



SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW



Fife Council

**Annual Report to Fife Council and the
Controller of Audit
2006/07**



Fife Council

Annual Report to Fife Council and the Controller of Audit 2006/07

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1 Summary

Financial Statements

- We are pleased to report that in 2006/07 the Council complied with The Code of Practice on Local Authority Accounting in the United Kingdom in all material aspects.
- The Council reported a general fund surplus of £3.198 million in 2006/07 compared with a budgeted surplus of £3.360 million. The general fund balance brought forward of £6.359 million at 1 April 2006 increased to a cumulative net surplus of £9.557 million at 31 March 2007.
- In its accounts, the Council has earmarked reserves of £11.217 million which leaves the Council with a potential general fund deficit of £1.660 million. The Council has, however, approved a restriction on the level of budget carry forward, consistent with the Council's Budget Carry Forward Scheme, to ensure that the opening balance for 2007/08 was in surplus.
- The Council's approved policy is to maintain a minimum balance of 2% of general fund expenditure, or where stability exists, a balance of 1.25% of net service budgets is considered acceptable. The Council is predicting a projected deficit in the unearmarked general fund balance in 2007/08. The current financial position compromises the Council's approved policy to restore balances to a minimum level of £9 million over a three year period commencing April 2007. In order to restore balances to the approved policy levels the proposed budget strategy includes £5 million contribution to balances per annum.
- The Council's final capital outturn showed an overall variance against the capital budget of £19.553 million. Over 40% of the budget was spent in the last three months of the year.
- The Council's Building Services significant trading operation is in its fourth year of operation and has delivered a surplus of £3.106 million in 2006/07 which has resulted in the STO achieving a cumulative, 3 year, surplus of £8.657 million as at 31 March 2007. As a result, the service has met the statutory target to breakeven over the course of the three year period to 31 March 2007.
- A new pay and grading structure was implemented by Fife Council in June 2007 with an effective date of 1 April 2006. The costs associated with single status have resulted in a major impact on the pay budget. £7 million has been provided for the costs of this within the 2007/08 budget, with a further £3 million provision carried forward from 2006/07.
- The Council's second PPP project "Expanding Horizons" has been accounted for the first time in the 2006/07 financial statements as facilities have come on stream during the year.
- In overall terms we found the Council's accounting systems and internal financial controls to be operating effectively.

Corporate Governance Arrangements

- Fife Council has experienced significant changes to council membership following the 2007 elections. 43 of the 78 members are new members and the administration (formerly Labour) is now a coalition

between SNP and Liberal Democrats. A new committee structure was established following the elections.

- The Council also experienced changes at a non-political level, including the appointment of a new Chief Executive in 2006 and a revision to roles, responsibilities and structures at executive director level.
- Fife Council's governance arrangements have meant that the Council has been largely able to deliver the audit committee principles set out in the CIPFA guidance and the Standards and Audit Committee's work has had a positive impact on the Council's overall corporate governance framework.
- Fife Council participated in the National Fraud Initiative (NFI) in 2006/07. Whilst work has been undertaken at a departmental level, we are concerned that the initiative has not been given the appropriate level of priority at the Council.

Performance Management and Audit

- The Council is reviewing its performance management arrangements. SOLACE Enterprises has also been commissioned to review the linkage across the planning and performance framework.
- There is a commitment to joint working from partners within Fife and a key strength is the drive from the Council to be an exemplar of community planning.
- Although the Council believes that a suite of best value reviews will deliver significant savings there is currently no evidence of these savings.
- Adequate arrangements are in place at Fife Council to ensure that published statutory performance indicators are accurate and complete.

Conclusion

This report concludes the 2006/07 audit of Fife Council. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland. Subject to the weaknesses and improvements identified in this report, we are satisfied that Fife Council has properly discharged its duties in accordance with the Code of Audit Practice.

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

We would like to thank all members of Fife 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 2007

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 Scottish local government and assists in achieving value for money. The Accounts Commission is also responsible for appointing external auditors within local government and for determining their terms of appointment. Scott-Moncrieff is the appointed auditor to Fife Council for the years 2006/07 to 2010/11.

Audit Scotland is an independent statutory body that provides services to the Accounts Commission. Audit Scotland has prepared a Code of Audit Practice, which describes how external auditors should carry out their functions, and embodies the best professional practice to be adopted.

This annual report summarises our 2006/07 audit of Fife Council and highlights the key issues arising from our work.

2.2 Responsibilities of Fife 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 headings: financial statements and corporate governance, performance management and audit and reporting the audit. Our main responsibilities for each of these areas is summarised as follows:

Auditors' Responsibilities	
Financial Statements and Governance	
Financial Statements	<p>To provide an opinion on whether the financial statements:</p> <ul style="list-style-type: none"> • present fairly, as appropriate, the financial position of the Council and its income and expenditure for the year • have been properly prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements
Corporate Governance	<p>To review and report on the Council's corporate governance arrangements as they relate to:</p> <ul style="list-style-type: none"> • The prevention and detection of fraud and irregularity • Standards of conduct and arrangements for the prevention and detection of corruption • The Council's financial position. • The Council's review of its systems of internal financial control, including reporting arrangements
Performance Management and Audit	
Performance Management and Audit	<ul style="list-style-type: none"> • The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning • To review and report on the arrangements that the Council has made to prepare and publish performance information in accordance with directions issued by the Accounts Commission
Reporting the audit	
	<p>As a minimum we are required to provide:</p> <ul style="list-style-type: none"> • An independent auditors' report addressed to the Council and the Accounts Commission including an opinion on the financial statements • An annual audit report addressed to the Council and the Controller of Audit. • Reports or letters addressed to the management of the Council, and where required, council members bring their attention to matters arising from auditors' work under the Code • An opinion on specific matters such as Whole of Government Accounts, grant claims and statistical returns

2.4 Independence and ethical standards

Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- There are and have been no relationships between Scott-Moncrieff and the Council, its members and senior management that may reasonably be thought to bear on our objectivity and independence,
- Scott-Moncrieff has not provided any consultancy or non-audit services to the Council

Our external audit fees for 2006/07 were:

Statutory audit fee (including VAT but excluding Audit Scotland charges) **£410,000**

2.5 Priorities and Risks Framework

Central to our audit is a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Council. This ensures that our audit focuses on the areas of highest risk.

The scope of our audit work is informed by Audit Scotland's Priorities and Risks Framework (PRF) tool. The PRF is an audit planning tool designed by Audit Scotland and issued to all external audit providers within the sector. The PRF is designed to assist auditors in developing an understanding of a number of key issues which are impacting on the local government sector in Scotland and the potential risk areas associated with each issue. The PRF is used to assess the impact that each issue is having on Fife Council and the methods employed by the Authority to manage those risks of greatest significance.

The PRF guidance provided by Audit Scotland has identified key priorities and risk areas as follows:

Governance & Performance Management <ul style="list-style-type: none">• Supporting Political Governance;• Community Planning and Partnership Working; and• Performance Management.	Efficient Government and the Efficient Use of Resources <ul style="list-style-type: none">• Financial Planning;• Workforce management; and• Procuring and managing assets.
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As part of our annual planning process we used the PRF tool to identify some of the key risks facing Fife Council and the steps taken by the Council to mitigate those risks from materialising.

2.6 Audit Reporting

We have prepared the following detailed audit reports during 2006/07:

- Corporate Governance Arrangements
- IT Governance Arrangements
- Interim Management Report – financial statements and accounting systems

- Linking Performance Targets and Performance Reporting
- Compliance with Financial Regulations (currently in draft)

This annual report summarises all of our work during the year and highlights the key issues we have identified under the headings of financial statements, governance and performance management and audit. 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 Financial Statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. The Code of Audit Practice gives the external auditor a responsibility to review and, where appropriate, report findings on Fife Council's financial statements. Our responsibilities are summarised below:

Auditors' Responsibilities	Para Ref
Financial Statements	
To provide an opinion whether the financial statements:	
<ul style="list-style-type: none">present fairly, as appropriate, the financial position of the Council and its income and expenditure	3.1
<ul style="list-style-type: none">have been properly prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements	3.3

3.1 Audit Opinion

Our audit report included on pages 72 and 73 of the annual accounts is addressed to the Members of the Council and the Accounts Commission for Scotland. The report was issued on 28 September 2007 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 Fife Council financial and accounting information to stakeholders.

3.2 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 confirm that the Council adhered to this requirement by lodging accounts with the Controller of Audit on 28 June 2007.

3.3 Format of the Accounts

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006 (the SORP). The SORP specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local authority and to prepare group financial statements where they have material interests in subsidiaries, associates or joint ventures.

The SORP is reviewed and updated annually by the CIPFA/LASAAC Joint Committee and the 2006 version, applicable to 2006/07, was issued in July 2006. The 2006 SORP contains a number of substantive changes from the previous edition, including:

- Changes to the single entity statement of accounts comprising the replacement of the Consolidated Revenue Account and Statement of Total Movement in Reserves with an Income and Expenditure Account, Statement of Movement on the General Fund Balance and Statement of Total Recognised Gains and Losses.
- A requirement to follow a consistent approach to the order of the financial statements.
- Changes to the format of the Housing Revenue Account to bring it into line with the new format.
- Certain income and expenditure items such as depreciation, losses on impairment of fixed assets and releases from the government grants deferred account are now to be taken directly to services in the I&E account and shown as reconciling items on the statement of movement on the general fund balance.
- The gain or loss on disposal of fixed asset requires to be calculated and dealt with in the I&E account. It is then shown as a reconciling items on the statement of movement on the general fund balance.

As part of our 2006/07 audit we considered the arrangements Fife Council had in place to ensure the appropriate changes were made to the financial statements. Overall we concluded that the Council had complied with the new requirements of the SORP.

3.4 Summary Financial Position

3.4.1 General Fund

Fife Council achieved a general fund surplus of £3.198 million in 2006/2007. The general fund balance brought forward of £6.359 million at 1 April 2006 increased to a cumulative net surplus balance of £9.557 million at 31 March 2007. An analysis of the Council's general fund reserve at 31 March 2007 is presented below:

Analysis of General Reserves as at 31 March		
	2007	2006
	£'000	£'000
General Fund surplus at end of year	9,557	6,359
Less Earmarked Reserves		
• Tourist Development Fund	(757)	(889)
• Energy Management Fund	(707)	(329)
• Budget Carry Forward Scheme	(625)	(1,874)
• Devolved School Management	(875)	(675)
• Ring Fenced Projects	(3,342)	(2,819)
• Change Fund	(630)	(2,518)
• Single Status	(3,019)	(0)
• Other Commitments	(1,262)	(1,214)
Total Earmarked Reserves	(11,217)	(10,318)
Uncommitted Deficit on General Fund	(1,660)	(3,959)

The analysis above indicates that the Council has earmarked reserves of £11.217 million which leaves the Council with a general fund deficit of £1.66 million assuming maximum budget carry forward. The Council's approved policy is to maintain a minimum balance of 2% of General Fund Expenditure, or where stability exists through, for example, long term pay agreements a balance of 1.25% of net service budgets is considered acceptable. This corresponds to a general fund surplus balance of between £7.5 million and £12 million.

