Midlothian Council

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

October 2007

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Key Messages

Introduction

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

Key outcomes from 2006/07 audit

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

Overall the financial position was £0.497 million better than initially budgeted, with a £0.907 million surplus on the general fund after contributions of £1.055 million from the HRA and £6.6 million from the capital fund. The council held an uncommitted general fund balance of £3.659 million as at 31 March 2007, broadly in line with its target level.

The council had corporate governance systems in place during 2006/07 that operated well within a sound control environment. It is important, however, that the new council keeps these systems under review to ensure that they remain appropriate to the new environment of multi-member wards. Further action is also required to address the improvement areas set out in the Corporate Governance Assurance Statement.

Internal audit currently provides limited coverage of key financial systems. As a result the Audit Manager is unable to provide an explicit opinion as to the adequacy of the system of internal control.

Documentation of the business cases to support individual treasury management decisions to borrow funds in advance of need require to be improved. Such decisions should be made without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. However, poor progress has been made in following up reported matches, particularly in the area of benefits (the majority of matches fall within this category) and creditors. It is apparent that a lack of resources has been dedicated to this initiative.

Outlook for future audits

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

- Planning a sustainable future
- Challenging and improving performance
- Managing the workforce
- Funding future improvement
- Working effectively with partners

The council faces significant challenges in balancing revenue and capital demands, and ensuring that planned activity is affordable within available resources. While a balanced budget was set for the 2007/08 financial year, the council has identified an underlying gap of £3.2 million between available resources and recurring revenue budgets from 2008/09 onwards. The council has also identified a significant affordability gap in relation to its capital spending plans. It clearly needs to establish a medium term financial strategy that achieves balanced budgets, while maintaining effective service delivery and improving underlying performance.

Resources have been earmarked for the costs of single status in current budgets. However, the agreement is yet to be implemented locally and until implemented, the initial and continuing costs to the council remain uncertain and are likely to be significant. The current target date for implementation is July 2008.

In a tightening financial environment, and in pursuance of best value objectives, there will be a continuing need to identify and release efficiencies on an ongoing basis. The council has significantly improved its arrangements to identify potential efficiencies and record the savings achieved, through the implementation of its Efficient Government plan. Building on progress to date, continued development of asset management planning is required if the council is to realise the benefits of planned improvements in this area.

The increasingly difficult financial position, continued pressure for identifiable improvements in efficiency and performance, and changes to ways of working following the outcome of the 2007 elections are likely to present some challenges which test the robustness of the Council's governance arrangements in the year ahead and beyond. Continuing improvements in governance arrangements are required to ensure that the council is best placed to meet these challenges. These include improvements to financial planning and control, underpinned by improved internal audit coverage and reporting.

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

Audit Scotland

October 2007

Introduction

1. This report summarises the findings from our 2006/07 audit of Midlothian Council. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.

2. In carrying out our audit, we seek to gain assurance that:
   - the council has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability;
   - the council has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties;
   - the council proactively manages and reviews its performance in line with its strategic and operational objectives;
   - the council's system of recording and processing transactions provides a sound basis for the preparation of financial statements and the effective management of the council's assets and interests;
   - the systems of internal control provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption;
   - the council's financial statements present fairly the financial position for the year; and
   - the council complies with established policies, procedures, laws and regulations.

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

4. Appendix A of this report sets out the key risks highlighted in this report and the action planned by the management to address them.

Performance

Introduction

5. In this section we summarise key aspects of the council's reported performance during 2006/07 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the findings of national performance audit studies.

Corporate objectives and priorities

6. The Council's Corporate Plan for 2005 – 2007 set out the key goals and priorities for the Council and explained how it planned to achieve these. The plan was based on four themes, which cut across a variety of services:

- Community and Society;
- The Environment;
- The Economy; and
- The Council.

