Falkirk Council

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

October 2007

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Key Messages

Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead. A full Best Value audit of the Council has taken place during 2007 and will be reported separately.

Key outcomes from 2006/07 audit

We have given an **unqualified** opinion on the financial statements of Falkirk Council for 2006/07. The council dealt well with significant changes to the format of the accounts.

The council had corporate governance systems in place during 2006/07 that operated well within a sound control environment. Further action is required to improve its risk management framework and to embed risk management within the council's strategic and operational planning processes.

Following the May 2007 local elections, the council's Best Value and Audit Forum (BVAF) met for the first time on 12 October 2007. With the establishment of a new BVAF, the council has an opportunity to review the operation of the Forum to ensure that it is effective both in terms of its scrutiny investigations and its compliance with audit committee principles. Consideration should also be given to holding the Forum meetings in public.

Statutory Performance Indicators show that the council has made improvements in a number of areas during the year, with performance improving by more than 5% in around a quarter of Statutory Performance Indicators. Performance in around a fifth of the Statutory Performance Indicators has deteriorated by more than 5% in 2006/07 however.

The council has produced its Efficiency Statement for 2006/07.The council does not yet have a systematic corporate approach towards monitoring efficiency savings. Work remains to be done to develop monitoring systems to ensure that identified opportunities for savings crystallize and to ensure that the council can report accordingly.

At the end of the year the council had total cash backed reserves and funds of £54.31 million, including a general fund balance of £32.4 million. A contribution to the general fund of £8.7 million was achieved rather than the planned contribution from the fund of £2.4 million, a positive variance of £11.1 million. Around £7 million of this was due to a change to the funding of loans fund principal repayments which were financed from capital reserve rather than service expenditure. The non-earmarked element of the General Fund was some £7.4 million which is at the higher end of the approved Reserves Strategy limits.

Outlook for future audits

In the course of our work we identified some of the strategic risks that the council will need to manage in delivering on its stated objectives and priorities. These can be grouped into the following themes:

- Demonstrating good governance and real accountability
- Funding future improvements
- Delivering improved infrastructure
- Improving services through performance management
- Effective partnership working
- Workforce management

In a tightening fiscal environment, and in pursuance of best value objectives, there will be a continuing need to identify and release efficiencies on an ongoing basis. The council needs to improve its arrangements for capturing and monitoring the savings achieved.

Significant underlying pension liabilities need to be funded on an ongoing basis, including the council's share of the cost of unfunded schemes for police and fire fighters. The overall liability position is currently improving with increased employer contribution rates, changes in financial markets and recent changes to pension fund regulations which are expected to bring financial benefits to employers and more flexible benefits to future pensioners. The overall impact of this will be assessed at the next actuarial valuation.

Our 2006/07 Audit Risk Analysis and Plan highlighted the need to develop asset management strategies and plans which provide information on assets held to support effective asset management and facilitate the delivery of the council's objectives. The council has since developed *'Better Assets, Better Services',* a corporate Asset Management Plan (AMP) which was approved by the Policy and Resources Committee in August 2007. Improved asset management planning should help ensure that all assets are used effectively and efficiently to deliver services in line with priorities.

The co-operation and assistance given to us by Falkirk Council councillors and staff during the audit is gratefully acknowledged.

Audit Scotland

October 2007

Introduction

1. This report summarises the findings from our 2006/07 audit of Falkirk Council, the first year of a five year appointment. Findings are drawn together within four sections, namely, performance, financial position, governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.

2. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the council's Corporate Management Team in April 2007. Under the following strategic themes, the ARAP set out our views on the key business risks facing the council and described the work we planned to carry out:

   - demonstrating good governance and real accountability;
   - effective partnership working;
   - improving services through performance management;
   - delivering improved infrastructures;
   - funding future improvements; and
   - workforce management.

3. During the year we undertook two exercises which resulted in separate audit reports: *Computer Services Review* and *Priorities and Risk Position Statement*. An action plan for the computer services review was agreed by management and will be monitored as part of our ongoing audit work.

4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A of this report sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.

5. The Local Government in Scotland Act 2003 created new arrangements for the audit of best value. Best value audits are based on a cyclical approach and involve a detailed review of the Council by a specialist team every three years, with checks on ongoing progress in intervening years. A full best value audit of the Council has taken place during 2007 and will be reported separately. The principles of best value are central to our audit approach and the local auditor is a member of the best value team to ensure that local knowledge is communicated to the rest of the team.

Performance

Introduction

6. In this section we summarise key aspects of the council's reported performance and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the findings of national performance audit studies.

Corporate objectives and priorities

7. The Corporate Plan for 2004 – 2007 sets out the key goals and priorities for the council until 2007 and explains how its performance against the priorities will be measured. The goals and priorities are aligned with the vision and themes contained in the Strategic Community Plan. Both plans reflect the goals of the council, all of which cut across a variety of services:

- increase jobs, income and enterprise for all citizens;
- enable our citizens to live healthily and safely;
- tackle disadvantage and discrimination in all its forms;
- create and sustain an environment in which people want to live, work and visit; and
- stimulate working partnerships amongst agencies, organisations, citizens and communities.

8. These goals are underpinned by the council's values of commitment to public service, performance and partnership. A number of key priorities have been set to satisfy those goals, including:

- developing, supporting and implementing a comprehensive system of community planning;
- improving the approach to meeting the needs of customers;
- developing and implementing a system of performance management;
- ensuring effective management and structures to achieve more joined up public services;
- encouraging a community development approach throughout Services; and
- working effectively in partnership with other public agencies and the private sector to achieve the vision and themes of the joint community plan.

9. Following the May 2007 elections, the former ruling coalition of Scottish Nationalist Party and Independent Members was replaced by a new coalition of Labour, Conservative and Independent Members. As a result a new leader of the council was appointed in May 2007. Work is ongoing to

develop a revised corporate plan for 2008 – 2011, which will incorporate the new administration's priorities. This plan is scheduled to be submitted to the Council in December 2007.