The Council's budget carry forward scheme allows year on year flexibility and permits an under spend of up to 2.5% to be carried forward, conditional on the Council having sufficient balances. The scheme also permits overspends on the basis that they are deducted from the following year's budget. On 2 August 2007, a paper was presented to the Policy, Finance and Asset Management Committee recommending that the budget carry forward position is restricted to 1.5% in order to avoid the uncommitted general fund balance being in a deficit position and as part of the wider budget strategy of restoring the Council's reserves to the minimum policy level. Following the agreement of this decision the budget carry forward of £0.675 million underspend in 2006/07 changed to a net 'claw back' of £1.833million of the overspend in 2006/07 against 2007/08 expenditure. The 2007/08 annual estimates have been updated to show this net reduction. The report also proposed to earmark a further £0.485 million of the general fund balance.

Allowing for these post year-end adjustments, the Council is reporting a revised uncommitted surplus on the general fund of £0.313million.

3.4.2 Financial Performance

The Council reported an adverse variance compared with the budget of £0.162million. The main factors contributing to this adverse variance are summarised below:

Reconciliation of budgeted surplus to actual surplus		
	2006/2007 £million	Reference
Budgeted Surplus	3.360	
Significant Factors		
• Service overspends	(7.661)	Note 1
• Service underspends	5.957	Note 2,3
• Lower loans charges (including IORB)	2.123	
• Equal Pay Claims	(0.220)	
• Spend to Save	0.450	
• Reduction in council tax income	(1.457)	Note 4
• Other	0.646	
Total 'significant factors'	(0.162)	
Income and Expenditure Account Surplus	3.198	

Note 1: Children's and Adult Services (overspend £5.892 million)

Children and Adult Services reported an overspend of £5.892 million (1.39% of budget). A large proportion of this overspend is within Social Work (£6.598 million). The overspend is primarily due to an increase in demand from vulnerable clients resulting in a higher level of service provision in four areas.

Social Work overspends			
	2005/2006 £million	2006/2007 £million	2007/2008 £million *
Residential placements for children		5.400	1.500
Increase in number of foster cares and children placed with foster carers	2.939	1.125	1.723
High cost adult placements	2.568	4.773	2.876
Home care client hours and associated running costs	0.873	1.343	0.718
* reported position to Policy, Finance and Asset Management Committee (September 2007)			

The table above illustrates that the Council has incurred repeated overspends in these four areas. A report to the Policy, Finance and Asset Management Committee recognised that the level of potential overspend is unsustainable and has instructed all Services to contain expenditure within the approved budget provision. We understand that the Council is actively reviewing alternative service delivery

options e.g. bringing back high cost children placements to Foster Care in Fife in order to work within the stated budget levels.

Note 2: Service Support (underspend £1.402 million)

The Council has achieved improved surplus levels within Building Services as a result of additional capital project work arising from the Council’s capital investment programme.

Note 3: Finance and Asset Management (underspend £0.706 million)

This underspend is due primarily to the strict management of vacancies by the Service coupled with additional income.

Note 4: Income from Council Tax/Community Charge (overspend £1.457 million)

When setting the budget for 2006/07, the Council anticipated that the baseline properties would increase by 1.25%. During the year the actual rise in baseline properties was 0.93%.

3.4.3 2007/08 Financial Position

In February 2007 the Council’s budget for 2007/08 was agreed and an increase in Band D Council Tax of 2.5% was approved. The approved budget for 2007/08 identified cost pressures amounting to £42.6 million in its original consideration of the budget. The main cost pressures can be summarised as follows:

Fife Council budget pressures (2007/08)	
Expenditure Categories	Cost Pressures £million
Single Status	7.000
Restoration of Balances	3.000
IT Investment Plan	1.000
Expanding Horizons Project	7.850
Provision for Loan Charges	2.540
Children & Families (in particular children’s placements)	3.793
Adults with disabilities	3.267
Care for the elderly	1.959
Care home fees	1.091
Changing Children’s Services	1.358
Increase in energy prices	7.149

In setting the 2007/08 budget the Council identified a funding gap of £26.997m. This funding gap will be addressed through efficiency savings and an increase in council tax.

3.4.4 2007/08 Financial Performance

A report was submitted to the Policy, Finance and Asset Management Committee in September 2007 providing a high level update on the Council’s financial position for 2007/08. The Council is currently

predicting an overall projected overspend of approximately £7.5million. Significant overspends are projected in Education and Social Work. There is also a shortfall in Council tax income as the baseline number of band D equivalent properties has not increased as anticipated with the budget. The reasons for the anticipated overspends are similar to those reported in 2006/07.

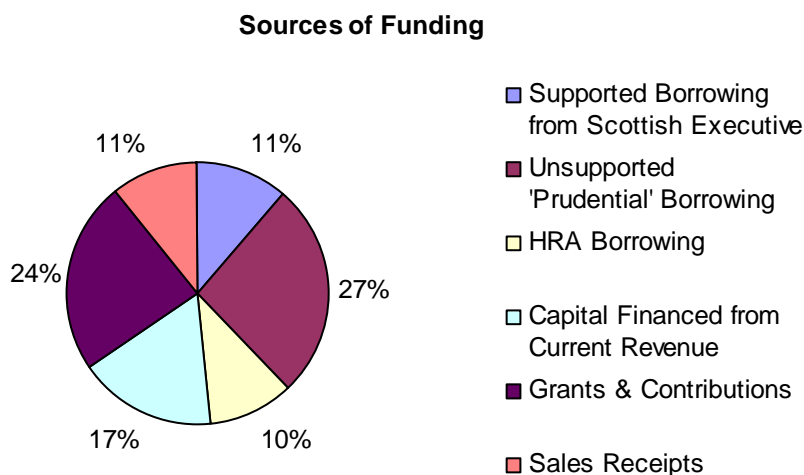
The Council is also predicting a projected deficit of £4.496million in the un-earmarked general fund balance. The current financial position compromises the Council's approved policy to restore balances to a minimum level of £9m over a three year period commencing April 2007. In order to restore balances to the approved policy levels the budget now includes a £5 million contribution to balances per annum. To safeguard the Council's financial position it is imperative that service expenditure is contained within budget and members sanction appropriate corrective action.

3.4.5 Housing Revenue Account

The Housing Revenue Account incurred a deficit of £1.536 million in 2006/2007 compared to a budgeted deficit of £1.500 million. The surplus brought forward of £4.559 million at 1 April 2006 therefore decreased to a balance of £3.023 million at 31 March 2007. The Council has earmarked £1.5 million in relation to expenditure required to bring the housing stock up to the Scottish Housing Quality Standards.

3.4.6 Capital Expenditure

During the year the Council spent £142.303 million on capital expenditure. This was financed by borrowing, capital grants and capital receipts.



The table below provides an analysis of the Council's actual performance against its capital programmes during the financial year. The Council has re-phased £19.553 million to 2007/08.

Capital Expenditure 2006/2007 (£ Million)				
	Actual	Budget	Under spend	Under spend %
General Fund	98.107	117.393	(19.286)	(16.43)
Housing	38.822	38.822	0	0
Police	2.721	2.988	(0.267)	(8.94)
Fire	2.653	2.653	0	0
TOTAL	142.303	159.906	(19.553)	(12.23)

Budget monitoring reports presented to the Policy, Finance and Asset Management Committee provide an explanation for the main reasons for slippage against the capital plan. We noted that there are projects which continue to report slippage on an annual basis. These include:

- Improving Fife's Strategic Communications Network – reschedule of works Markinch Station due to initial delays
- Contractual delays Kirkcaldy Bus Station under the Quality Bus Interchanges Project

In our interim corporate governance report we noted that capital budget monitoring reports presented to the Policy and Resources Committee in February 2007 reported actual expenditure to 31 December 2006 as £95.6million. This represented 59.6% of the approved budget and projected outturn. In 2005/06, the Council had incurred approximately 42% of the projected outturn at this point in time and reported an underspend against budget at 31 March 2006 of £40.462 million. Total capital expenditure incurred by the Council in 2006/07 has increased by 40% in comparison with the previous year.

Whilst the Council is reporting an improvement on the variance experienced in previous years, we remain concerned that approximately 40% of the budget was spent in the last three months of the year. We recognise that the capital programme is a five year plan and some slippage is inevitable and beyond the Council's control however it is essential that there are effective project management and monitoring arrangements in place to ensure the programme is delivered.

3.5 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. Fife Council's financial statements include a STO covering its Building Services operations. The Building Services STO is in its fourth year of operation and delivered a surplus (for statutory purposes) of £3.106 million in 2006/07 which has resulted in the STO achieving a three-year cumulative surplus of £8.657 million as at 31 March 2007.

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. In April 2006, Fife Council carried out a re-assessment of all the Council's income generating Services to

ensure all potential STO's had been identified and reported. Of the 46 operations identified, 19 were assessed as trading operations. Only Building Services however was deemed to be a significant trading operation. We consider Fife Council's assessment of which activities should be classified as STO's to be reasonable.

3.6 Single Status/Equal Pay

The Single Status agreement was introduced in 1997 and was designed principally to harmonise the terms and conditions of service for manual employees and other APT&C employees. The main features of the agreement are a single spinal column for all staff and a new scheme of terms and conditions.

A new pay and grading structure was introduced by Fife Council with an effective date of 1 April 2006. A new modernising employment package has been negotiated and a collective agreement with UNISON, GMB and TGWU has been achieved on terms and conditions with an implementation date of June 2007.

The costs associated with single status issues have resulted in a major impact on the pay budget (£7m has been provided for in both 2006/07 and 2007/08 budget). This has focussed attention within services on working practices and the level of services provided. A temporary recruitment freeze put in place to encourage and allow managers to focus on whether the role/work undertaken by a recently vacated post needs to continue in the same way or whether modifications could be made to assist in a better service being provided has now been relaxed although restrictions are still being applied.

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.

In 2005/06, Fife Council's provided for such claims in the financial statements. This amounted to £29.5 million following acceptance of a high risk of liability for claims from approximately 4,000 employees. The majority of these claims have now been settled and paid from this provision. An assessment of the remaining claims has resulted in the Council providing for an additional £0.220million in 2006/07.

3.7 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.

During the year, Fife Council examined its relationships with third parties to determine the subsidiaries, associates and joint venture undertakings which would require consolidation into the financial statements of the Council. The exercise concluded that Fife Council does not currently have any financial relationships with third parties organisations which would constitute a material interest in subsidiary, associates or joint venture undertakings. The Council therefore has not prepared group accounts in 2006/07. We confirm that we are satisfied with the review and decision making arrangements adopted by Fife Council in arriving at this conclusion.

