addition to this the Council should implement a system that enables it to monitor efficiency savings. This will also ensure that the Council can demonstrate the efficiency savings achieved.

We also noted that Scottish Borders Council is currently actively engaged in joint working arrangements with a wide range of external organisations. The Council should undertake work so that it is able to identify and achieve efficiency savings through these joint working arrangements.

Matters, which required to be addressed were highlighted in our interim management report and an action plan has been agreed to address, the points raised.

5 Finance

5.1 Audit Opinion

Our audit report included on pages 65 and 66 of the annual accounts is addressed to the Members of the Council and the Accounts Commission for Scotland. The report was issued on 29 September 2006 and is unqualified.

We are pleased to report that the quality of the financial statements prepared by the Council is of a high standard and is a demonstration of the Council's finance officials' commitment to consistently improve the disclosure of Scottish Borders Council financial and accounting information to stakeholders.

5.2 Accounts Timetable

Scottish local authorities are required under Regulation 4 of the Local Authority Accounts (Scotland) Regulation 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by 30 June. We are pleased to note that the Council adhered to this requirement by lodging accounts with the Controller of Audit on 30 June 2006.

5.3 Summary Financial Position

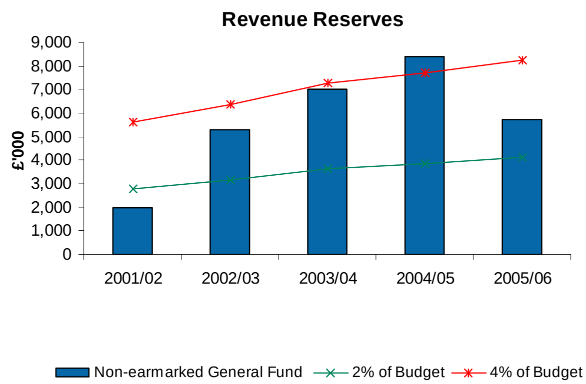
5.3.1 General Fund

The Authority achieved a general fund deficit of £3.155 million in 2005/06 compared with a budgeted deficit of £3.290 million. The non-earmarked general fund balance brought forward of £8.395 million at 1 April 2005 decreased to a balance of £5.706 million at 31 March 2006. An analysis of the Council's total general fund reserve at 31 March 2006 is presented below:

Analysis of General Reserves as at 31 March

	2005 £'000	2006 £'000
Earmarked Reserves		
- Devolved School Management	1,589	1,731
- Support for the following years Budget	1,867	1,953
- Initiatives	1,521	1,112
- Specific Departmental Reserves	3,741	3,456
	8,718	**8,252**
Other Reserves – non-earmarked	8,395	5,706
Total	**17,113**	**13,958**

The major reason for the reduction in the Council's non-earmarked reserves in 2005/06 was the additional costs arising as a result of equal pay claims. Following an assessment of the Council's potential liability for such claims a provision of £4.6 million was made in 2005/06.



The Council's approved financial strategy sets out the level of non-earmarked General Fund Reserve the Council considers to be adequate to provide a working balance and to fund contingencies which may arise. This level has been set at between 2 – 4% of the year's budgeted expenditure. The chart shows that at 31 March 2006 the Council had a non-earmarked reserve which equated to 2.5% of 2005/06 budgeted expenditure and is within the parameters considered adequate. This level of reserve is at the lower end of the target and should therefore be closely monitored to ensure it remains within the acceptable parameters.

5.3.2 2005/06 Financial Position

The 2005/06 Consolidated Revenue Account shows a £15.2 million or 7.8% increase in net operating expenditure compared with 2004/05. The main elements of this increase can be summarised as follows:

Additional expenditure pressures 2005/06	£ million
Pay awards and increments	4.2
Equal pay provision	4.6
Increased in Police and Fire requisitions	1.0
New initiatives/increased spending priorities of Scottish Executive	3.0
Increased pension contributions	0.5
Other inflation	1.9
Total	**15.2**

5.3.3 2006/07 Financial Position

In February 2006 the Council's budget for 2006/07 was agreed and an increase in Band D Council Tax of 4.4% was approved. The approved budget for 2006/07 matched income with expenditure and envisaged no contribution to or from reserves other than those earmarked reserves already identified from the previous year to support the budget. The budget was set in the context of an increase in government funding of 4.4%. The Council however identified cost pressures amounting to £17.6 million in its original consideration of the budget. These cost pressures can be summarised as follows:

Budget pressures 2006/07

Expenditure categories	Cost pressures £ million	Funded within AEF settlement £ million	Unfunded cost pressures £ million
Pay awards and increments	4.2	3.3	0.9
Increases in employer pension contributions (note 1)	0.4	0	0.4
Non pay inflation - Energy inflation (oil gas and electricity) (note 2) Other inflation	0.9 1.9 2.8	1.2	1.6
Increase in Police and Fire requisitions	0.9	0.7	0.2
Single status costs (note 3)	2.5	0	2.5
Initiatives where external funding was withdrawn	1.2	0	1.2
Increases in loan charges on increased borrowing	0.7	1.2	(0.5)
New initiatives/increased spending priorities of Scottish Executive	4.9	4.9	0
Total	**17.6**	**11.3**	**6.3**

Services were required to deliver efficiency savings of at least £6.3 million to deliver a balanced budget and these savings were built into 2006/07 budgets.

Notes to the table

1. Employer pension contributions rose from 270% of the employee rate to 280% following an actuarial valuation of the scheme. Further increases are proposed in 2007/08 and 2008/09.
2. The Council re-tendered for the provision of oil, gas and electricity in 2005. A new 2 year fixed tariff contract was agreed from 1 April 2006. The additional annual costs arising as a result of this tender exercise were £0.9m although energy efficiency savings of £0.2m were also built into budgets.
3. See paragraph 5.5.3

5.3.4 Financial Planning

The Financial Strategy sets out, in overall terms, how financial planning is undertaken within Scottish Borders Council over a three year cycle. In previous years we have challenged the robustness of the link between the financial plans and the underlying business plans. In particular whether there has been full consideration of the financial and non-financial resource requirements of projects and initiatives in service business plans and whether this has been reflected in the financial plans.

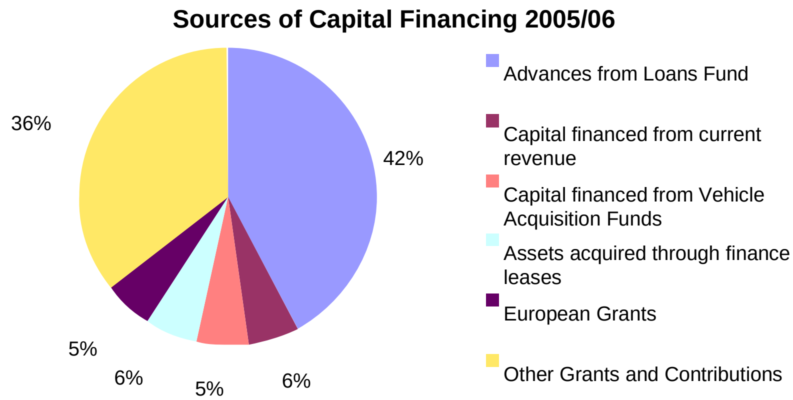
The Council has recently improved the business planning process. A Corporate Plan for 2006 to 2009 was approved by the Council in February 2006. The Corporate Plan is set out with six themes reflecting the six vision headings featured in the New Ways Community Plan. Under each theme are priorities and high level actions which Departments are to fulfil. The business plans for 2006/07 have been developed around these high level actions. These detailed actions in the business plans form the basis of individual officer work plans. These in turn inform the financial planning process. Key performance indicators are also to be developed for each action. Service actions have been input into the performance monitoring system.

The financial planning process at Scottish Borders Council is overseen by a Budget Working Group appointed by the Administration. Individual allocations are made to Departments within which detailed budgets are compiled. An integral part of the financial planning process is the requirement for Departments to identify efficiency savings. As a result this requires Departments to revisit their base budget to identify such savings.

5.3.5 Capital Programme

On an annual basis the Capital Management Group must submit a draft capital programme covering the next five years to the Council's Management Team and then to the Executive for review. The recommended plan will then be submitted to the Council for approval. The Council has established prescribed criteria for appraising and selecting capital projects to ensure only the most appropriate projects are selected for inclusion in the capital programme.

During the year the Council spent £24.129 million on capital expenditure. This was financed by borrowing, capital grants and capital receipts. No prudential borrowing was required in the year. This is consistent with the Council's original forecasts.



In our interim corporate governance report we noted that capital budget monitoring reports presented to the Executive in March 2006 reported actual expenditure to 31 January 2006 as £12.1million. This represented 53.8% of the approved budget and 56.7% of the projected outturn. The Council recognised that significant progress was required in the last two months of the year if the projected outturn was to be achieved.