Overview of performance in 2006/07

Best value audit

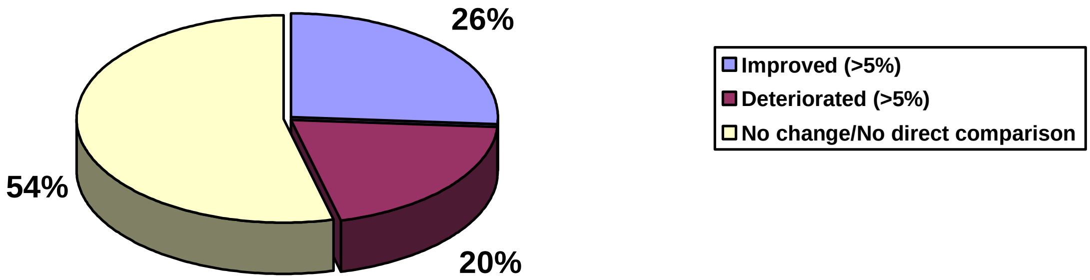
11. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

12. The council received a full Best Value audit in 2007 and a report setting out the results of this is currently being prepared. This will be considered by the Accounts Commission and is expected to be published in early 2008. This report on our annual audit avoids significant comment on aspects of performance that fall to be considered in the report of the Best Value audit.

Statutory performance indicators

13. The Statutory Performance Indicators provide an annual measure of local authority performance in Scotland. Each year we review the reliability of the council's arrangements to prepare SPIs. In general, the working papers provided were good. This year we rated all indicators as reliable.

14. The council has carried out an analysis of SPI data which identified that around a quarter of indicators demonstrated improvement in year on year performance in excess of 5%, but in a fifth of cases performance has fallen in excess of 5%:



Key risk area 1

Performance outlook – opportunities and risks

Introduction

15. In the course of our audit work we identified some of the strategic risks to Falkirk Council delivering on its stated objectives and priorities in the years ahead. These risks were set out in our Audit Risk Analysis and Plan and grouped into five risk themes. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. Where appropriate, matters arising in a number of these areas are also reported in more detail elsewhere in this report. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be “risk aware”, and have sound processes of risk management, rather than “risk averse”. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Demonstrating good governance and real accountability

16. Good governance strengthens credibility and confidence in public services and is necessary to enable the council to pursue its vision effectively, as well as underpinning achievement of the vision with mechanisms for control and management of risk. The council needs to ensure that it supports elected members appropriately in this period following the 2007 elections, ensuring that its political governance structures are appropriate to changing circumstances, including the introduction of multi-member wards. Underlying internal control arrangements need to remain sound and any areas identified for improvement implemented.

17. The council needs to identify and respond effectively to the needs of its local communities and individuals. Community planning requires the development of effective engagement processes, such as local community planning partnerships. Services have to be configured in a manner that allows them to respond to identified needs and local priorities.

Improving services through performance management

18. The council aims to achieve demonstrable and significant improvements in performance across the range of its activities in order that it can demonstrate the achievement of best value. Opportunities for improvement in existing processes and increasing expectations of stakeholders, including central government, present significant challenges. The council is also required to publicly report a balanced view of its performance and to address equalities issues both internally and externally.

Funding future improvements

19. The council needs to ensure that it is able to afford the changes required to improve its performance while meeting new demands for its services. Significant efficiencies are required to release funding for the scale of improvement projects planned and meet the challenges of funding settlements and the Efficient Government agenda. Significant financial burdens on the council include the continued funding of single status and equal pay settlements, increasing pension costs and preparatory expenditure for the New Schools project.

Effective partnership working

20. Increasingly the Council is dependent on partnership working to deliver service improvements. All partners need to be able and willing to work effectively in a joined-up manner and to achieve best value in the use of the overall public resource as a result. Formal duties to initiate, facilitate and maintain community planning have been placed on the council.

21. Partnership arrangements need to be properly managed to ensure that they contribute to council objectives in the manner required on a continuing basis and ensure that proper accountability and governance is maintained over public funds.

Delivering improved infrastructure

22. The council needs facilities and infrastructure that are suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of council objectives both now and in the future. A number of projects are planned or ongoing, such as the provision of new schools by both traditional and PPP means.

Workforce management

23. People play the key role in delivery of high performing services and the council needs to ensure that it has plans in place to provide the right skills, in the right place, at the right time. The implementation of the single status agreement, has also exposed the council to risks in relation to staff morale, potential industrial relations difficulties and the financial impact of revised pay and grading structures. There are risks concerning the ability of the council to retain and recruit staff in some specific areas and these require to be managed by the council.

National studies

24. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports of direct interest to the council are set out in paragraphs 25 – 32 below. Further information on these studies and reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

25. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that Local Authorities should recycle 25% of household waste by 2000. This target was not achieved.

26. Further EU Directives required Member States to "take appropriate steps to encourage the prevention, recycling and processing of waste" and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.

27. The purpose of Audit Scotland's study was to examine the performance of Local Authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.

28. The key findings from Audit Scotland's national report published in September 2007 highlighted that:

- while significant progress has been made in meeting interim recycling targets, the rate varies considerably between councils and the type of collection system employed
- there has been slow progress in developing facilities to treat residual waste. There is therefore a significant risk that EU directive targets may not be met
- increased recycling has led to increased costs
- all parties need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the landfill Directive targets.

29. The council has met its 2006/07 target (35%) for the recycling of waste and is reporting an increase of some 5% when compared to 2005/06.

Dealing with offending by young people

30. Audit Scotland published reports on *Dealing with offending by young people* in December 2002 and November 2003. Audit Scotland undertook a follow-up study review to ascertain improvements in performance since 2002 of agencies who deal with young people who offend in the context of a changing policy landscape.