3.8 Debt Restructuring

The Council carried out four debt restructuring exercises during the period to 31 March 2007. In each of the transactions a number of fixed rate, Public Works Loan Board (PWLB) loans were redeemed (£240 million) and replaced by a mix of Lender Option Borrower Option (LOBO) and PWLB loans. In total a discount of £0.222million was achieved. This restructuring was undertaken to minimise interest costs.

The 2006 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 income and expenditure 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, in relation to premiums incurred before 2006/07, allowing deferral of the write-off of the premium to the income and expenditure 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.

We confirm our agreement to this treatment in 2006/07 however we would draw the Council's attention to the significant changes required in 2007/08 regarding the accounting treatment for debt restructuring arrangements.

3.9 PPP

The Council has two Public Private Partnership (PPP) schemes within its Schools Estate Strategy. PPP1 "A New Way Forward", involving three schools, a sports hall and an all weather pitch was completed and available for Council use in August 2003. The total capital construction costs for this project amounted to £42.8m.

The second PPP project, "Expanding Horizons", involves 9 primary schools. All of the facilities, apart from the Duloch campus, are now open. Construction at Duloch was scheduled to be completed by the end of June 2007.

Since the facilities have come on stream on a phased basis, the actual unitary charge payable in 2006/07 was limited to £1.303m. For 2007/2008 the estimated (full year) unitary charge is £6.737m. Revenue support from the Scottish Executive is fixed at £4m per annum.

For both PPP schemes, the previous external auditor concluded that the transactions should be accounted for as off the Council's balance sheet and accordingly the schools are not included as the Council's assets in the Balance Sheet. At the end of each contract period, the facilities will revert to Council ownership for a zero consideration, and thereafter the Council will be responsible for all future operational and maintenance matters.

3.10 Matters Arising from the Audit of the Financial Statements

3.10.1 Fixed Assets

The balance sheet shows that Fife Council's portfolio of fixed assets was valued at over £1.141 billion as at 31 March 2007. 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 SORP. We identified a number of weaknesses in Fife Council's approach to fixed asset accounting which we have incorporated into this report's action plan.

3.10.2 Common Good and Trust Funds

Fife Council is the administrator of Common Good Funds for the former Burgh Councils. The records of the Common Good were inherited by the former District Councils in 1975. 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.

The Council also acts as a Trustee for 190 separate Trust Funds or Bequests.

The Common Good funds and Trust Funds have fixed assets to the value of £3.340 million. The audit work performed has highlighted concerns over the accounting treatment for fixed assets of the Common Good and Trust Funds.

The history of the Common Good dates back several hundred years and the accuracy of the records reflect this passage of time. Local “worthies” and others who have a historical knowledge of a particular area often allege that certain areas of ground, rights of way and other assets belong to the Common Good, despite the fact they have never been recorded as such by the former Burgh Councils.

It is acknowledged that the history and context of Common Good and Trust assets can increase the complexity of record keeping. However, there continues to be some discrepancies between the various sets of such asset data held across the council. For example, records vary between Estates, Finance and Legal and Administration. We also encountered problems in agreeing property details back to title deeds – in many cases, the details held in the asset records we were provided with did not give sufficient information to allow the Legal and Administration team to identify the title deeds for that particular property.

We understand that a working group has been established to consider these issues, and we would recommend that records are harmonised to ensure consistency and accuracy in the data held as soon as is possible.

Furthermore, there does not appear to be a formal revaluation policy which is being applied for Common Good and Trust assets. Whilst many such assets are specialist in nature, there should be a rolling programme where different types of assets are formally revalued on a regular basis to ensure that carrying values in the accounts are accurate. Revaluations undertaken to specific assets should be recorded separately in asset records. Records provided to us show that these revaluations are being applied to classes or types of assets within each geographical area.

We understand that the accounting treatment across Scottish Local Government varies with some authorities depreciating common good assets and others not. Accounting standards however dictate that the assets of the Common Good and Trust Funds should be subject to depreciation and that this should be charged to the revenue account on an annual basis. The depreciable amount of a tangible fixed asset should be allocated on a systematic basis over its useful economic life. The depreciation method used should reflect as fairly as possible the pattern in which the asset’s economic benefits are consumed.

3.11 Future Developments

3.11.1 2007 SORP

As noted previously, a number of substantive changes were introduced in the 2006 SORP. Further changes are to be introduced in the 2007 SORP. From 1 April 2007 the Fixed Asset Restatement Account and Capital Financing Account will be replaced with a Revaluation Reserve and Capital Adjustment Account. This change will be a change in accounting policy and will require a prior year adjustment. It is essential that the Council starts preparing for these changes, which are likely to involve significant changes to the fixed asset register systems and data as soon as possible.

3.11.2 International Financial Reporting Standards

The Budget 2007 included a number of policy announcements regarding future public sector financial reporting. In particular it was announced that:

- In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, from 2008/09 central government accounts would be prepared using International Financial Reporting Standards (IFRS) adapted as necessary for the public sector.
- Whole of Government Accounts would now be published for the first time for the 2008/09 financial year. This revised timetable is to allow time to complete alignment of local and central government accountancy policies and to enable WGA to be prepared on the new IFRS basis.

The impact of the adoption of IFRS within Whole of Government Accounts and ultimately within local authority accounts is currently being considered by CIPFA and the Board responsible for issuing the SORP. The two major effects are likely to be:

- The requirement to value local authority infrastructure assets (roads, paths, bridges, coastal defences) on a current valuation basis.
- The expectation that under IFRS more PPP and similar schemes will come 'on to' the public sector balance sheet. Up until now it has generally been a feature and requirement of such schemes that they be treated as 'off' the balance sheet of the public sector. This would mean for example that new schools built under PPP financing schemes may revert back to an authority's balance sheet.

The detail behind these proposals is still being considered however it is likely to mean there will be substantial changes to local authority accounts over the next 2-3 years.

4 Governance Arrangements

4.1 Introduction

Corporate Governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. Through the chief executive and section 95 officer, Fife Council is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

4.2 Code of Audit Practice

The Code of Audit Practice gives the external auditor a responsibility to review and, where appropriate, report findings on Fife Council's corporate governance arrangements.

Auditors' Responsibilities	Para Ref
Corporate Governance	
To review and report on the Council's corporate governance arrangements as they relate to:	
• The prevention and detection of fraud and irregularity	4.8
• Standards of conduct and arrangements for the prevention and detection of corruption	4.7
• The Council's financial position	3.4
• The Council's review of its systems of internal financial control, including reporting arrangements	4.6

In discharging these responsibilities we carried out a review of the Council's governance arrangements during 2006/07. This review included consideration of the Council's structures for decision making before and after the 2007 local government elections, 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 our work on corporate governance are summarised below:

4.3 Structure of the Authority

4.3.1 Committee Structure

Prior to the local government elections in May 2007, Fife Council's policy decisions were delegated to five strategic committees (Policy and Resources, Adult Services, Children's Services, Community Safety and Environment and Development). To assist each committee in carrying out a scrutiny role, each committee established a scrutiny sub-committee.

Following the elections, the Council agreed that the five strategic committees be replaced by the following six strategic committees:

- Policy, Finance and Asset Management
- Education and Children's Services
- Social Work and Health
- Environment and Transportation
- Housing and Communities
- Police, Fire and Safety

These committees are responsible for developing policy, setting strategic direction and allocating resources assigned to them. They are also responsible for scrutinising performance in regard to matters remitted to them.

The Council also agreed to replace the existing area and development committees with 7 local area committees based on smaller ward boundary areas. In addition to these committees the Council agreed to retain the Standards and Audit Committee and Regulation and Licensing Committee and establish a 'Fife-wide' Planning Committee.

The new committees met for the first time in June 2007 and the remit for each committee, as detailed in the Council's Scheme of Administration, was approved by full Council in August 2007. In contrast to the previous eight week cycle, the strategic committees now meet every six weeks and area committees meet every four weeks.

4.3.2 Management Arrangements

During 2006/07, the Council also experienced a number of changes at a non-political level including the appointment of a new Chief Executive (June 2006), the departure of one of the three Strategic Managers, and a revision to the roles and responsibilities of senior managers.

The Council was previously structured into three main service areas (Children and Adult Services, Environmental and Development Services and Support Services). Each service area was managed by a strategic manager. Interim arrangements however were established following the departure of one of the three strategic managers in July 2006. This departure provided an opportunity for the Chief

Executive to consider alternative approaches to the strategic leadership and effective management of the council services. In February 2007, the Policy and Resources Committee agreed to revised roles and responsibilities for senior managers. The revised roles and responsibilities consolidated the interim arrangements and established six Directorates managed by six Executive Directors. These posts were drawn from the existing strategic manager and heads of service levels. The Executive Directors together with the Chief Executive comprise the Council Management Team.

Over the remaining four years of our appointment we will continue to monitor the Council's governance developments at committee and senior management level.

4.4 2007 Elections

The Local Governance (Scotland) Act 2004 introduced a range of measures representing the biggest change to local government since the reorganisation of 1996. The overall objective of the Act was to strengthen local democracy by:

- Introducing the proportional Single Transferable Vote system of election;
- Removing unnecessary political restrictions on standing for local authority election;
- Lowering the age limit for local government candidates to 18; and
- Establishing an independent remuneration committee for councillors.

4.4.1 Proportional Representation

The Act introduced proportional representation to the 2007 local government elections. As a result there was the potential for significant changes to council membership, including a number of new members and more hung councils. The outcome from the local government elections in Fife are summarised in the table below:

Fife local government election results		
Political Party	Pre 2007 Elections	Post 2007 Elections
Labour	35	24
SNP	13	23
Liberal	22	21
Conservatives	2	5
Independent	6	3
Other	<u>0</u>	<u>2</u>
TOTAL	<u>78</u>	<u>78</u>
Administration	Labour	SNP/Liberal coalition
	Pre 2007 Elections	Post 2007 Elections
Number of new councillors	-	43
Number of returning councillors	-	35
Average age of councillors	60	55
Youngest councillor age	36	28

The results at Fife Council demonstrate some progress in progressing towards to the overall objective of The Local Governance (Scotland) Act 2004.