7. A new Corporate Strategy for 2008-11 is being devised by the new administration following the 2007 Elections. The current Annual Plan contains detailed aims and priorities which support the Corporate Strategy and details the key priorities that the Council will focus on through to April 2008. It may be subject to change once the new Corporate Strategy has been written. It sets out 9 high level priorities and 27 related actions, including the following pledges by the Council:

- providing excellence in schools and life long learning;
- caring for those groups that require the Council's support;
- contributing to reducing crime and the fear of crime;
- helping to improve people's health;
- striving to ensure that all Midlothian people have a home that meets their needs;
- further developing leisure, sports and cultural provision;
- continuing to improve Midlothian's growing economy;
- protecting and enhancing the environment; and
- striving to provide excellent customer service.

Overview of performance in 2006/07

Best Value audit

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

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

Public Performance Reporting

10. The Council issues a quarterly publication *Midlothian News* to Midlothian residents which highlights some of the Council's key developments. The June 2007 issue included a Performance Review supplement providing residents with a summary of performance in 2006/07.

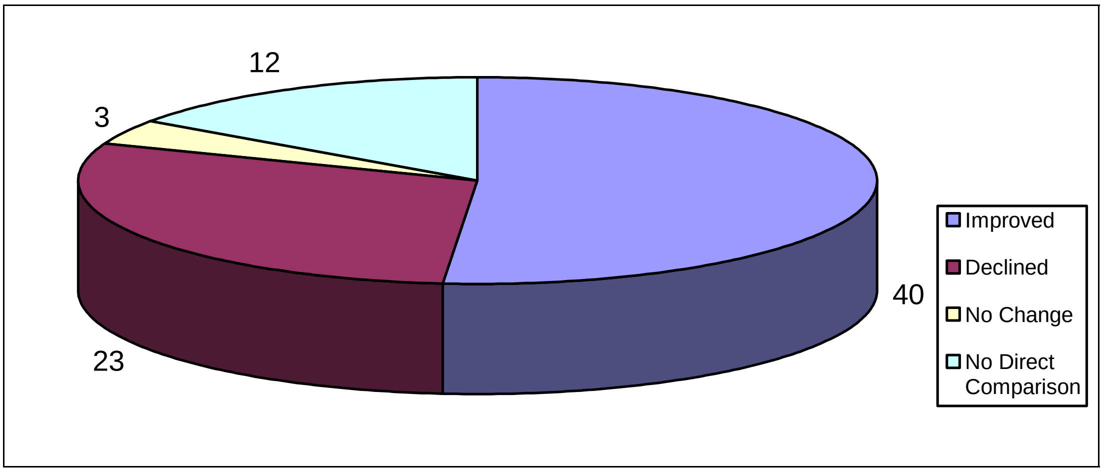
11. The supplement presented performance information both in terms of the Council's corporate aims for the year and also on a service basis. A balanced picture was provided including both targets that were achieved and also those which were not.

12. Quarterly performance reports for the Council and each of its divisions are produced through the Council's Planning and Performance Management Framework. These reports are now readily available to the public through the Council's website.

Statutory performance indicators

13. The Statutory Performance Indicators provide an annual measure of local authority performance in Scotland. Within Midlothian Council, key indicators have been selected for inclusion in the quarterly performance reports. This year, many indicators demonstrated improvement in year on year performance, but in around a third of cases performance has fallen.

2006/07 statutory performance indicators – year-on-year change



14. Substantial improvements have been made in the following areas:

- benefits administration (cost per case: £50.90 in 2006/07, £61.97 in 2005/06);
- library stock (closing stock items (adult) per 1,000 population: 1,734 in 2006/07, 1,507 in 2005/06);
- housing repair response times (% priority 1 repairs completed within 24 hours: 94% in 2006/07, 91.2% in 2005/06).

15. However, performance has declined in a number of areas including:

- Children's Reporter liaison (% reports submitted within target: 32.2% in 2006/07, 37.5% in 2005/06);
- supervision (% children seen within 15 working days: 29.1% in 2006/07, 90.1% in 2005/06);
- processing times for planning applications (% dealt with in 2 months (householder and non-householder): 60.9% in 2006/07, 70.7% in 2005/06);
- rent arrears (current tenant arrears as a % rent due: 9.5% in 2006/07, 8.0% in 2005/06);
- homelessness (average time to complete case: 28.4 weeks in 2006/07, 15 weeks in 2005/06);
- hygiene inspections (food safety approved premises, % inspections completed within time: 56.3% in 2006/07, 100% in 2005/06).