31. The key findings from the study, which was published in August 2007 are:

- while the Scottish Government has increased funding for youth justice services (£235 million in 2000/01 to £336 million in 2005/06), the effectiveness of the increased expenditure in reducing offending and improving the quality of life of local communities is not yet capable to be assessed;
- comprehensive reporting on performance against national standards cannot yet be undertaken due to weaknesses in the performance management arrangements;
- the Scottish Government commitment to developing more rounded measures of the impact of support and interventions on offending behaviour is welcomed;
- the introduction of antisocial behaviour orders (ASBOs) has created tensions with other approaches to dealing with offending by young people;
- the principles underpinning the children's hearing system have been put under pressure through recent increase in referral activity;
- while Police reporting and reporter decision making has significantly improved, Social work reporting remains unacceptably long. The proportion of social enquiry reports submitted by the council's social work department to the courts by the due date sits at 41.7% an increase of 1.3% on 2005/06. There remains scope for improvement however; and
- although the study found evidence of extensive partnership working, there was much variation in the levels of representation and standards of performance.

Managing long-term conditions

32. Long-term conditions, sometimes known as chronic diseases, last a year or longer, limit what a person can do and may require ongoing care. Managing long-term conditions is seen as the biggest challenge facing healthcare systems worldwide, with 60% of all deaths attributable to them. Audit Scotland conducted a study of services for adults with long-term conditions generally, focussing on two conditions in particular – chronic obstructive pulmonary disease (COPD) and epilepsy.

33. The report published in August 2007 highlighted that care for people with chronic illnesses is improving but the health service, councils and the Scottish Government needs to do more to build a

joined up system of care. A lack of information about costs and activity means many decisions on the use of resources are made with limited evidence about what works for patients, and this needs to be urgently addressed by the NHS and councils. Key recommendations for councils include:

- the Scottish Government, NHS boards and local authorities should collect better information on activity, cost and quality of services to support the development of community services;
- the Scottish Government, NHS boards and local authorities should evaluate different ways of providing services to ensure cost-effectiveness and share good practice; and
- NHS boards and local authorities, through Community Health Partnerships, should ensure comprehensive information is given to patients about their condition, and the health and social care services available, at the time of diagnosis.

34. The report highlights an example of Falkirk Council using innovative technology to help people in their own homes who may otherwise not be able to live independently. For people with dementia, potential risks can be monitored by fitting sensors and alarms which are linked to the control centre. Similarly for people with epilepsy, tilt monitors and bed monitors can alert the control centre when someone is having a seizure.

Scotland's School Estate

35. Audit Scotland are undertaking a national review of how effective recent investments in the Scottish school estate have been in terms of improving the quality of the learning and teaching environment. The performance of the Scottish Government and local authorities in improving the schools estate within the context of the 2003 strategy 'Building our Future' – Scotland's school estate will be considered. This work is currently in progress and due to be reported in February 2008.

Financial position

Introduction

36. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Our Audit Risk Analysis and Plan recognised the significant challenges being faced by the council both in relation to managing ongoing financial pressures such as single status, pension liabilities and any potential liability with regard to backdated equal pay claims etc. Our findings and key messages are set out in this section.

Council tax and the general fund

Operating performance 2006/07

37. The presentation of the 2006/07 financial statements has changed significantly from previous years. They now include an income and expenditure account and a separate statement on the movement of the general fund balance, replacing the consolidated revenue account. The latter statement reflects items that require to be taken into account when determining a council's budget requirement and in turn its council tax level, as determined by statute.

38. The surplus or deficit on the income and expenditure account is the best measure of the council's financial result for the year, recognising the resources that have been consumed and generated in accordance with Generally Accepted Accounting Principles. The council's net operating expenditure in 2006/07 was £261.3 million. This was met by government grants and local taxation of £265 million, resulting in an Income and Expenditure surplus of £3.7 million.

39. However, the movement on the general fund balance is also an important aspect of the council's stewardship as the main budget reference point. The main differences between the income and expenditure account balance and the general fund balance is that in the general fund:

    - capital investment is accounted for as it is financed, rather than when fixed assets are consumed; and
    - retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future befits are earned.

40. After adjusting for these items the council achieved a general fund surplus of £8.7 million, after a contribution of £7 million from the useable capital receipts reserve (see below). When this surplus is added to the amount brought forward from 2005/06, the council has a general fund balance of £32.4 million. The budget set for 2006/07 was based on a Band D council tax level of £1,045 and assumed a contribution of £2.4 million from the unallocated general fund.

41. Within the overall outturn, there were a number of under and overspends against budget. In particular, an under-spend of £7 million was made across services as a result of funding the repayment of loans fund principal from the council's Usable Capital Receipts Reserve (effectively a capital fund) rather than from service expenditure. The practical effect of this is to release revenue funding to support other items of expenditure. This approach was taken in order to build up a fund for financing the council's New Schools project and resulted in an increase in the general fund balance which has been earmarked for the project.

42. Further under-spends were achieved through increased council tax collection, increased surpluses on commercial activities and general savings in service delivery.

Reserves and balances

43. At 31 March 2007 the council had total cash backed reserves and funds of £54.31 million, including an insurance fund that underpins the council's self-insurance arrangements, a useable capital receipts reserve to fund future capital expenditure and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.

Reserves and balances 2005/06 and 2006/07

Description	2005/06 £ Million	2006/07 £ Million
General Fund	23.794	32.446
Useable Capital Receipts Reserve	16.221	16.731
Repair and Renewal Fund	1.996	2.247
Insurance Fund	2.613	2.889
	44.624	**54.313**

44. The council aims to maintain a working balance in the range of 2% of either net or gross budgeted revenue expenditure (£5.5 million - £7.5 million in 2006/07). At 31 March 2007, the non-earmarked element of the General Fund was some £7.4 million which is at the higher end of the approved Financial Strategy limits. A range of financial issues which could further impact on the reserves position are discussed in our Financial Outlook section below.