4.4.2 Remuneration for Councillors

Prior to the 2007 elections, elected members were not paid a salary for their council duties, but compensated under The Local Authorities etc (Allowances) (Scotland) Regulations 1995 through a system of allowances that vary according to the population of the local authority area. Members were also able to claim travel and subsistence expenses incurred in carrying out council duties. In 2006/07, Fife Council member allowances amounted to £1.129million. A breakdown is provided in the table below:

Fife Council 2006/07 Member Allowances	
	£m
Basic Allowance	0.569
Communications Allowance	0.027
Additional Communications Allowance	0.008
Responsibility Allowance	0.416
Expenses/Travel	0.109
TOTAL	<u>1.129</u>

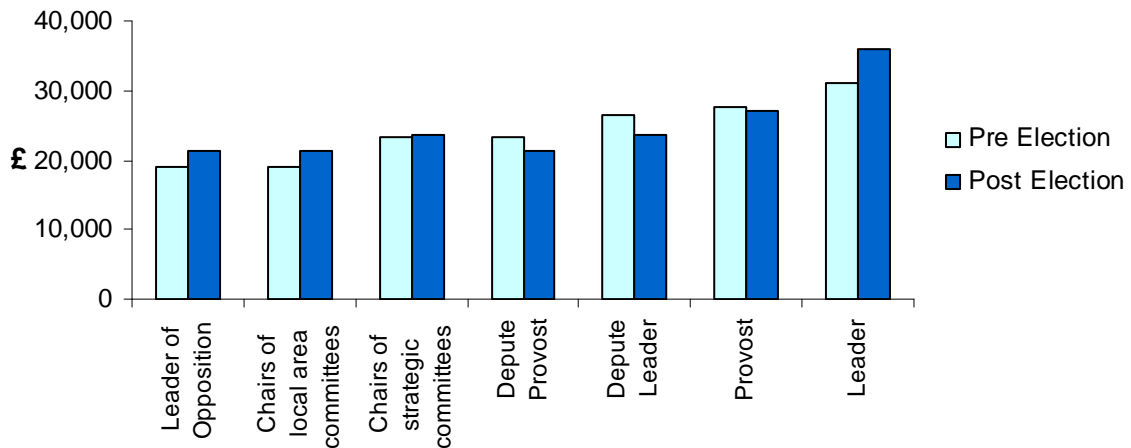
Under the Local Governance (Scotland) (Remuneration) Regulations 2007 however elected members are now remunerated. The Regulations provide that all Councillors receive a remuneration of £15,452 per annum. In addition, councils may pay remuneration to Councillors designated to hold positions of

responsibility. The Regulations group councils into bands having regard to their size and remuneration is payable according to the provisions which apply to each band. Fife Council is grouped in Band C. Under the Regulations, Fife Council shall pay remuneration to each of its senior councillors at an amount determined by the Council. The total yearly amount payable by Fife Council for remuneration of all its senior councillors however shall not exceed £403,693. Furthermore, the number of senior councillors should not exceed 19 (excluding the Leader and Civic Head and up to 4 Councillors with responsibility for Police and/or Fire and Rescue functions). Fife Council agreed the maximum allowances paid for positions of responsibilities as follows:

Fife Council Remuneration Scheme		
	£	No of Councillors
Depute Leader	23,540	1
Depute Provost	21,247	1
Chairs of Strategic Committees	23,540	7
Chairs of Local Area Committees	21,247	7
Leader of the Opposition	21,247	1
Total remuneration paid to senior councillors	379,543	17
Maximum set in Regulations	403,693	19
The following posts are remunerated but are excluded from both the financial limit and maximum number of posts set in the regulations:		
Council Leader	36,055	1
Provost	27,041	1
Strategic Chair Police, Fire and Safety	23,540	1

As highlighted below the level of remuneration received by councillors with special responsibilities under the new Regulations is largely consistent with allowances received under The Local Authorities etc (Allowances) (Scotland) Regulations 1995:

Remuneration pre/post election



Note: Councillors allowances pre election comprises of a basic allowance (£7,321) and special responsibility allowance which varied depending on the position. The analysis excludes communications allowance and travel/expenses under the previous scheme.

4.4.3 Elected Member Training

Due to the high turnover in elected members following the election and also the number of returning members taking up new roles within the Council, Fife Council undertook a comprehensive training programme. Training sessions were repeated to enable as many councillors to attend as possible. The training covered areas such as:

- Governance and Standards;
- Best Value and Scrutiny;
- Resource Management;
- Policy and Legislation; and
- Working with Communities.

The Council also provided specific and compulsory training to elected members who were appointed to committees with specific and highly legislated remits, such as appeals committees, the superannuation fund and pension committee and members of the licensing boards. These training sessions took place prior to the first meeting of the appropriate committee and also allowed an opportunity for the Council's Executive Directors and Heads of Service to meet with members and provide an overview of the service and key issues arising.

The Council has committed to undertaking Elected Member Development Days throughout the coming financial year. These days are scheduled to provide opportunities for additional or specific briefings on key topics and are seen as a vital part in the continuing professional development of all councillors. In addition, elected members are being given the opportunity to construct their individual training plan with

support from Organisational Development Advisors from the Policy and Organisational Development Service.

Following the publication of the recommendations of the Scottish Local Authorities Remuneration Committee (SLARC), the Council recognised that it was important to give early attention to the role and duties expected of elected members and also to identify training and development opportunities for elected members. In August 2007 the Policy, Finance and Asset Management Committee agreed job descriptions which are to be issued to all members and made available to the public through Fife Direct and the Local Offices.

4.5 Audit Committee Principles

Audit Committees are increasingly viewed as a critical component in the overall corporate governance process. As part of our review of the Council's corporate governance arrangements we assessed the effectiveness of the audit committee arrangements in place within the Council. In doing this we considered the audit committee arrangements against publications which illustrate best practice. These included:

- Audit Committee Principles in Local Authorities in Scotland – a Guidance Note (CIPFA)
- Audit Committees – Practical Guidance for Local Authorities (CIPFA)
- The Smith Report

Overall we concluded that Fife Council's arrangements were largely able to deliver the audit committee principles set out in the CIPFA guidance and have had a positive impact on the Council's overall corporate governance framework. The local government elections have however resulted in changes to the composition and membership of the body fulfilling the audit committee role at the Council.

The Standards and Audit Committee now comprises of four opposition members and six members of the administration and is chaired by a member of the opposition. The Standards and Audit Committee prior to the elections comprised of six members of the opposition and four members of the administration. The new Standards and Audit Committee does not comprise of any members who sat on the previous committee. As agreed at the Council meeting on 24 May 2007 the Committee has responsibility for undertaking the functions of an audit committee in line with Audit Scotland recommendations and the guidance set out in Audit Committee Principles in Local Authorities in Scotland.

The remit of the Committee was approved on 16 August 2007 as part of the Council's Scheme of Administration. We have reviewed the remit of the Committee and are satisfied that it complies with the requirement of the relevant CIPFA publications. The Committee met for the first time on 5 June 2007.

As part of our annual review we issued a questionnaire to members of the Standards and Audit Committee (pre-election). The questionnaire was based upon best practice as set out in the above documents. Our intention was that the results from the questionnaire would complement our

independent review of the audit committee arrangements. The findings are summarised in the table below:

Summary of findings from audit committee questionnaire		
	Satisfactory Arrangements	Paragraph Reference
Meetings	✓	Meetings
Training and Resources	✓	Training and Resources
Financial Reporting	✓✓	Financial Reporting
Internal Financial Controls and Risk Management Systems	✓✓	-
Internal Audit Process	✓	Internal Audit Process
External Audit Process	✓✓	-
Key:		
✓✓	Responses conclude adequate arrangements are in place	
✓	Responses suggest this is an area for scope for improvement	

Meetings

The Smith Report was designed to assist company boards in making suitable arrangements for their audit committees and to assist directors serving on audit committees in carrying out their role. As part of the recently revised Combined Code on Corporate Governance it is directed at Companies listed on the London Stock Exchange however its principles are widely regarded as best practice and are recognised throughout all sectors as the benchmark to which audit committees should aspire.

The Smith Report recommends that audit committees conduct an annual review of their work. Whilst this is not a mandatory requirement, we recommend that the Standards and Audit Committee consider conducting an annual review of their work.

Training and Resources

To be an effective audit committee, members should possess certain skills and have appropriate experience in some of the key areas to be considered by the committee. These include for example:

- Governance
- Risk Management
- Internal Control
- Accounting Issues

As highlighted in section 4.4 (elected member training), Fife Council has undertaken a comprehensive training programme which covered sessions such as governance and standards. Specific and compulsory training was also provided to elected members appointed to committees.

Financial Reporting

The Audit Committee should review the financial statements, for example, before they are approved, and again in conjunction with the external auditor's ISA 260 report to those charged with governance following the completion of the audit (Audit Committees Practical Guidance for Local Authorities, CIPFA 2005).

We are pleased to report that the 2006/07 financial statements are to be presented to the Standards and Audit Committee alongside our annual audit report on 25 September 2007.

Internal Audit Process

The questionnaire responses highlighted concerns that members of the Standards and Audit Committee do not receive sufficient information to ensure that agreed improvement actions were being implemented. A post audit review process has been approved by the Standards and Audit Committee. Each Service is required to prepare an action plan six months after the completion of the original audit which indicates the progress in implementing agreed actions, reasons for non implementation and explanations if a recommendation is no longer applicable. Audit and Risk Management Services is responsible for reviewing the Services completed action plan. A summary of the results is presented to the Standards and Audit Committee on a six monthly basis.

Guidance issued by CIPFA (Audit Committees Practical Guidance for Local Authorities) suggests that the audit committee may wish to judge the effectiveness of internal audit by receiving feedback on the work carried out. We noted during our review that the Standards and Audit Committee does not currently receive feedback on the performance of Audit and Risk Management Services. Audit and Risk Management Services currently issue questionnaires to Services following a review. The information from these questionnaires forms part of the set of performance indicators which Audit and Risk Management Services performance is measured against. This information is reviewed by the Council's Finance Management Team and reported to the Policy and Resources Committee as part of Finance and Asset Managements Service Report. We understand that Audit and Risk Management Services intend to report this information to the Standards and Audit Committee as part of an annual audit report in the future.

We also noted that arrangements are not currently in place for the Standards and Audit Committee to meet with the external and internal auditors during the year without the presence of management. It is generally regarded as good practice for audit committees to meet with internal and external audit at least once during the annual cycle of meetings in the absence of other officials to discuss issues of a confidential or sensitive nature.

4.6 Corporate Governance Statement

Authorities have the option to publish a wider-ranging statement on the adoption of a local code of corporate governance instead of a statement of internal financial control which is required by the Code of Audit Practice on Local Authority Accounting (the SORP). The statement should report on how the Council has complied with such a code and monitored its effectiveness.

Fife Council has published a wider-ranging corporate governance statement with the 2006/07 statement of accounts. The Corporate Governance Statement provides an overview of the key elements of the Council's governance arrangements and systems of internal financial control.

The system is based on a framework of delegation and accountability governed by the Council's standing orders, financial regulations, schemes of administration and the Council's committee structure. This is supported by a series of administrative procedures which include the implementation of appropriate segregation of duties to limit the scope of fraudulent and irregular activity. The system also relies on the preparation and review of regular financial management information to ensure the financial activity of the Council is subject to an appropriate level of scrutiny and review at a senior management and elected member level.