16. Each year we review the reliability of the council's arrangements to prepare SPIs. This year we assessed the arrangements for each indicator as being reliable.

Performance outlook – opportunities and risks

Introduction

17. In the course of our audit work we identified some of the strategic risks to Midlothian Council delivering on its stated objectives and priorities in the years ahead. These risks have been grouped into five risk themes. Issues arising in a number of these areas are reported throughout this report. Risk exists in all organisations which are committed to continuous improvements and, inevitably, is higher in those undergoing significant change. The objective is to be “risk aware”, and have sound processes of risk management, rather than “risk averse”. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Planning a sustainable future

18. The Council has set out its vision in its corporate strategy for working with its communities to achieve sustainable, effective services and a quality environment. If the council is to achieve its stated aims it needs to plan effectively for the future, clearly articulating its priorities and appropriately targeting investment and use of its key resources – people, physical assets and money.

Funding future improvement

19. There is a risk that the Council is unable to afford the changes required to improve its performance while meeting new demands for its services and investment in future improvement. Significant efficiencies are required to release funding and to meet the challenges of funding settlements and the Efficient Government agenda. Significant affordability gaps have been identified in medium-term revenue and capital plans.

Challenging and improving performance

20. Effective performance management is vital for the success of the corporate plan. The new Planning and Performance Management Framework requires to bed in. The Council needs to ensure there is sufficient relevant information so that it is aware of the actual outcomes of its efforts and can identify when a service it provides is not performing at the level expected.

Working effectively with partners

21. Increasingly the Council is dependent on partnership working to deliver service improvements. All partners need to be willing or able to work effectively in a joined up manner to achieve best value in the use of resources.

Managing the workforce

22. People play the key role in delivering high performing services and the Council may not have the right skills, in the right place, at the right time. Underlying this is a risk that insufficient management information is available to allow joined up planning across the Council. There are also risks over the ability of the Council to retain and recruit staff in some specific areas or to address management succession issues.

National studies

23. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports of direct interest to the council are set out in paragraphs 24 – 33 below. Further information on these studies and reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk.

Sustainable waste management

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

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

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

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

- while significant progress has been made in meeting interim recycling targets, the rate varies considerably between councils and the type of collection system employed;
- there has been slow progress in developing facilities to treat residual waste. There is therefore a significant risk that EU directive targets may not be met;

- increased recycling has led to increased costs;
- all parties need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the landfill Directive targets.

28. Midlothian Council has exceeded its 2006/07 target (25%) for the recycling of waste with just over 30% of waste now recycled.

Dealing with offending by young people

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

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

    - while the Scottish Government has increased funding for youth justice services (£235 million in 2000/01 to £336 million in 2005/06), the effectiveness of the increased expenditure in reducing offending and improving the quality of life of local communities cannot yet be assessed;
    - comprehensive reporting on performance against national standards cannot yet be undertaken due to weaknesses in the performance management arrangements;
    - the Scottish Government commitment to developing more rounded measures of the impact of support and interventions on offending behaviour is welcomed;
    - the introduction of antisocial behaviour orders (ASBOs) has created tensions with other approaches to dealing with offending by young people;
    - the principles underpinning the children's hearing system have been put under pressure through recent increase in referral activity;
    - while Police reporting and reporter decision making has significantly improved, Social work reporting remains unacceptably long. We are however, pleased to note that the proportion of social enquiry reports submitted by the council's social work department to the courts by the due date has remained consistently at 100% over the past 4 years;
    - although the study found evidence of extensive partnership working, there was much variation in the levels of representation and standards of performance.