45. Significant earmarked amounts include £7million to fund the council's New Schools project (as referred to at paragraph 41 above), £7.9 million to meet housing revenue account costs in future years (including £1.3 million earmarked to support the 2007/08 HRA budget), £5.2 million for devolved school management balances held by individual schools and some £3.8 million has been earmarked to support the 2007/08 general fund budget.

Rents and housing revenue account

46. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2006/07 was based on an average fortnightly rent level of £99.19, an increase of 3.4% on the previous year.

47. The council has earmarked part of the general fund balance for housing revenue account purposes. As a result of applying a proportion of this funding, an in-year deficit of £1.1 million on the housing revenue account, the earmarked housing revenue account balance has fallen from £9 million in 2005/06 to £7.9 million in 2006/07. £1.3 million of this balance has been deployed to restrict rent levels in 2007/08 with a further £1.4 million provisionally earmarked for this purpose in the following two years.

Group balances and going concern

48. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's associates and directly managed funds on the group balance sheet is to reduce net assets by some £208 million, substantially as a result of the inclusion of pension fund liabilities attributable to joint boards. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

49. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. The joint boards (Central Scotland Joint Police Board, Central Scotland Fire and Rescue Joint Board and Central Scotland Valuation Board) had an excess of liabilities over

assets at 31 March 2007 due to the accrual of pension liabilities. In total these pension liabilities amounted to £432 million, with the council's group share being £224 million.

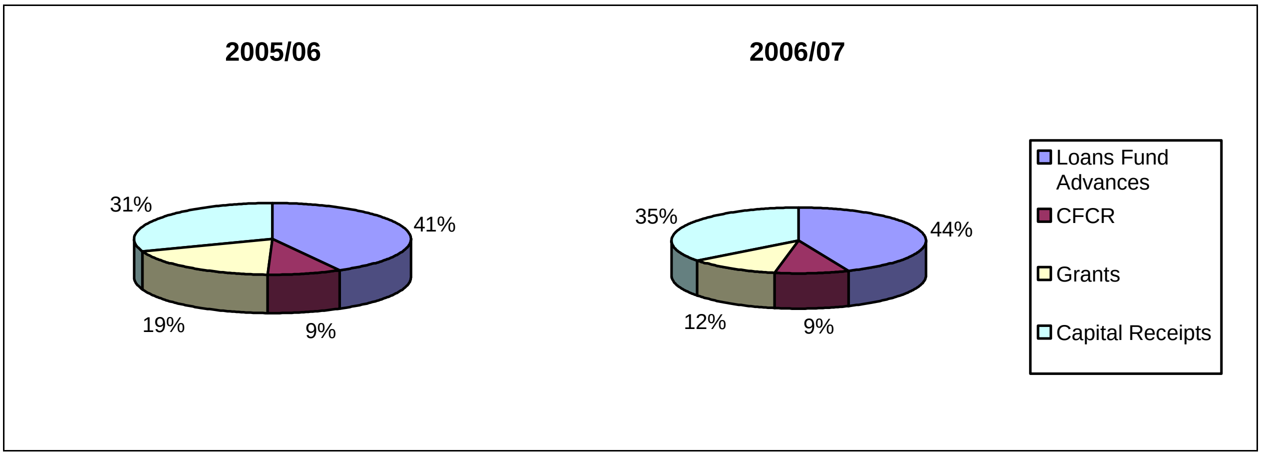
Spending on assets and long-term borrowing

Capital performance 2006/07

50. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2006/07 were approved in February 2006 and increases in capital expenditure have been made as the council seeks to improve its asset infrastructure.

51. Capital expenditure in 2006/07 totalled £39.5 million, rising from £34.3 million in 2005/06. Capital investment in the last two years was funded as shown below.

Sources of finance for capital expenditure 2005/06 and 2006/07



52. Although the council has increased its capital spending it has decreased its overall medium to long term borrowing by £4.3 million, from £153.8 million at 31 March 2006 to 149.5 million at 31 March 2007. Some 96% of medium to long term borrowing at the year-end matures after more than 10 years, and the council has actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk.

53. Following in year revision, budgeted capital expenditure for 2006/07 was £45.3 million. Slippage of £2.4 million, principally in education projects, non-use of the schools fund for capital purposes of £2.7 million and transfer of public sector housing grant to revenue of £0.7 million, resulted in an underspend of £5.8 Million. The slippage compares to a slippage allowance of £3.1 million included in the 2006/07 capital investment programme.

Forward capital programme

54. The council's capital plans for 2007/08 and 2008/09 include annual capital expenditure of £51.7 million and £42.3 million respectively. £45.2 million and £41.1 million respectively is expected to be funded by a number of sources including funding from revenue, capital receipts, grants and other contributions and increases in borrowing totalling £36.1 million over the two years. The remaining balances of £6.5 million and £1.2 million respectively have been anticipated as slippage in the capital investment programme.

Significant trading operations

55. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The council has two STOs (Building Maintenance and Roads Maintenance) which undertake a range of revenue and capital works on the council's building stock and roads and footpaths in the council area.

56. The identification of statutory trading accounts is the responsibility of the Council. LASAAC guidance suggests three tests should be applied to determine whether a trading operation falls within the ambit of the Act. These are:

- whether the service is provided in a competitive environment;
- whether the service is provided on a basis other than recharge of cost; and
- a test of significance.

57. If all three conditions are met then the service should be accounted for as a statutory trading account. The council has carried out a review of its statutory trading activities based on the LASAAC guidance and has concluded that Building and Roads Maintenance are the only STOs of the council. We have considered the work carried out in respect of the review of the STOs and concluded that the conclusions drawn are reasonable.

58. In the three years to 31 March 2007, the STOs met the statutory target with surpluses of £1.22 million reported for Building Maintenance and £0.51 million for Roads Maintenance over the three years. This compares with the 2005/06 equivalents of a surplus of £0.23 million for Building Maintenance and a loss of £0.02 million for Roads Maintenance. The increase in the three year surplus is largely as a result of increased charges to recover pension costs in 2006/07.