The system of internal financial control is administered through a number of key financial systems with an internal audit section in place to provide management and elected members with assurance that these key controls are operating in an effective and efficient manner.

As part of our audit work we are required to review the information disclosed in the Corporate Governance Statement and assess whether the Council's opinion on the effectiveness of its internal financial controls is consistent with our understanding of the Council's internal financial control framework. To inform our understanding of the Council's system of internal financial control we carried out a review of a number of specific areas during our 2006/2007 audit. Our assessment of the Council's corporate governance arrangements included consideration of the authority's risk management system and its mechanism for the prevention and detection of fraud. We also carried out systems reviews of the following systems at Fife Council:

- Council Tax
- Housing Benefit and Council Tax Benefit
- Housing Rents
- Non Domestic Rates
- Pension Fund
- Treasury Management

Overall we found the systems of internal financial control reviewed to be of a good standard with controls operating at an adequate or effective level.

4.6.1 Review of effectiveness of the corporate governance and internal control procedures

The Council's review of the effectiveness of the corporate governance and internal control procedures is informed by the views of Audit and Risk Management Services and the Council's heads of service. The results of this work allowed the Council to conclude that the system of internal financial control was largely effective.

The corporate governance statement should disclose 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. Significant weaknesses are identified through, for example, external audit and Audit and Risk Management Services audit reports. During 2006/07, Audit and Risk Management Services reported a number of “significant” issues. Significant recommendations are described as “weaknesses that would leave the Council open to substantial risk of error, fraud, financial loss or reputational damage”. We noted during our review that a number of “significant” issues raised by Audit and Risk Management Services had not been included in the statement nor had a concise explanation of each of the significant weaknesses been disclosed. We have confirmed with the Audit and Risk Management Services Manager that a number of these issues do not in fact constitute key weaknesses in the authority’s system of internal financial control. Whilst we do not disagree with this assessment we recommend that the grading structure for internal audit recommendations is revised to clearly identify those issues which are of significant importance to be disclosed in subsequent corporate governance statement.

4.6.2 Key Systems of Internal Financial Control

The Council’s financial regulations form a key element of Fife Council’s system of internal financial control. They set out senior management’s expectations of how key areas of financial activity should be controlled across the organisation and provide staff with guidance on the operation of key financial management and administrative processes. In addition to our detailed systems work carried out during our interim visits we also carried out a high level review of the Council’s compliance with its financial regulations. We assessed the level of compliance operating within each directorate of the Council. This assessment was informed by detailed audit testing supported with the findings arising from external and internal audit work completed during the year.

Overall we found all services to be largely operating in accordance with the key requirements of the Council’s financial regulations and that the system of internal financial control is operating at an adequate or effective level across all parts of the Council. However we did identify a number of areas with scope for improvement which, if addressed, would further strengthen the Council’s internal control regime. An action plan has been agreed with the Council which will secure improvement in those areas where financial regulations are not being fully complied with.

4.7 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 2006/07, 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 also placed reliance on the work of internal audit in relation to registers of members and officers interests.

Overall we concluded that controls at Fife Council are satisfactory in relation to standards of conduct. In particular we noted the following arrangements have been implemented following the council elections:

- The Council has approved revised standing orders and scheme of administration to suit the new council arrangements.
- The register of members' interests has also been updated for the newly elected members and is available on the Council's website.

4.7.1 Delivering good governance in Local Government

In 2007 the CIFPA/SOLACE joint working group issued a framework which illustrates best practice for local authorities in developing and maintaining a local code of governance, and making adopted practice open and explicit. 'Good Governance in Local Government: A Framework' revises the governance standards which were first established in 'Corporate Governance in Local Government: A keystone for Community Governance' published in 2001. The revised framework builds on recent governance work, in particular The Good Governance Standard. The six core principles for the Good Governance Standard have been tailored for local government purposes.

Through the revised framework, authorities are being urged to test their structures against the principles contained in the framework by:

- Reviewing their existing governance arrangements against the framework
- Developing and maintaining an up-to-date local code of governance, including arrangements for ensuring its ongoing application and effectiveness
- Preparing a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis. This should include how they have monitored the effectiveness of their governance arrangements in the year, and any planned changes for the coming period.

We understand that Fife Council intend to review their existing code of corporate governance in line with this recent publication.

4.8 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 2006/07 corporate governance review we reviewed the controls for the prevention and detection of fraud, irregularity and corruption. Our review concluded that controls at Fife Council were generally satisfactory to prevent and detect fraud and other irregularities. However we did identify two areas for improvement as follows:

- The Council should review and update the housing benefit and council tax benefit form to take account of the Civil Partnership Act.
- The Council should undertake a review of un-presented cheques following the reconciliation between the benefit system and bank records.

4.9 National Fraud Initiative

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. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27M 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.

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 have monitored the Council's involvement in NFI 2006/07 during the course of our audit. This has been achieved by reviewing the procedures in place for receipt of the matches, methodologies and timetables set for completion of data match investigations. Our findings have been reported in our Corporate Governance Arrangements and Interim Management reports.

Our final review of NFI for the year involved the completion of a checklist drawn up by Audit Scotland that encompassed all actions which required to be taken with respect to NFI during the year. Part of this work was to review a sample of matches and their resultant investigations to conclude on the appropriateness of the conclusions made. Our testing found no errors and we are satisfied that investigations are being undertaken where appropriate and that correct conclusions are being made.

4.9.1 Overall NFI Arrangements

The Council participates in NFI as part of its overall strategy against fraud. This includes data matching in Council Tax and Housing Benefits which started prior to the introduction of NFI. In addition the Council carries out regular data matching for duplicate payments for creditors using external consultants. Two such exercises have led to only insignificant levels of duplicate payments being identified.

Overall we are disappointed with the level of priority that senior management at Fife Council have given to NFI. We recognise that this is due to a low level of savings being obtained in the prior NFI scheme in 2004/05. We have seen little evidence of encouragement from senior management for the completion of matches on the NFI web application and there has been no formal reporting, internally or

externally on the progress and savings that have been made. The lack of reporting coupled with the lack of a formal timetable for completion of matches we believe has reduced the overall impact that NFI has had at Fife Council. We have observed however, that at a departmental level where the investigations are being undertaken, most departments recognise the benefits of the scheme and where resources have been available have completed investigations on high quality matches.

4.9.2 Current Progress with NFI

The table below summarises the work that has been undertaken and reported on the NFI web application at the beginning of September 2007.

Fife Council NFI Results as at beginning of September 2007			
	Total Number of Matches	Number of Matches Processed	Savings Recorded
High Quality	38,465	17,885	£27,559.77
Medium Quality	693	48	
Low Quality	1,648	0	
	40,806	17,933	£27,559.77

As reported previously there are a large number of creditor matches defined as high quality on the NFI web application. These account for 90% of all high quality matches. While some types of matches within the creditors heading have been fully investigated and reported on the NFI web application, most have not. We understand however that one of the reasons that these matches have not been investigated is due to concerns about the type of match identified, such as recurring payments. We have discussed the matches with the Accounts Payable team and are satisfied that all reports relating solely to accounts payable data have been reviewed for reasonableness and senior staff are satisfied that there are no systemic errors within the data. Fife Council has in addition to NFI undertaken an external review of their accounts payable data and they plan to use this matching review as a tool to cleanse the data held within the accounts payable system.

Our review has also noted that there has been little work undertaken on matches found from the payroll data submitted. Of the 338 high quality matches, the Payroll/Pensions Team has completed 71 matches and identified approximately £14,000 of savings. The Payroll/Pensions Team has been under intense pressure over the last few months. The successful implementation of Single Status was extremely resource intensive and has had a significant impact on other areas of work. We understand the team is committed to investigating and resolving all outstanding matches by 30 November 2007.

Investigations are still continuing on most categories of matches and we will continue to chart the progress made. We have noted however, that there has, as yet, been no formal reporting of progress on NFI to members. We recommend that this is done as NFI 2006/07 reaches an end.

4.9.3 Future Developments

During the year the Audit Commission, with whom Audit Scotland works in partnership with for the purpose of NFI in Scotland has carried out data matching at a number of pilot sites in England and Wales to detect fraudulently claimed council tax single person discount (SPD). This has been a successful exercise and the matching process will be rolled out to all local authorities in England, Wales and Scotland during 2007/08.

4.10 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.

During 2006, a number of reviews were carried out on Fife Council's risk management arrangements. Due to the scope of these reviews our work on risk management focussed on considering the recommendations made from these reviews and, where appropriate, a follow up on the implementation of such recommendations. A summary of the findings from these reviews are highlighted below:

Risk Management Strategy Group

The Council's Risk Management Strategy Group (RMSG) has reviewed the way in which corporate risk levels are currently managed and how RMSG itself might operate more effectively to secure the Council's risk management objectives. The RMSG revised the Council's risk management strategy putting more emphasis on the achievement of objectives through clarification of individual and group responsibilities. An action plan has been developed to ensure achievement of the Council's corporate objectives as set out in the Risk Management Strategy.

External Audit Report on Risk Management

The previous auditors issued a report on the Council's risk management arrangements in February 2007. The report concluded that the Council has made significant progress in developing corporate risk management arrangements. Progress however varies at service level and this is reflected to the extent to which risk management arrangements have been integrated into planning and operational purposes. The report includes a number of recommendations for the Council to take forward.

Audit and Risk Management Services Reports on Risk Management

Individual Services are responsible for their own risk management arrangements. The Operational Risk Management Group is responsible for assisting them to implement the risk management strategy and provides a forum for all Council Services to discuss risk and risk management as a means of contributing to overall corporate goals.

Audit and Risk Management Services carried out a review of risk management arrangements within three services. The services selected for review were Law and Administration, Social Work and Transportation. Individual reports have been issued which contain a number of recommendations for services to take forward.

4.11 Audit and Risk Management Services

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 Audit and Risk Management Services during 2006/07 in the following areas:

- Council Tax
- Housing and Council Tax Benefits
- Pensions and Investments
- Payroll
- Purchases
- Members Allowances
- Cash Receipting

4.12 IT Governance Arrangements

During 2006/07 we reviewed the Council's strategic planning and governance arrangements within IT Services. Our review also considered the management and monitoring of the IT network infrastructure.

We noted that the post of Head of IT Services within the Authority had been vacant for some time and that the senior management team were aware of many of the concerns identified during this review. However our review concluded that the Authority needs to make significant improvement to its IT strategic planning and governance arrangements and to the management and monitoring of its IT infrastructure. The absence of an IT Strategic Plan which clearly articulated the Authority's strategic plans, both at corporate and service level, was considered to be a significant weakness as was the lack of clarity in respect of the IT governance arrangements. There was no Authority-wide prioritisation framework in place which would readily allow a standard approach by management to assess how best to allocate resources to IT activities/projects. Therefore, there was no assurance that the activities/ projects being allocated resources were those which offered greatest benefit to the Authority as a whole.