The overall variance between the Council's final capital outturn and the capital budget was £0.437 million. Whilst this variance is not material and reflects an improvement on the variance experienced in previous years, we remain concerned that over 40% of the budget was spent in the last two months of the year. Section 4.2 of this report reflects the extent and significance of the capital projects the Council is committed to delivering over the next few years. It is essential that the Council continues to improve its project management arrangements and the monitoring progress of capital projects if it is to deliver on these ambitious plans. ***Recommendation 5***

5.4 Trading Accounts

Section 10 of the Local Government in Scotland Act 2003 requires local authorities to maintain and disclose trading accounts for significant trading operations (STOs). Each STO is required to breakeven over a rolling three year period. Scottish Borders Council's financial statements include a significant trading operation for its Roads operations. The Roads STO is in its third year of operation and delivered a surplus of £0.482 million in 2005/06 which has resulted in the STO achieving a three-year cumulative surplus of £1.017 million as at 31 March 2006.

Under the terms of the Act the identification of significant trading operations is the responsibility of individual authorities. When considering the status of potential trading operations the Council applied a number of tests to determine the trading status of each activity and its level of significance. As in previous years the Council have disregarded a number of potential STOs on the basis that they were not significant. The key test of significance applied by the Council was whether the service is financially significant i.e. whether the activity exceeded 5% of the net revenue budget of the Council. This has resulted in the Council disregarding a number of activities which although not deemed to be financially significant did pass some of the other tests of significance such as:

- Is the service required to demonstrate service improvements?
- Does the service pose a risk of financial loss?
- Does the service pose a risk of loss of reputation?
- Is the performance of the service of interest to its key stakeholders?

Whilst this practice is not prohibited by the Local Government in Scotland Act it may prevent the Council from focussing on the performance of important activities with relatively low turnover levels. In previous years we have recommended that the Council implement monitoring arrangements to provide an appropriate level of scrutiny over the performance of these important trading activities. The Council accepted this recommendation and envisaged that this would be largely addressed by the work of its Trading Operations Sub-Committee. We are pleased to report that in 2005/06 the Sub-Committee met and minutes from these meetings show that trading operations within the Council are subject to scrutiny with budgets and trading operations performance against forecast and budget monitored.

5.5 Matters Arising from the Audit of the Financial Statements

5.5.1 Group Accounts

The 2005 Code of Practice on Local Authority Accounting in the UK introduced for the first time the comprehensive consolidation of local authorities interests in subsidiaries, associates and joint ventures. The consolidation requirements were introduced to comply with generally accepted accounting principles and to coincide with the increased use of alternative service delivery vehicles by local authorities. In determining the extent of a Council's boundaries for group accounting purposes, local authorities were required to classify entities they had a group relationship with into three categories:

Subsidiaries – where the local authority is able to exercise control over the operating and financial policies of the entity and is able to gain benefit from the entity or is exposed to the risk of potential losses.
Associates – where the local authority has an interest and is able to exercise significant influence over the entity's operating and financial policies
Joint ventures – where a local authority has a long term interest in an entity but where the entity is jointly controlled with another party.

Scottish Borders Council has classified its interests in Common Good and Trust Funds where it is the sole trustee as subsidiaries. The Council's interests in the Borders Sport and Leisure Trust and the Jedburgh Leisure Facilities Trust have been classified as associates. The Council has no joint venture interests in any entities. The Council's interests in the Lothian and Borders Fire and Rescue Board and Police Board have not been included within the group accounts. The decision not to include the interests in these bodies is exceptional in Scotland since all other local authorities have included their interests in Joint Boards as associates.

The Council do not consider that they have the ability to exercise significant influence over these Boards without support from other participants. The Council has two members on each Board out of a total of eighteen – thus giving 11% of the vote. The two members on each Board are not of the same political group as the majority group on either Board. The Council considers that on two recent occasions, the lack of significant influence, without the support of others, has been evident. During 2005/06 the Council's members were unable to significantly influence the decision by the Joint Board to close the Melrose Fire Station. An attempt to influence the financial policies of the Joint Board was also unsuccessful when a proposal by the Scottish Borders Council members to the Fire and Rescue Board on the use of surplus balances was rejected.

The Council have provided written representation of their inability to significantly influence, without the support of others, decisions of the Lothian and Borders Fire and Rescue Board and the Police Board. On the basis of these representations and the evidence provided to us we have accepted the exclusion of the Council's interests in these entities from the group accounts.