59. For 2006/07, the Building Maintenance STO applied the 2002 schedules of rates uprated by annual indexation. For the Roads Maintenance STO, benchmarking of rates was carried out against a selection of rates applied by other local authorities and private contractors. The benchmarking

covered 80% of the schedule of rates by value and revised rates were applied from October 2006. The remaining 20% of the schedule of rates comprised the 2002 rates uprated by annual indexation. Best Value reviews have also been carried out on the STOs since 2002. The council plans to prepare a best value business case for 'ex-CCT' activities, incorporating appropriate benchmarking and option appraisal in 2007/08.

Pension funds

60. Falkirk Council is the administering authority for the Falkirk Council's Pension Fund (FCPF). The funds are administered on behalf of Falkirk Council employees and a number of other bodies whose employees are members of the fund. The council, as the administering authority for the FCPF, employs external fund managers to manage investment assets. Over the year, net assets of the fund increased on a market value basis by approximately £76.7 million to a total of £959 million.

61. As at 31 March 2005, the actuarial valuation showed a funding level of 86 per cent with a deficit of some £110.2 million. However a recent interim valuation report as at 31 December 2006 indicated a revised funding level of 92 per cent.

Financial outlook

Current budget

62. The 2007/08 budget was based on a band D council tax level of £1,070, an annual rise of 2.4%. General allowances for pay and cost inflation pressures were built into the budget, together with a number of efficiencies, other savings and budget cuts. Other significant financial risks are outlined below.

Equal pay

63. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.

64. Costs of £3.8 million have been recognised in the financial statements since 2005/06 for the one-off cost of dealing with the equal pay legislation. A further unspecified liability may arise from claims which are progressing through Tribunals. The council has disclosed this contingent liability in its financial statements.

Single status

65. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

66. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.

67. The council was one of the first councils in Scotland to implement the single status agreement in December 2006. The agreement is estimated to cost the council a further £2.5 million per annum.

Efficient government

68. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expects public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have been incorporated into the annual financial settlement provided to councils by the Executive. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.

69. The council has identified a number of cost pressures which impact on the council's finances. In order to meet these cost pressures and also keep council tax increases at an affordable level, the council identified the requirement to make financial/efficiency savings of £8 million and £7 million in 2006/07 and 2007/08. Within the 2006/07 savings, the council included efficiency savings targets of £1.5 million to replace the reduction in government funding arising from the efficient government initiative. These efficiency savings were to be met from improved procurement and absence management. For 2007/08 the equivalent target has been set at £3.2 million.

70. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Government, they had a responsibility to report efficiencies on the Government's five key operational themes as set out in "Building a Better Scotland" (Procurement, Absence Management, Asset Management, Shared Services and Streamlining Bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis.

Guidance was issued to all councils in May 2007 to assist in the preparation of standardised efficiency statements to be published for the first time in 2006/07.

71. The framework document was produced to assist councils in preparing efficiency statements for 2006/07. It was recommended that the Efficiency Statement should be published no later than 31 August 2007. The council has prepared an 2006/07 Efficiency Statement which highlights efficiency savings of some £4.9 million.

72. In line with most other councils, the council does not have an effective system to evidence that efficiency savings resulted in there being either no loss of service for less resources or improvements to the service for the same resources. While the introduction of efficiency statements improves the information available there is still some way to go until this issue is fully addressed. In a tightening fiscal environment and in pursuance of best value objectives, there will be a continuing need to identify and release efficiencies on an ongoing basis.

Key risk area 2

Asset management

73. Scottish councils control land, property and equipment valued at around £22 billion. Capital assets are the second highest cost incurred by local authorities after staffing. Prior to 2004, the legislation that controlled capital investment by local government did not contribute towards good asset management. Part 7 of the Local Government in Scotland 2003 Act introduced the Prudential Code which gave local authorities freedom to invest as long as their capital spending plans are affordable, prudent and sustainable. The Code is a fundamental component of an authority's financial governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.

74. The Government's Efficient Government Initiative identified asset management as one of five key areas for achieving efficiency improvements. Proper asset management is a vital part of being an efficient organisation including arrangements to ensure there are:

- strategies to reduce maintenance costs;
- proactive asset disposal policies;
- long-term capital planning and budgeting; and
- robust asset management monitoring information.

75. Our 2006/07 Audit Risk Analysis and Plan highlighted the need to develop asset management strategies and plans which provide information on assets held to support effective asset management and facilitate the delivery of the council's objectives. The council has since developed

'Better Assets, Better Services', a corporate Asset Management Plan (AMP) which was approved by the Policy and Resources Committee in August 2007. This will be supplemented by a comprehensive review of the council's fixed assets in 2007/08. Improved asset management planning should help ensure that all assets are used effectively and efficiently to deliver services in line with priorities.

Pension liabilities

76. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the eleven local government pension schemes in Scotland may be as high as £53 billion. There are proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost, although these have not yet been implemented.

77. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.

78. The Council's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the pension fund by £111.471 million, reducing from £140.618 million in the previous year. The actuary was required to make a three-year assessment of the contributions that should be paid by the employing authorities from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. Budgeted contributions are expected to rise from 240% of employee contributions in 2006/07 to 295% by 2008/09, reflecting the reduction in the funding level as at 31 March 2005.

79. The next full actuarial valuation will take place in 2008/09, assessing the position at 31 March 2008. This will determine future contribution rates. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners. For example, on retirement members can now elect to receive a larger lump sum payment in return for a reduced annual pension which has the effect of reducing the overall cost to the pension fund. The 2005 valuation did not make any allowance for these and they are expected to be reflected in contribution rates established following future actuarial assessments.