We noted that whilst the Authority had a substantial IT estate which included approximately 140 application servers, 200 file and print servers and core networking devices at seven sites from Dunfermline to Cupar, there were a number of significant weaknesses in the management and monitoring of the IT infrastructure which management required to address.

The absence of a dedicated IT Security Officer or Team given the size and extent of the IT estate was also considered a significant weakness.

A detailed action plan was agreed with the Council to tackle the deficiencies identified in the report. The report was submitted to the Standards and Audit Committee in June 2007. We are pleased to note that since the report was agreed a Council Information Officer has been appointed and is due to take up post on 1 October 2007 at the Council. We will follow-up the remaining recommendations included in our report as part of our 2007/08 audit work at the Council.

4.13 Following the Public Pound

Councils fund arms-length and external organisations (ALEOs) for a range of purposes related to council services and their broader objectives. These arrangements are often more complex than standard purchase contracts for goods or services and are usually designed to deliver wider public benefits. They involve the transfer of public funds from the direct control of a council to the control of an ALEO. In practice these can range from relatively small grants to voluntary organisations and small community organisations, to payments to trusts set up by councils to manage all of their leisure facilities. A council may make a fixed payment to an ALEO, or the ALEO may have the power to commit council funds.

To ensure that public funds are used properly, to maintain accountability, and to ensure that value for money is secured, it must be possible to trace the funds from the point at which they leave the council to the point at which they are ultimately spent by the receiving organisation. In other words, it is important to be able to 'follow the public pound' across organisational boundaries.

4.13.1 Scope of our review

In 2003, Audit Scotland carried out a survey of all Scottish Councils to establish the nature and extent of their financial involvement with ALEOs and what monitoring and accountability arrangements had been established with these organisations. Based on Audit Scotland's research, the Accounts Commission issued their findings in March 2004. The Accounts Commission raised concerns about the councils' funding of arms length bodies and subsequently requested that Audit Scotland carry out further work in this area as a matter of priority.

A comprehensive study was undertaken by Audit Scotland in 2005 to provide more information about funding ALEOs and how councils perform against the 'Code of Guidance on Funding External Bodies and Following the Public Pound' (the Code). Local reports were prepared for each council following this review. These reports included a local action plan agreed with the council.

Our 2006/07 work in this area included a follow-up review of the 'following the public pound' issues identified in the local audit report, together with a more detailed analysis of the significant arrangements entered into by the Council during 2006/07.

4.13.2 Follow Up Review

In November 2006 the Council's previous external auditor reported that four of the seven agreed recommendations contained in the original action plan were fully implemented. During our final audit

visit we considered whether the remaining three recommendations had been implemented. We noted during our review that the Council has still to implement these recommendations and that the agreed implementation dates had all passed. These recommendations have been incorporated into our action plan at section 6 of this report. We recommend that management review these recommendations and ensure reasonable timescales for implementation are attached to these recommendations.

4.13.3 New Developments at Fife Council

During 2006-07 Fife Council has considered alternative arrangements for the delivery of leisure and arts services. In particular the Council has considered the option of establishing Trusts to deliver such services. During the year we have reviewed the processes and arrangements for establishing the following Trusts:

- Sport and Leisure Trust
- Arts & Theatres Trust
- Ardroy Outdoor Learning Trust

These Trusts represent a significant re-configuration of the way in which Fife Council are to provide the people of Fife with leisure and arts facilities and opportunities over the medium term. Members and senior management within the Council will be serving as Board members on these bodies.

Overall we concluded that the Council has embraced the principles within the Code of Guidance on Funding External Bodies and Following the Public Pound. The Council however is still in the process of implementing the Trusts and finalising management agreements. It is vital that monitoring and reporting mechanisms built into the agreement are robust. These should be underpinned by ongoing risk management processes in relation to each Trust and clear procedures to be taken if performance does not match the agreed standard.

Sport and Leisure Trust

In March 2006 the Adult Services Committee was presented with the findings from the Future of Leisure Working Group. This group explored various options for delivering leisure services in Fife and considered such aspects including strategic context, infrastructure, investment options and methods of delivery. The group set out several costed options for consideration by the Committee.

Following a public consultation exercise in summer 2006, a proposal was presented in October 2006 and a decision was taken by the Adult Services Committee to progress with a sport and leisure trust arrangement. The proposal identified the financing and investment programme required and the implications for employees affected by a Trust. The Policy, Finance and Asset Management Committee finally approved the establishment of a Sports and Leisure Trust at its meeting on 2 August 2007.

Significant work continues to be undertaken as the Council works towards the Sport and Leisure Trust becoming operational at the start of the 2008/09 financial year. The Business Model has been developed, and the company (limited by guarantee) is to be established in October 2007. A lease

agreement, covering arrangements for the transfer of operation of the Council's leisure facilities to the Trust, and a management agreement are being worked on with a view to finalisation in January and February 2008 respectively.

Over £50million will be invested in new sports and leisure facilities by the Council and a management fee averaging some £6 million per annum is expected to be paid over the first five years of the Trust's life.

Arts and Theatres Trust

At the same meeting of the Adult Service Committee in March 2006, a report on the future of Fife Theatres and Arts was presented. This highlighted key strategic issues for consideration and set out various options open to the Council, including a quantitative scoring of these options.

In October 2006, a further detailed paper was presented and the Committee fully approved the setting up of Fife Arts and Theatres Trust. This set out Board and management arrangements, employee transfer issues and funding particulars.

Although an initial target date of 1st June 2007 was identified, timescales have since slipped; the Council now expect the Trust to go live in October 2007. Management agreements and lease agreements continue to be negotiated, and we understand that they are at a relatively advanced stage at the time of writing.

Ardroy Outdoor Learning Trust

In August 2004 the Children's Services Committee requested a review of the Ardroy Outdoor Education Centre, particularly due to the capital investment of some £3 million which would be required to refurbish the centre's facilities. A working group was set up in order to progress plans for the centre and reporting made to Committee accordingly.

On 8th March 2007, plans to establish the Ardroy Outdoor Learning Trust were approved by the Children's Services Committee, setting out the structural, operational, financial and legal issues involved (including employee transfer). At the time of writing, advertisements have been placed to recruit Trust Directors, who will sit alongside the Council's representatives. The aim is to have the lease and management agreements finalised by March 2008, and the Council are on course to achieve this objective.

4.13.4 Companies Act 2006

It is important that all Fife Council representatives are aware of their legal duties and responsibilities when undertaking their roles in what are separate legal entities. All UK companies, whether charitable or non-charitable, are required to comply with UK company law. During the year the Companies Act 2006 replaced all existing company law provisions. The Act has been brought in over a phased time period with most provisions coming into effect by October 2008, although some of the provisions have been introduced during 2006/07.

The new Act introduces a wide range of changes including new provisions for company directors. The Department for Business, Enterprise and Regulatory Reform has summarised the provisions in to guidance for company directors as set out in the table below.

Guidance for company directors:
1) Act in the company's best interests, taking everything you think relevant into account
2) Obey the company's constitution and decisions taken under it
3) Be honest, and remember that the company's property belongs to it and not to you or to its shareholders
4) Be diligent, careful and well informed about the company's affairs. If you have any special skills or experience, use them
5) Make sure the company keeps records of your decisions
6) Remember that you remain responsible for the work you give to others.
7) Avoid situations where your interests conflict with those of the company. When in doubt disclose potential conflicts quickly
8) Seek external advice where necessary, particularly if the company is in financial difficulty

The Companies Act also brought in new provisions covering:

- The need for an expanded business review in accounts
- New provisions on directors liabilities for statements
- New provisions for communicating with shareholders
- Revised share capital and capital maintenance rules
- Various changes to company secretarial rules.

We understand members received guidance on the Companies Act during training sessions following the elections. They also received copies of a document entitled "Outside Bodies – Members' Responsibilities – A Guide". This training and guide picks up on the guidance for company directors outlined in the table above. The Council recognise however that further training is required in relation to the new provisions in the 2006 Act and arrangements are to be put in place for this, recognising that the provisions will be phased in.

5 Performance Management and Audit

5.1 Introduction

Local authorities have a statutory duty to make arrangements to secure Best Value, which is defined as continuous improvement in the performance of functions. In securing Best Value, local authorities are required to maintain a balance of quality and cost considerations and must have regard, among other things, to economy, efficiency and effectiveness and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty to undertake effective community planning.

5.2 Code of Audit Practice

Our responsibilities in relation to performance management and audit are detailed within the Code of Practice and within the Local Government (Scotland) Act 1973:

Performance Management and Audit	
Performance Management and Audit	<ul style="list-style-type: none">The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.
	<ul style="list-style-type: none">To review and report on the arrangements that the Council has made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

5.3 Performance Management

Fife's "Community Plan - A Stronger Future for Fife" acted as the overarching strategic plan for Fife and identified 3 underlying goals and 6 key policy priorities. The themes within the plan cascaded directly to the Fife Council Improvement Plan 2004/2007. The Council Improvement Plan both informs and reflects Service objectives and priorities. Each service in the Council is required to produce a Service Improvement Plan (SIP) that covers a rolling 3-year period and is refreshed annually. Individual objectives are subsequently aligned to service and corporate priorities by way of the Contribution Management process, which is currently being rolled-out across the Council.

Fife Council is currently revising and developing its strategic plans and performance monitoring arrangements. The Council has recognised that the six key policy objectives are priorities and therefore do not reflect all the work of the Council. A clear link cannot be established from individual Personal Development Plans (PDPs) through to the six key policy objectives for all staff as these may not be relevant to all staff. Individual SIPs therefore outline the objectives of the service and the Council is keen to ensure that all staff PDPs can be clearly linked to their appropriate SIP.

The Council has therefore begun work to identify a common thread between all plans. The mapping process being undertaken by the Council seeks to establish clear and traceable links between services and across departments for delivering against the key policy objectives. The new administration is in the process of setting out its priorities for period 2007 – 2011. These will be reflected in the new Council Plan that will be presented to the Council in November 2007.

The Council may need to take tough decisions regarding work which is not relevant to the achievement of strategic objectives. By establishing a common thread the Council may identify work streams which do not deliver against the key policy objectives nor objectives within SIPs. Fife Council will need to decide whether these activities should continue and if not how best the resources engaged in these activities can be utilised.

The Council has undertaken a lot of work in the area of performance reporting and strategic planning. The Council must continue to develop its current reporting and planning arrangements and work with staff and stakeholders to ensure that all future plans are clearly linked from strategic overarching documents through to the individual targets of each member of staff. The Council has the opportunity to refine and develop current practices to make it an example of good practice within the public sector.

In recognition of this the Council commissioned SOLACE Enterprises Consultancy Support to review the linkage across its planning and performance framework. This work began in August and the Council will use the findings of the review to progress any changes and developments to its performance monitoring arrangements following this review.