We have audited the group accounts prepared by the Council. Our unqualified audit report covers the audit opinion on the group accounts.

5.5.2 Debt Restructuring

The Council carried out two debt restructuring exercises during the period to 31 March 2006. In each of the transactions a number of fixed rate, Public Works Loan Board (PWLB) loans were redeemed and replaced by a single Lender Option Borrower Option (LOBO) loan agreement. In total a premium of £2.8 million was paid to the PWLB in order to complete the loan redemptions. This restructuring was undertaken to minimise interest costs.

The 2005 Code of Practice on Local Authority Accounting in the UK (the SORP) states that:

"Gains or losses arising on the repurchase or early settlement of borrowing should be recognised in the consolidated revenue account in the periods during which the repurchase or early settlement is made. Where however the repurchase borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same economic effect when viewed as a whole, gains or losses should be recognised over the life of the replacement borrowing."

The Council have adopted the second accounting treatment, allowing deferral of the write-off of the premium to the consolidated revenue account. The Council considers that the overall economic effect of the original and replacement borrowing is substantially the same. In reaching this view the Council has taken into account

- the definition of the term 'overall economic effect' offered by the SORP guidance notes
- the expected stability of interest rates over the period of replacement borrowing
- that there is no evidence that lenders have sought in practice to impose significant interest rate increases or that authorities have refused to accept any increases.

5.5.3 Single Status and Equal Pay

The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work; work rated as equivalent; or work of equal value.

The Equal Pay Act gives men and women the right to equality in the terms of their contract of employment. It covers both pay and other terms and conditions such as piecework, output and bonus payments, holidays and sick leave. European law has extended the concept of equal pay to include redundancy payments, travel concessions, employers' pension contributions and occupational pension benefits.

Some aspects of the Single Status Agreement have been implemented by almost all local authorities. Other parts of the agreement – in particular local pay reviews and negotiations were not implemented. The original agreement signed in 1999 specified implementation of these aspects by April 2002 but this was subsequently extended (by agreement between authorities and unions) to April 2004. In January 2006 the Scottish Parliament Finance Committee were advised that only one authority had fully implemented the agreement with job evaluation and assimilation of employees onto new pay scales.

Scottish Borders Council evaluations have to date covered approximately 85% of the employees subject to the Single Status agreement. These employees fall within the groupings identified by the Scottish Joint Council for Local Government Employees national agreement. They exclude Teaching Staff, Chief Officers and Craft Workers.
The majority of these have not yet been agreed with the relevant employees or managers.

The expected implementation date for the Single Status Agreement depends on whether or not the Council can reach agreement on a new pay and grading structure with the Trades

Unions. If so it could be April 2007, otherwise it may be October 2007, with a possible "effective" date of 1 January 2007. A provision of £2.5 million has been included within the 2006/07 budget to meet any commitments arising from the implementation of this agreement.

Single Status goes wider than equal pay but it is equal pay compensation that has been causing major problems for local authorities. An amendment to the Equal Pay Act in 2004 extended the period over which back pay could be claimed from 2 to 5 years in Scotland (claims can be made going back 6 years in England) bringing UK legislation into line with the EU.

The Council has been undertaking work on Equal Pay compensation offers since January 2006. As stated in section 5.3.1 the 2005/06 accounts include a provision for such claims amounting to £4.6 million. A report recommending offers be made was agreed by the Council in April 2006. Offers were made to individuals in Manual Worker posts which were predominantly filled by female employees. This consisted primarily of Catering, Cleaning and Care staff.

A total of 1067 offers have been made. 988 individuals have accepted offers to date (93%). 67 refused offers, of which 62 have now raised grievances. 12 cases remain unresolved at present. We have reviewed the calculation of the equal pay provision in the 2005/06 accounts and consider it to be a reasonable estimate of the eventual liability for such claims.

5.5.4 Fixed Assets

The consolidated balance sheet shows that Scottish Borders Council's portfolio of tangible fixed assets was valued at over £252 million as at 31 March 2006. During the course of our audit we carried out detailed testing to determine whether the assets of the Council were fairly presented and accounted for in accordance with the Code of Practice on Local Authority Accounting. Our main findings are summarised below:

Fixed Asset Register

The Britannia Fixed Asset Register maintained by Corporate Finance is used in the preparation of the annual financial statements. This register aims to provide a comprehensive record of all assets to be accounted for on the Council's balance sheet. Whilst the asset register is primarily used as an accounting tool, the Estates Section maintains a more detailed record of the Council's land and buildings containing such information as size, value, location and status of each property.