Other cost pressures

80. The Director of Finance reported a number of other cost pressures which impact on the council in his revenue budget report to the Policy and Resources Committee in February 2007:

- preparatory expenditure for the New Schools project;
- revenue implications of the capital programme;
- steeply rising costs from an increasingly elderly population and the costs associated with looked after children; and
- general price changes impacting on the diverse range of goods and services procured by the council.

Governance

Introduction

81. In this section we comment on key aspects of the council's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2006/07

82. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a sound control environment.

Best Value and Audit Forum

83. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda.

84. The council have established a Best Value and Audit Forum (BVAF) which operates as their Audit Committee but does not have formal committee status. Prior to the May 2007 local government elections, we attended the BVAF in March 2007. Following the elections, it has taken time to re-establish the BVAF, with the first meeting taking place on 12 October 2007.

85. CIPFA has published guidance on Audit Committees entitled *'Audit Committee Principles in Local Authorities in Scotland'* which sets out good practice principles for audit committees. The aim of the publication is to increase the effectiveness of Audit Committees and council's Audit Committees should be measured against these principles. The guidance suggests that the principle of openness and inclusivity should be considered in the operation of audit committees. We have noted that the council's BVAF is not held in public.

Key risk area 3

Internal Audit

86. The environment in which Internal Audit functions operate has changed markedly since the publication of CIPFA's Code of Practice for Internal Audit in Local Government in 2003. To ensure that the Code's requirements, which are mandatory for all local authorities and other relevant bodies under Section 95 of the Local Government (Scotland) Act 1975, continue to be fit for purpose, CIPFA's Audit Panel published a revise Code in December 2006. In general, the Code was brought in line with existing good practice and current professional standards.

87. Such changes to the Code have expanded Internal Audit's role and status within the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system.

88. As part of our annual audit, we carry out a review of the council's internal audit. As noted in the Internal Audit Manager's annual assurance report, the 2006/07 Internal Audit Plan was not completed in full, as a result of staffing difficulties encountered during 2006/07. Aside from this issue, we assessed that Internal Audit complies with CIPFA's Code of Practice.

89. We note that a new Audit Manager was appointed in November 2006 and the section was re-structured and new staff appointed earlier this year. We understand that Internal Audit is on course to complete its plan for 2007/08.

Risk Management

90. The Audit Manager recently conducted an audit of risk management within the council. In his report he concluded that limited assurance can be taken in relation to the adequacy of Corporate Risk Management arrangements within Falkirk Council.

91. In his audit report he noted that some progress has been made in embedding Risk Management across the council. The council has introduced a corporate Risk Management Group and the Corporate Risk Register has recently been updated. All Services have Risk Management plans in place, though not all of these are up to date. There is a commitment from senior managers to embed risk management across Services, but there remains considerable work to be done to achieve this.

92. Key elements of the risk management framework are either not in place or require to be updated. These include clarifying roles and responsibilities, reviewing the Risk Management Policy, and reviewing the role of the Corporate Risk Management Group. There is also a need to ensure that Risk Management is part of the business planning process and that there is a clear link between the Community, Corporate and Service risk registers

Key risk area 4

Systems of internal control

93. In his annual assurance report for 2006/07 the Audit Manager provided his opinion that he was able to give substantial assurance in respect of the effectiveness of Falkirk Council's framework of controls for the year to 31 March 2007. This opinion was based on the work that was carried out for 2006/07 together with the reviews that were undertaken for the previous year.

94. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on the council's main financial systems. We concluded that assurance could be taken on all the main financial systems with the exception of payroll and the system for processing journal entries, where some weaknesses in internal controls were identified. Additional substantive testing work was undertaken in these areas to gain assurance that the financial statements do not contain any material errors or mis-statements.

95. The control weaknesses identified during the work undertaken to assess the degree of assurance we could gain from the key financial systems, will be highlighted for management's attention in a Governance report which is being finalised and will be submitted shortly.

Prevention and detection of fraud and irregularities

96. At the corporate level, the council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption strategy, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

NFI in Scotland

97. In 2006/07 the council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£27 million up to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

98. The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the council's involvement in NFI 2006/07 during the course of our audit.

99. Falkirk Council is committed to the NFI with the designated key contact being the Audit Manager who has overall responsibility for coordinating & monitoring progress in the implementation of the initiative. Progress is reported periodically to the Best Value & Audit Forum.

100. The Council have chosen to work outwith the NFI web-based application using Excel downloads which are disaggregated by Internal Audit. This has the effect that interim reports cannot be downloaded automatically from the system & progress monitoring is reliant on e-mail queries and meetings. It is the council's intention that on completion of investigations the web-based application will be updated with the results.

101. While there is ample evidence that good progress with investigations are being made, the council did not submit an interim manual return in September and it is not therefore possible to quantify potential savings in 2006/07 (identified savings as at 31 March 2006 were £240,902). The timetable for the final return is 15 January 2008 and the method of working adopted by the Council means that work loads will be high at that time rather than spread throughout the year.

Governance outlook

102. Overall internal control arrangements mean that the council is well placed to address future challenges, but continued work to improve risk management arrangements is required. The new BVAF should review its performance against CIPFA's best practice principles in due course and ensure that it plays a full role in supporting continuing improvements to the overall governance of the council.

103. The council requires to remain vigilant against the risk of fraud and corruption, and the NFI provides an increasingly powerful tool to support efforts in this area.

104. Political governance arrangements should be kept under review to ensure that they best support changed circumstances, including the new system of multi-member wards.

Financial statements

Introduction

105. In this section we summarise key outcomes from our audit of the council's financial statements for 2006/07. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the council and its expenditure and income for the year; and
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

106. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

107. We have given an **unqualified** opinion on the financial statements of Falkirk Council for 2006/07.

108. The council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes were generally good, however there is scope for improvement in the information provided to support the financial statements. We have agreed with council officers to jointly conduct a post audit review to determine where improvements could be made in both the supporting information and the audit process.

109. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the council and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

110. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- replacement of the consolidated revenue account with a traditional income and expenditure account;
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit;
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses; and
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts.