5.4 Community Planning and Partnership Working

There is commitment to joint working from partners within Fife and a key strength is the drive from the Council to be an exemplar of community planning. The Fife Partnership is well established and has the strategic overview of the whole of the Fife Community Plan. Its membership is made up of key stakeholders from Fife's key public, voluntary and private organisations.

The Council and its partners also actively participated in the Audit Scotland Review of Community Planning and Fife Council is supporting the Fife Partnership in addressing the key recommendations for community planning partnerships (CPPs) through a Fit-for-Purpose review. In addition to this, the Partnership is currently investigating the potential benefits offered by establishment of an incorporated body using the Section 19 provisions of the Local Government in Scotland Act 2003.

The Community Partnership developed its Community Plan based on scenario planning with St. Andrews University. This work focussed on four key areas for the Partnership of Connectivity, Worklessness, Educational Attainment and Conserving Energy and Resources. Existing partnership activities and workstreams are being linked to each of the four key areas. The Partnership is keen to develop the lead partner for each workstream and assign responsibility, timescales and targets for each area.

The Council has recognised that previous community planning and council reports could be confusing and readability and linkage across these reports was not always possible. As the lead partner in developing the work the Council is developing the Community Plan and its Council Plan simultaneously. It is hoped that this will provide greater read across and clarity for external stakeholders. Each partner also has its own performance monitoring arrangements and risk management arrangements. There is however no overall risk register for the partnership.

Although there are co-terminus boundaries between the Council, the local health board, the police service and the fire and rescue service, the Council has not always found this conducive to effective community planning and engagement. Each partner must work to national initiatives and ministerial objectives with joint community aims and objectives often having to be secondary to these. Therefore, the Council has often found it more straight forward to enter into effective partnership delivery with neighbouring councils than its community planning partners.

We consider that given the commonality of public sector boundaries in Fife the Council has an opportunity to configure services in and work more closely with its Fife Community Planning partners.

5.5 Efficient Government

The Council promotes ongoing improvements to the efficiency and the effectiveness of services it provides through a range of initiatives. These include the Council's performance management arrangements and self-assessment within the EFQM framework. In addition to this, SOLACE Enterprises was commissioned to identify key opportunities for efficient government / shared service initiatives across Fife Partnership.

The Council has set year on year efficiencies for departments but has also included headcount reduction targets, stating that the implementation of Single Status should be cost neutral.

5.5.1 Internal Reviews

The Council has commenced a programme of internal reviews to identify efficiency savings. The Council has set targets of 3% efficiency savings over the next financial year. In addition to this work the Council is reviewing departments to identify any potential areas where work can be simplified, standardised or shared.

As part of this work, the Council has identified its payroll function, housing assets and building services as areas where possible savings can be made. The Council currently has a central payroll function but a number of departments also have their own payroll functions. A Fife Council wide review is therefore being undertaken to identify any potential savings or efficiencies which can be achieved through the delivery of the Council's payroll function.

To ensure that the Council's housing assets are in line with the Scottish Standards for homes the Council has a 20 year business plan in place for £300m investment over a ten year period. To help

identify potential savings the Council has reviewed its contracting arrangements and the link between clients and contracts.

Through this work the Council hopes to simplify its business processes and streamline its contractual arrangements. The Council estimates that this will reduce professional fees from 14% to a target figure of 10% and also lead to the introduction of block contracts.

Building services are currently delivered through internal contracts. Any surpluses from these contracts will be returned for reinvestment with the Council reviewing this arrangement over the coming year. The Council predicts that this should generate a significant saving.

5.5.2 Pathfinder Project

The Council is one of the members of the Edinburgh Pathfinder project work under the Efficient Government Fund. The pathfinder aims to standardise systems across Scotland. The business case submitted by Edinburgh identified seven areas within Edinburgh Council where savings could be made and two areas where savings could be made across the pathfinder councils. These two external areas are pensions management and administration and environmental health and trading standards. In addition to these two areas Fife Council is adopting a review model to assess its current review toolkit and methodology.

The very act of the pathfinder councils coming together to compare workstreams has identified that different councils have differing baselines of service delivery. Fife Council stated that this simple sharing of information has also resulted in informal sharing of good practice and benchmarking which the Council described as generating very good results.

5.5.3 Efficiency Savings through Partnership Working

The Efficient Fife Group is an organisation made up of the key community partners within Fife tasked with identifying and helping generate efficiencies across the Fife partnership and within member organisations. The Efficient Fife Group is chaired by the Council and has reported on two key areas where it believes the Fife Partnership should be able to deliver clear efficiencies. These are:

- Fleet management and maintenance; and
- Catering and cleaning services.

The Partnership is proposing to use the techniques and experiences of the pathfinder group to review these two areas.

The Council does recognise that it is the cross cutting services where the most savings can be made. An agreement is in place with Fife Fire and Rescue for joint fleet maintenance arrangements with the Council. The Council believes that this is an area where real savings can be made.

5.5.4 Evidencing Efficiencies

Evidencing any efficiency savings made whilst still being able to maintain existing service levels is a key issue for Fife Council. Although the Council believes that a suite of reviews will begin to deliver significant savings there is currently no evidence of these savings, nor has the Council found it easy to measure or identify efficiency savings. The Council promotes ongoing improvements to the efficiency and the effectiveness of services it provides through a range of initiatives. These include the Council's performance management arrangements and self-assessment within the EFQM framework. In addition to this, SOLACE Enterprises was commissioned to identify key opportunities for efficient government / shared service initiatives across Fife Partnership.

Given the tightness of the forthcoming Strategic Spending Review 2007 the achievement and measurement of efficiency savings within the public sector, and in particular local government, is a key strand of the Scottish Government's drive for efficiencies. The Council must work to develop its ability to identify, measure and evidence efficiency savings. We recommend that the Council is also able to demonstrate that the efficiencies achieved have not been to the detriment of service delivery.

We understand that the Council has established a framework for identifying and capturing efficiencies, initially for inclusion in its Efficiency Statement. This is based on work undertaken on a consultancy basis by MBA students at Edinburgh University (Lothians Consultancy Project). A pro-forma is used for collecting the information and accounting teams work with services in capturing the relevant details. The accountants are aware of the strict definition applying to efficiency and will not count anything that could be construed as a "cut" in the level or quality of service.

The Scottish Government is moving towards an outcomes based approach to local government and service delivery. Fife Council must therefore be in a position to evidence the impact that efficiencies have had on improving service delivery, not merely on reducing budgets.

5.6 Best Value

Fife Council is to undergo an Audit Scotland audit of Best Value and Community Planning. This high profile report is a key document for the Council and will result in significant media focus on the Council. The audit will provide the Council with a clear opportunity to assess progress and developments made against the Best Value agenda. It is important that the Council uses the time between now and the start of the audit to review and monitor its services. The Council will wish to ensure that the audit identifies the good practice in place within Fife Council, whilst also identifying clear and tangible recommendations for delivering improvements in service delivery and continuous Best Value.

5.7 Statutory Performance Indicators

The Local Government Act 1992 set out the requirement for councils to prepare and publish performance indicators. In meeting this duty, Fife 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 statutory performance indicators by reviewing and examining evidence that is relevant to these arrangements in accordance with guidance issued by Audit Scotland.

Our audit of the performance indicators found that services were well organised and produced excellent working papers within the requested timescales.

The table below summarises the results of our audit on Fife Council's Statutory Performance Indicators (SPI's) for 2006/07 and includes work undertaken on the SPI's for Fife Constabulary and Fife Fire and Rescue. Overall there has been a significant improvement in the results attained by the Social Work department, recording only one unreliable indicator in 2006/07 in comparison to the two unreliable indicators and one fail to report recorded in 2005/06.

2006/07 Fife Council Statutory Performance Indicators				
	Number of SPI's assessed	Rating of assessed SPI's		
		Reliable	Unreliable	Failed to Report
Adult Social Work	8	7	1 (2)	0 (1)
Benefits Administration	3	3	0	0
Corporate Management	8	6	0	0
Cultural and Community Services	6	6	0	0
Development Services	3	3	0	0
Education and Children's Services	8	8	0	0 (1)
Housing	6	6	0	0
Protective Services	5	5	0	0
Roads and Lighting	5	5	0	0
Waste Management	5	5	0	0
Fife Council	57	56	1 (2)	0 (2)
Fife Constabulary	10	10	0 (0)	0 (0)
Fife Fire and Rescue Service	4	4	0 (0)	0 (0)
() – 2005/06 figures				

5.7.1 Unreliable Indicator – Community Care Services

The indicator is intended to measure the time taken to provide community services from first identification of need to actual service provision, thus measuring the efficiency of the council in providing community services quickly to those people who have been identified and assessed as being in need of them.

Our review of the supporting documentation for the indicator found that there were many sources of information to record the first identification of need. Sample testing found that in most cases the date recorded could not be verified to supporting documentation. For this reason we have classed the indicator as unreliable. Through discussion with the service we are satisfied that they are aware of the issues of the data capture and are continuing to work on a solution.

5.7.2 Notable performance changes

Fife Council's commitment to recycling more waste has become evident during our audit of the waste management performance indicators. During 2006/07 there has been a marked reduction in the tonnes of municipal waste that are being land filled, with a corresponding increase in the tonnes of municipal waste that are being composted or recycled. We hope to see this commitment continue with the levels of land filled waste being reduced in line with the EC Landfill Directive targets for 2020.

A new indicator was introduced under the heading of corporate management for 2006/07. The purpose of the indicator is to report on the operational accommodation that is in use by an authority and the proportion of it that is in a satisfactory condition and also that is suitable for use and the delivery of services. Fife have recorded that they currently have 748 operational buildings, of which 64 have been assessed as suitable for their current use. The low percentage of buildings that are suitable for use is due to the fact that as at 31 March 2007 only 30% of the total operational buildings had been assessed for suitability. We note that there are plans to have reviewed at least 50% of the operational buildings by 31 March 2008, which will improve the result of the indicator.

5.7.3 Fife Constabulary SPI's

These indicators report on a variety of activities undertaken by Fife Constabulary including clear up rates for crimes, road policing, complaints and sickness absence levels. Our audit of the SPI's found that Fife Constabulary were well organised and produced excellent working papers within the requested timescales.

As part of the Safer Neighbourhood Partnership a dedicated resource has been put in place to deal with hate crimes and incidents offering victim support. The partnership has also been responsible for educating repeat victims as to the difference between racially motivated and anti-social behaviour. One result of this is a decrease of nearly 20% during the year of the number of racist incidents reported.