In our 2004/05 interim report, we raised concern that an automatic interface does not exist between the two systems. As a result, Corporate Finance has to manually update the register with details of additions, disposals and adjustments in the valuation of its land and buildings. This exercise exposes the Council to the risk of human error as key changes could be miskeyed or misplaced as information is passed from Estates to Corporate Finance.

Whilst an automatic interface still does not exist, the Council has undertaken a reconciliation exercise between the two systems to ensure the information held on both systems is consistent.

We also noted during our review that the Council has taken steps to improve the information recorded on the asset register held by Corporate Finance. This includes matching the capital grant received to the asset financed by the grant and the associated amortisation.

Component Accounting

Some fixed assets require substantial expenditure every few years for major refits, or the refurbishment, replacement or restoration of major components. Different components of an asset may have significantly different useful economic lives and, in order that the depreciation profile of the asset more accurately reflects the actual consumption of the asset's economic benefits, it is preferable to treat each component separately for depreciation purposes.

Where each component of a fixed asset is depreciated over its individual useful economic life, subsequent expenditure incurred in replacing or renewing a component should be accounted for as an addition to the fixed asset.

In 2005/06, Scottish Borders Council adopted component accounting. Enhancement expenditure incurred in 2005/06 has been identified, where applicable, as a separate component of the asset, and depreciated over a shorter useful economic life.

Whilst we are encouraged that the Council has adopted this approach, we did note that the useful economic life over which the component is depreciated is not based on advice from the Estates section. We understand initial discussions have been held with Estates. As an interim measure, a best estimate of 10 years useful economic life has been used for each component. Without a more accurate assessment of the useful economic life of the component there is a risk that services are over/under charged with the cost of using the fixed asset. ***Recommendation 6***

Enhancement Expenditure

The Code of Practice on Local Authority Accounting requires that expenditure on the enhancement of fixed assets should be capitalised. Enhancement is defined as the carrying out of works which are intended to:

- Lengthen substantially the useful life of the asset
- Increase substantially the open market value of the asset
- Increase substantially the extent to which the asset can or will be used for the purposes of, or in conjunction with, the functions of the authority

Audit testing identified one area where, in our opinion, Scottish Borders Council is failing to account for enhancement expenditure in accordance with proper accounting practice:

Cost of enhancement work compared with increase in value

It is likely that the amount of enhancement expenditure on a fixed asset may not exactly match the increase in value of that asset. Enhancement expenditure therefore needs to be analysed to identify any differences between the amount of expenditure and the value added.

During our review of fixed assets we noted that the Council had not carried out an analysis of this expenditure to identify whether all this expenditure added value to the assets. As a result there was a risk that the Council had overstated the value of its fixed asset base in the consolidated balance sheet as at 31 March 2006.

Whilst we do not regard this as a material misstatement in the Council's accounts we recommend that the Council adopt a more formal approach to their capital expenditure review. Corporate Finance staff should liaise with Estates staff to identify the capital expenditure which adds value to the asset base. A formal record of the decisions taken during this review should be maintained to add transparency to the process.
Recommendation 7

5.5.5 Common Good

Asset Valuation

Scottish Borders Council is the administrator of eight different common good funds for towns located across the Borders area. Local Authorities are required to administer Common Good Funds under Section 15 of the Local Government (Scotland) Act 1994. The purpose of Common Good Funds is to provide a benefit to the population of the area either through the financial disbursement of funds, securing assets for the ongoing use of the population or contributing to specific local projects/initiatives.

Our 2004/05 audit of the valuation exercise undertaken on Common Good Fund assets identified a number of concerns. The assets of the Common Good should be accounted for under Financial Reporting Standard 15 rather than the local government capital accounting convention. Audit testing of the values generated by this exercise identified that whilst the majority of assets had been valued correctly a small number of assets of a specialist nature, e.g. clock towers, had been valued on an open market basis. FRS 15 requires that assets of such specialist nature be valued on a depreciated replacement cost basis. We noted during 2005/06 that the Council has not revisited the valuation basis of these assets. As FRS 15 has not been properly applied there is a risk that the reported values of these assets are inaccurate. ***Recommendation 8***

Valuation Certificates

In accordance with Financial Reporting Standards, all assets should be valued over a five year period. This may be performed by valuing assets on a rolling basis. Mandatory professional standards for valuers are set down in the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards (commonly known as 'The Red Book'). As part of their requirements, the valuers are required to provide a formal valuation report and valuation certificate.