111. The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources generated and consumed within that period in accordance with UK GAAP. This differs from the accounting basis used when setting the council tax for the year The key differences are:

- capital investment is accounted for as it is financed rather than when the assets are used; and
- retirement benefits are charged as amounts become payable to pension funds rather than recognising the future benefits earned.

112. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP. No significant adjustments were required to be made to the figures included in the un-audited accounts provided for public inspection.

Group accounts

113. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. The council prepared group accounts in accordance with the new requirements following a review to determine its interest in subsidiaries, associated entities and joint ventures.

114. The group accounts include the 2006/07 results of Central Scotland Police, Central Scotland Fire and Rescue and Central Scotland Valuation Joint Boards and Falkirk Community Stadium Ltd. The accounts of the latter two organisations were unaudited, but the auditors of these bodies have confirmed that there are no planned changes to the draft accounts. We have also been assured by the Director of Finance that he is not aware of any matters which would significantly affect the council's group accounts.

Public Private Partnership

115. In April 2007, the council provided a view on the accounting treatment of the Schools Non Profit Distributing Organisation Project for the construction of four new high schools in the Falkirk area. We have considered the council's proposed accounting treatment and have concluded that the council's final judgement on the proposed accounting treatment as off balance sheet is reasonable.

Fixed Assets

116. The council has included £15 million of assets not previously recognised in its fixed assets balance as at 31 March 2007. These assets were not included in the council's fixed asset register and were identified when the council was approached to sell the asset to third parties. The assets were accounted for at the expected sales proceeds value.

117. We have requested written confirmation from the Director of Finance that for 2006/07, no assets were omitted from the fixed asset valuation. The Director of Finance has confirmed that to the best of his knowledge and belief and having made appropriate enquiries of the council's Corporate Management Team, no assets were omitted. As noted at paragraph 76, we understand that a comprehensive review of fixed assets is planned for 2007/08.

Key risk area 5

118. The council has not charged depreciation on its council houses on the grounds that any depreciation would be immaterial. On the advice of the District Valuer, the council values its council houses using the 'Existing Use Value' (Social Housing) valuation method. This results in a lower valuation in comparison to other recognised valuation methods. The council believes that this valuation method also results in a high residual value for council houses in comparison to the asset value and on this basis has deemed depreciation to be immaterial.

119. Depreciation is required, not only to reduce the asset to its carrying value, but also to charge services with the use of assets resulting from the consumption of economic benefits. We have assessed the absence of depreciation for 2006/07 and consider the impact on the financial statements to be immaterial. We would recommend that this is reviewed in future years, however.

Key risk area 6

120. The SORP requires an impairment review to be carried out in three specific cases:

- if events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable;
- where assets are not depreciated;
- where the estimated remaining useful life of the fixed asset exceeds 50 years.

121. As noted at paragraph 118 above, council houses are not depreciated. We also noted that one of the council's assets, Callander House, has an estimated remaining useful life of 90 years. The council has not carried out a documented impairment review of these assets as required by the SORP.

Key risk area 7

Legality

122. We have requested written confirmation from the Director of Finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Director of Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the council's Corporate Management Team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

123. Local authorities with registered charitable bodies (including relevant trust funds) are required to comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The effect of the Act and Regulations appears challenging with the volume of individual trusts under the control of some authorities as a full set of charities SORP compliant financial statements is required for each charitable trust fund.

124. The Office of the Scottish Charities Regulator (OSCR) is responsible for facilitating and monitoring compliance with the Act and Regulations. In discussion with the CIPFA Directors of Finance section, OSCR has agreed transitional arrangements for 2006/07, highlighting a wish to adopt a proportionate approach to any remedial action taken in response to breaches of the legislation. In particular it will be sufficient that the audited accounts of the Council under the local government SORP be passed to OSCR by 31 December 2007 together with a further analysis providing a breakdown of the accounts of each registered charitable body. Discussion is continuing in relation to arrangements for the future transition toward full compliance with the requirements of the Act and Regulations.

125. We have been advised that the council has only one trust fund which is currently registered as a charity and therefore do not anticipate significant difficulty in complying with the legislation.

126. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

127. Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and to changing accounting rules. Work will be required to review a number of specific aspects of accounting practice in relation to fixed assets including the non-depreciation of council houses and to perform completeness checks on assets registers.

Changes to the 2007 SORP

128. Amendments have been made to the 2007 SORP to incorporate the requirements of new accounting standards on financial instruments (FRS 25 and FRS 26). This will require any premium or discount on loans that have been re-scheduled to be charged to income and expenditure in the year it is incurred rather than being written off over the period of the replacement loan, which can be up to 40 to 50 years. The Scottish Government has issued statutory guidance which mitigates the impact on council tax by permitting authorities to reverse the entries in the statement of movement on general fund balance and replace an amount writing-off the premium or discount over the life of the replacement loan. However, the statutory guidance restricts the write-off period where replacement debt is a variable interest loan, or has an option or condition which allows the lender to vary the interest rate (known as LOBOs), to a maximum of 20 years.

129. The effect of this change will be to significantly increase the annual charge to the income and expenditure account in the year that any future loan restructuring takes place, with an adjustment being made to the charge to the general fund. Where the replacement debt is subject to a variable interest rate or is a LOBO the annual charge to the general fund will typically be greater than currently experienced (broadly about twice as much). In other cases there will be no change to the impact on the general fund compared to current practice. Existing balances may continue to be written off over current periods.

130. From 1 April 2007 the Fixed Asset Restatement Account and Capital Financing Account will be replaced by a Revaluation Reserve and a Capital Adjustment Account respectively. It should be noted that this change will be a change of accounting policy and will require a prior year adjustment. Appropriate steps should be taken in preparation for this change that will impact on the 2007/08 financial statements

International Financial Reporting Standards

131. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IRFS) with effect from 2008/09. The government also announced its intention to publish whole of government accounts on an IFRS basis from 2008/09.