During 2006/07, Fife Constabulary undertook a robust approach to enforcement in relation to tackling drug crime. The key drug offence results noted in the SPI's for 2006/07 in comparison to 2005/06 have been,

- 47% increase in the number of offences for supply and possession with intent to supply Class A drugs.
- 67% increase in the number of Class A drugs seized in tablet form following four particularly successful drug raids during the year which yielded over 3,000 tablets.
- 12% increase in the volume by weight of Class A drugs seized during the year

5.7.4 Fife Fire and Rescue SPI's

These indicators report on a variety of activities undertaken by Fife Fire and Rescue service including call response times, fire safety measures and call response times. Our audit of the SPI's found that Fife Fire and Rescue were well organised and produced good working papers within the requested timescales.

5.8 Procuring and Managing Assets

Fife Council's first asset management plan was approved on 30 November 2006. The plan contains a range of processes, each of which it is intended will reduce business risk. The plan covers all non-housing property and is linked to investment activities.

Asset Management has recently moved within the Council's structure. Previously Asset Management had been within the Finance directorate but is now part of the Council's Service Support function. The alignment of plans and targets within the Council has however not been fully adapted to reflect this change and therefore certain areas of Asset Management are still reported through other departments within the Council Plan.

In addition to this some aspects of the sections within the Asset Management Plan are also reported within other service and departmental plans. Our audit found limited evidence of cross-referencing or linkage between service plans and each SIP merely states a department's own response to the Council's objectives. We therefore recommend that the Council ensures that these issues are addressed as part of its work reviewing the performance monitoring and reporting arrangements that is currently ongoing within Policy and Organisational Development (POD).

The Council has already taken significant steps to respond to what is a rapidly developing procurement agenda. The Council has approved fundamental principles to underpin the production of a Fife Council integrated strategic procurement policy. This policy takes account of national imperatives but also maintains sufficient flexibility to design a solution which meets the needs of Fife. A sustainable procurement policy now also forms an integral part of the contractual arrangements of the Council.

Fife Council has sought to respond to the McClelland Report on Public Procurement in Scotland in a manner which aims to inform and influence the deliberations of the Public Procurement Reform Board

at a national level. Fife Council was also the first Council in Scotland to invite John McClelland (the author of the McClelland Report) to a formal committee meeting to discuss directly with elected members the recommendations of his report and emphasise the need for these recommendations to adequately reflect local needs and aspirations.

In addition to all this the Council uses updated procurement information from a variety of sources, including the Scottish Procurement Directorate, to inform the training and personal development of procurement officers as part of their continuing professional development.

5.9 Value for Money and other Inspection Reports

The Code of Audit Practice requires auditors to consider and report, where appropriate, on audit reports or reports by inspectorates issued during the period.

As part of our 2006/07 audit we considered what mechanisms the Council has in place for circulating national reports issued by Audit Scotland. The Council's overall approach can be summarised in the table below:

Fife Council's approach to responding to Audit Scotland national reports
The Chief Executive is responsible for circulating the reports
↓
The reports are circulated to lead officers in the Council
↓
Where reports have recommendations requiring action relevant to Fife Council the lead officer will prepare an action plan.
↓
The local action plan is reported to the relevant committee
↓
The relevant committee is responsible for monitoring progress against the local action plan

During the year we selected a sample of national reports issued by Audit Scotland and reviewed whether the approach above had been followed. We concluded that the approach detailed above is applied.

5.9.1 Fife Fire and Rescue Performance Audit Report

As part of its national review of performance within Scotland's fire and rescue services Audit Scotland undertook a Performance Audit review of Fife Fire and Rescue Service. The report identified that improvements could be made to the Service's financial management system and especially to the training given to budget holders.

Following the report the Service has sought to devolve budgets to the appropriate member of staff within the Service. This process has been directly linked to the training provided to budget holders to

ensure that all responsible staff are fully aware of their responsibilities, the Service's standard financial instructions and whom they can contact for support and advice.

5.9.2 Social Work Inspectorate Agency

During the year the Council underwent a review by the Social Work Inspectorate Agency (SWIA). The SWIA report identified that the Council's social work service had a number of major challenges which must be addressed if the Council is to modernise its social work service. SWIA identified performance management, assessment of service delivery and communication links with staff as key areas for improvement within social work.

As part of its development and review of the Council's performance management arrangements, the social work service should seek to identify how it can address some of the findings of the SWIA report through the overall management arrangements of the Council.

6 Action Plan

Our annual report action plan details the key weaknesses and opportunities for improvement that we have identified during 2006/07. 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 or 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
3.4.4	To safeguard the Council's financial position it is imperative that service expenditure is contained within budget and members sanction appropriate corrective action. Priority 1	Brian Lawrie, Executive Director, Finance and Resources	The Council's financial position has been reported to the highest political and managerial levels. The Policy, Finance and Asset Management Committee on 13 September 2007 instructed all Services to contain expenditure within approved budget provision, to identify relevant corrective action where appropriate and that the Council's ongoing financial position will be regularly monitored by PFAM Committee.	Ongoing
3.11.1	We recommend that the Council consider implementing component accounting for future capital projects. Priority 2	Grant Newell, Accounting Control Team Leader	The Council will investigate and consider the benefits and practical difficulties of component accounting.	March 2008
3.11.1	We would encourage the Council to perform annual impairment reviews on assets where the estimated remaining useful life of the asset exceeds 50 years to ensure compliance with the Statement of Recommended Practice. Priority 2	Grant Newell, Accounting Control, Team Leader	Included in our general annual impairment review will be a specific list of assets where the estimated remaining useful life of the asset exceeds 50 years.	March 2008

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
3.11.1	We recommend that the Council carry out a review of fixed assets currently classified as non-operational investment properties to confirm that they comply with the definition of a non-operational investment property with the SORP. Priority 2	Mike McCardle, Lead Professional (Estates) / Grant Newell, Accounting Control Team Leader	A review of fixed asset classifications will be carried out to ensure SORP compliance.	Dec 2007
3.11.2	We recommend that common good and trust fund records are harmonised to ensure consistency and accuracy in the data held between Estates, Finance and Legal Administration as soon as is possible. Priority 2	Brian Livingston, Financial Services Manager	This work is ongoing through a Working Group lead by Law and Administration. The complexities of this exercise cannot be underestimated, the variety of historical records, information and knowledge means it is a painstaking and slow process which is very resource intensive.	Ongoing
3.11.2	The Council should ensure that the fixed assets of the Common Good are accounted for in accordance with relevant accounting standards. This will require assets to be valued using an appropriate basis and depreciation being charged to the revenue account over the useful economic lives of all relevant assets. Priority 2	Brian Livingston, Financial Services Manager	The Council will ensure compliance with all relevant accounting standards as they apply to the Common Good. In particular the Council will await the final outcome on the LASAAC Consultation paper – 'Accounting for the Common Good Fund'.	March 2008

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
4.5	We recommend that the Standards and Audit Committee consider conducting an annual review of their work. Priority 3	Audit and Risk Management Services Manager	It is intended to carry out an exercise to evaluate the Committee against the CIPFA guidance and agree necessary improvements.	March 2008
4.5	Arrangements should be established for the Standards and Audit Committee to meet with external and internal auditors during the year without the presence of management. Priority 3	Audit and Risk Management Services Manager	The Chair of the Committee and the committee members are happy to meet with both Internal and external audit at any convenient time.	October 2007
4.6.1	We recommend that the grading structure for Audit and Risk Management recommendations is revised to clearly identify those issues which are of significant importance to be disclosed in subsequent corporate governance statements. Priority 2	Audit and Risk Management Services Manager	Work is currently ongoing to revise the grading of recommendations and cognisance will be taken of the suggested improvement.	January 2008
4.9.1	Formal reporting arrangements should be established to report progress on NFI to members. Priority 2	Audit and Risk Management Services Manager	It has been agreed with the Chair of Standards and Audit that regular monitoring reports on NFI will be brought to the Committee.	October 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
4.13.2	The Council should complete the development and implementation of the guidance procedure for Conflicts of Interest in the Decision Making Process. Priority 1	Team Leader (Funding and Monitoring)	Decision Making procedures to be reviewed and amended following the local government elections and the new Council Committee Structure. Revised procedures, including conflicts, to be presented to Committee.	December 2007
4.13.2	A central mechanism is required to identify Members and officers employed by, or on secondment to, ALEOs. Priority 2	Team Leader (Funding and Monitoring)	A central mechanism is being investigated for implementation.	March 2008
4.13.2	The Council should complete the development and implementation, including training, of the outstanding sections of the Monitoring and Evaluation Framework as soon as possible. Priority 1	Team Leader (Funding and Monitoring)	Section 7 currently being developed. Pilot phase in Social Work nearing completion and to be rolled out to other service throughout 07-08.	April 2008

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
<p>4.13.3</p>	<p>The Council should ensure they follow the Code as the Trust projects move towards implementation phase. In particular, the council should consider:</p> <ul style="list-style-type: none"> • The Right of access for the Council to performance and financial data of the Trusts. • Risk Registers for each Trust should be established and regularly updated to formalise the Council's risk management processes in this area. • The specialist skills of finance professionals employed within the council should be utilised when financial information is received from the Trusts, as part of the formal monitoring process. • The role of the Funding and Monitoring Group should be expanded, to give a more Council-wide perspective to monitoring and evaluating Trusts funded (at present, Trusts appear to be largely the responsibility of services to which they relate). <p>Priority 2</p>	<p>Chris Broome, Resources Manager, Community Services</p> <p>Brian Livingston, Financial Services Manager</p> <p>Chris Broome, Resources Manager, Community Services</p>	<p>The Service has reviewed the code and the final contracts will reflect these requirements.</p> <p>Registers will be put in place for each Trust</p> <p>This shall be put in place as part of the monitoring arrangements.</p> <p>To be explored by Community Services in conjunction with the Funding and Monitoring Group and actioned as appropriate.</p>	<p>April 2008</p> <p>April 2008</p> <p>Ongoing</p> <p>December 2007</p>

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
5.3	It is important that the Council seeks to implement and address the recommendations and findings of the SOLACE Enterprise review as soon as it is published. The performance monitoring arrangements of the Council are a key method of monitoring and delivering effective services. Priority 2	Strategy and Information Manager	The recommendations will be addressed within new service planning guidance.	April 2008
5.4	The Council should develop a strategic risk register for the Fife Partnership. Priority 2	Strategy and Information Manager	A Strategic Risk Register will be developed as part of the business planning for the Fife Partnership.	December 2007
5.5	Fife Council must continue to monitor, measure and deliver realistic efficiency savings which can be reinvested into services and meeting new commitments. Priority 2	Brian Lawrie, Executive Director, Finance and Resources	Based on the work carried out for the 2006-07 Efficiency Statement the Council will continue to improve its arrangements for capturing monitoring and reporting efficiencies.	March 2008
5.8	We recommend that the ongoing review by Policy and Organisational Development (POD) on performance and monitoring arrangements includes a review of linkage between service plans and the asset management plan. Priority 2	Strategy and Information Manager	The recommendations will be considered within the development of new service planning and performance reporting guidance.	April 2008



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