During 2005/06, Scottish Borders Council's Estates Section performed a valuation exercise on a number of the common good assets however the results of this were not formally recorded in a valuers certificate or report. Instead Estates staff informed the accounting team of the revised values through a memo. Subsequent to audit concerns a formal valuation report and valuation certificate has been prepared by the Estates Section.

5.5.6 Funds and Reserves

The statutory framework for the establishment and operation of funds is set out in the Local Government (Scotland) Act 1975. Section 3 of Act empowers an authority to establish a Capital Fund, a Renewal and Repair Fund and an Insurance Fund.

Scottish Borders Council maintains a number of funds including Repairs and Renewal Funds a Capital Fund and an Insurance Fund which are clearly covered by the above Act.

During the course of our audit we noted that the Plant and Vehicle Renewal Fund is accounted for as a capital fund. We understand however that the fund was established as a repair and renewal fund. We therefore recommend that the Council determine the basis on which this fund was established and ensure it is maintained and accounted for in accordance with the appropriate guidance. ***Recommendation 9***

6 Action Plan

Our annual report action plan details the key weaknesses and opportunities for improvement that we have identified during 2005/06. To assist the Council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action.
Priority 2	Medium risk, significant observations requiring reasonably urgent action.
Priority 3	Low risk, minor observations which require action to improve the efficiency, effectiveness on economy of operations or which otherwise require to be brought to the attention of senior management.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
3.2	**1.** The Council needs to complete the update of its Financial Regulations and to incorporate the Capital Financial Plan Monitoring Code of Practice into these regulations. **Priority 2**	Head of Corporate Finance	Agreed	31/10/06
3.2	**2.** A series of manuals, procedural instructions and guidance notes are available to instruct staff on operating procedures of the Council's key financial systems. The Council requires to complete the review and update of these manuals. **Priority 2**	Head of Corporate Finance	Agreed	30/09/07

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
4.1	**3.** Benefits Administration SPI 2 – Processing Time. In order to meet the top quartile target of 9 days set by government, the Council should continue to identify steps to improve their existing performance. **Priority 3**	Head of Revenues and Benefits	Agreed. Action has already been taken which has resulted in improvement.	31/03/07
4.1	**4.** Homelessness SPI 6 – the number of households assessed as homeless or potentially homeless. Steps need to be taken to ensure the Council meets the Scottish Executive targets **Priority 3**	Head of Housing and Social Work Strategy	Agreed. Significant action has already been taken to improve the performance of the Homelessness Service including recruitment of staff, implementation of revised policies and procedures and improvements in systems.	30/04/07
5.3.5	**5.** The Council must continue to improve its project management arrangements and the monitoring progress of capital projects if it is to deliver on its ambitious capital plans in future years. **Priority 2**	Director of Corporate Resources	Agreed	Ongoing

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
5.5.4	**6.** The Council has identified items within its fixed asset register as representing components of another parent asset. These components are being written off over a 10 year time frame to ensure that the depreciation charge more accurately reflects the life of the component rather than its parent asset. The estates section should be asked to confirm their assessment of the component lives. **Priority 3**	Accounting and Projects Manager	Agreed	31/03/07
5.5.4	**7.** The Council should adopt a more formal approach to their review of enhancement expenditure. Corporate Finance staff should liaise with Estates staff to identify the capital expenditure which adds value to the asset base. A formal record of the decisions taken during this review should be maintained to add transparency to the process. **Priority 2**	Accounting and Projects Manager	Agreed	31/03/07

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
5.5.5	**8.** We noted during 2005/06 that the Council has not revisited the valuation basis of Common Good fixed assets. As FRS 15 has not been properly applied there is a risk that the reported values of these assets are inaccurate. **Priority 2**	Accounting and Projects Manager	Agreed	31/03/07
5.5.6	**9.** During the course of our audit we noted that the Plant and Vehicle Renewal Fund is accounted for as a capital fund. We understand however that the fund was established as a repair and renewal fund. We therefore recommend that the Council determine the basis on which this fund was established and ensure it is maintained and accounted for in accordance with the appropriate guidance. **Priority 2**	Head of Corporate Finance	Agreed	31/03/07

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