132. After discussion, CIPFA/LASAAC has agreed for 2008/09 to continue to adopt IFRS within the SORP through the application of UK GAAP. It is considered that the accounts are likely to be materially similar to those prepared under IFRS because the SORP has been following the Accounting Standards Board's international convergence agenda.

133. CIPFA/LASAAC will also work with the Treasury to ensure that consolidation information, appropriate to the sector, is available in 2008/09 for local government whole of government accounts. A move toward full IFRS compliance is anticipated in 2009/10. Any future move to IRFS in local government is likely to have a significant impact in two primary areas.

134. Changes will be made to accounting for fixed assets, particularly in relation to infrastructure and heritage assets. The first significant practical implication is that councils will need information systems to identify sufficient data, such as road lengths, to support new valuation models to be used in whole of government accounts from 2008/09. Comparative information will be required as at 31 March 2008.

135. Existing IFRS do not address PPP accounting in the public sector, although they do address how these transactions should be accounted for in the private sector. The existing accounting practice in the public sector is significantly different from that indicated in the IFRS for the private sector. Current practice is based on an assessment of relative risk borne by either party to the PPP contract. The IFRS is based on who controls the services to be provided, to whom and at what price; and who controls the residual interest at the end of the PPP. The Treasury is considering the appropriate form of accounting for the public sector side of PPP transactions and expect to bring proposals to the Financial Reporting Advisory Board later in the year.

136. Looking ahead, if IFRS principles are applied in the public sector then many PPP assets are may well be brought onto public sector balance sheets.

Final Remarks

137. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.

138. Attached to this report is an action plan setting out the key risks identified in the course of this year's audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.

139. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of action planned by officers. We will review the implementation of agreed actions in the course of future audits.

140. The co-operation and assistance given to us by Falkirk Council members and staff is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	14	**Statutory Performance Indicators** A fifth of the council's reported statutory performance indicators display a deterioration in performance in excess of 5%. A review of these indicators and the preparation of an improvement plan would provide a platform for improving these indicators. ***Risk: without an improvement plan there may be no reversal of deteriorating performance.***	Performance will be reviewed in reports to both the Corporate Management Team and the BVAF.	CMT	Ongoing/ 31/03/08
2.	72	**Efficiency programme** In a tightening financial environment and in pursuance of best value objectives there is a need to identify and release efficiencies on an ongoing basis. The council needs to develop a systematic process for measuring and monitoring efficiency savings. ***Risks: the Council is unable to achieve the efficiencies necessary.*** ***It is unclear the extent to which savings comply with definitions of efficiency. Savings achieved impact on service quality and outputs to a greater extent than intended.***	In line with most Councils, we will continue to develop our processes, taking into account guidance received from Cosla/ Improvement Service which aims to develop a more consistent approach across Councils.	Director of Finance / Director of Corporate & Commercial Services	Ongoing/ 31/03/08

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	85	**Best Value and Audit Forum** Following the May 2007 local government elections, the council has re-established the Best Value and Audit Forum which effectively acts as the council's Audit Committee. There would be merit in assessing the Forum against CIPFA's guidance on *'Audit Committee Principles in Local Authorities in Scotland'*. The CIPFA guidance suggests that the principle of openness and inclusivity should be considered in the operation of audit committees. We have noted that the council's BVAF is not held in public. ***Risk: The Best Value and Audit Forum may not be performing an effective scrutiny role.***	No immediate action proposed at present. We would contend that the BVAF has performed an effective scrutiny role. However, Members may wish to review whether meetings are held in public.	N/A	N/A
4.	92	**Risk Management** Key elements of the risk management framework are either not in place or require to be updated. The council needs to fully imbed risk management within its strategic and operation planning. ***Risk: a failure to identify and manage risk may leave the council exposed to financial loss or performance failure.***	The Corporate Risk Management Group is in the process of implementing all the recommendations arising from the recent review by Internal Audit.	Director of Development Services	Ongoing/ 30/06/08
5.	117	**Discovered assets** Assets disposed of during 2006/07 had not previously been recorded in the council's asset register. A comprehensive review of assets is planned for 2007/08 ***Risk: the council's record of fixed assets it holds is incomplete, impeding future reporting and decision making.***	The Head of Economic Development circulated all Services on 11/10/07 with a record of their listed properties and seeking confirmation/ amendments.	Head of Economic Development	31/03/08

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6.	119	**Non-depreciation of council houses** The council has not charged depreciation on its council houses on the grounds that any depreciation would be immaterial. Depreciation is required, not only to reduce the asset to its carrying value, but also to charge services with the use of assets resulting from the consumption of economic benefits. ***Risk: failure to depreciate council houses may mean the consumption of economic benefits is not properly recognised, impeding reporting and decision making.***	The Council adopts one of the approved valuation methodologies and one which is viewed strongly by the District Valuer as most appropriate for social housing assets. The only action is to continue to seek comfort and confirmation from the District Valuer on an annual basis that the estimated residual value does not justify depreciation.	Head of Treasury & Investment	Annual Review
7.	121	**Impairment reviews** The SORP requires an impairment review to be carried out where assets are not depreciated or assets have an estimated remaining useful life in excess of 50 years. The council has not depreciated council houses and holds an asset with an estimated life of 90 years. ***Risk: failure to carry out targeted impairment reviews may mean asset carrying values are not kept properly under review for changed circumstances, impeding reporting and decision making.***	As an inherent part of the management of the Council's housing stock, regular monitoring of the housing stock is undertaken by a variety of means, including condition surveys. This data drives capital investment and pre-planned maintenance priorities. Beyond this, there would need to be a material event that would in Best Value terms justify a formal Impairment Review. In a similar vein, the asset with a life in excess of 50 years is a high profile operational asset. An annual internal statement will be produced showing that the impairment status of the assets has been reviewed.	Head of Treasury & Investment	31/03/08