Scotland’s School Estate

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

Managing long-term conditions

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

33. The report published in August 2007 highlighted that care for people with chronic illnesses is improving but the health service, councils and the Scottish Government need to do more to build a joined up system of care. A lack of information about costs and activity means many decisions on the use of resources are made with limited evidence about what works for patients, and this needs to be urgently addressed by the NHS and councils. Key recommendations for councils include:

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

Financial position

Introduction

34. In this section we summarise key aspects of the Council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks.

Council tax and the general fund

Operating performance 2006/07

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

36. The surplus or deficit on the income and expenditure account is the best measure of the Council's financial result for the year, recognising the resources that have been consumed and generated in accordance with Generally Accepted Accounting Principles. The Council's net operating expenditure in 2006/07 was £163.6 million. This was met by government grants and local taxation of £152.6 million, resulting in an Income and Expenditure deficit of £11 million.

37. However, the movement on the general fund balance is also an important aspect of the council's stewardship as the main budget reference point, the main differences being:

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

38. After adjusting for these items the Council achieved a general fund surplus of £0.907 million after a contribution of £1.055 million from the HRA and £6.6 million from the capital fund. When this surplus is added to the amount brought forward from 2005/06, the Council had a general fund balance of £9.825 million as at 31 March 2007.

39. The budget set for 2006/07 was based on a Band D council tax level of £1,210. A small contribution of £0.044 million was initially planned, together with contributions of £1 million from the HRA and £6.201 million from the capital fund. Overall the outturn position was £0.497 million better than initially budgeted.

40. A number of revisions were agreed to the overall budget position during the year, including the additional contributions from the HRA and capital fund totalling £0.454 million noted above. Further budgetary provision of £0.595 million was also made from general fund balances. In his Foreword to the financial statements, the Director, Corporate Services highlights that aggregate expenditure to be met from government grants and local taxation for the year was £1.559 million, 1.02% less than the revised budget.

41. Within the overall outturn, there were a number of under-and-overspends against budget. The most significant divisional variance occurred within Corporate Services (£1.311 million overspend) which was mainly due to an increase in the provision of homelessness accommodation and increased expenditure on external legal services. An underspend of over £2 million was also achieved in relation to loan charges.

Reserves and balances

42. At 31 March 2007 the council had total cash backed reserves and funds of £18.1 million, including an insurance fund that underpins the council's self-insurance arrangements. Receipts paid into the capital fund during the year were fully utilised to finance the repayment of debt.

Reserves and Funds 2006/07

Description	2005/06 £ Million	2006/07 £ Million
General Fund	8.918	9.825
General Fund - HRA balance	5.759	7.267
Capital Fund	0	0
Insurance Fund	1.003	1.002
	15.680	**18.094**

43. In his Foreword to the financial statements the Director, Corporate Services highlighted that, after allowing for earmarked balances of £6.166 million, including amounts for divisional reserves, devolved school management and future pay claims, the Council held an uncommitted general reserve balance of £3.659 million as at 31 March 2007. The Council aims to maintain a minimum working balance of around 2% of net revenue expenditure and the uncommitted balance was broadly in line with this. A range of financial issues which could impact on the reserves position are discussed in our Financial Outlook section below.

Rents and housing revenue account

44. The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2006/07 was based on an average weekly rent level of £38.05, an average increase of 5% on the previous year. The HRA generated a surplus of £2.563 million in 2006/07 after adjustments for statutory accounting requirements. After contributions to the general fund noted above the HRA balance at the end of the year earmarked to support the New Social Housing Programme was £7.267 million compared to the budgeted position of £6.594 million, after savings of £0.663 million on loan charges.

Group balances and going concern

45. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of the Council's share of subsidiaries and associates on the group balance sheet is to reduce net assets by some £112 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

46. The Council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All these boards (Lothian and Borders Police, Lothian and Borders Fire and Rescue, Lothian Valuation) had an excess of liabilities over assets at 31 March 2007 due to the accrual of pension liabilities. In total the overall net deficits amounted to £1,596.832 million, with the council's group share being £116 million.

Spending on assets and long-term borrowing

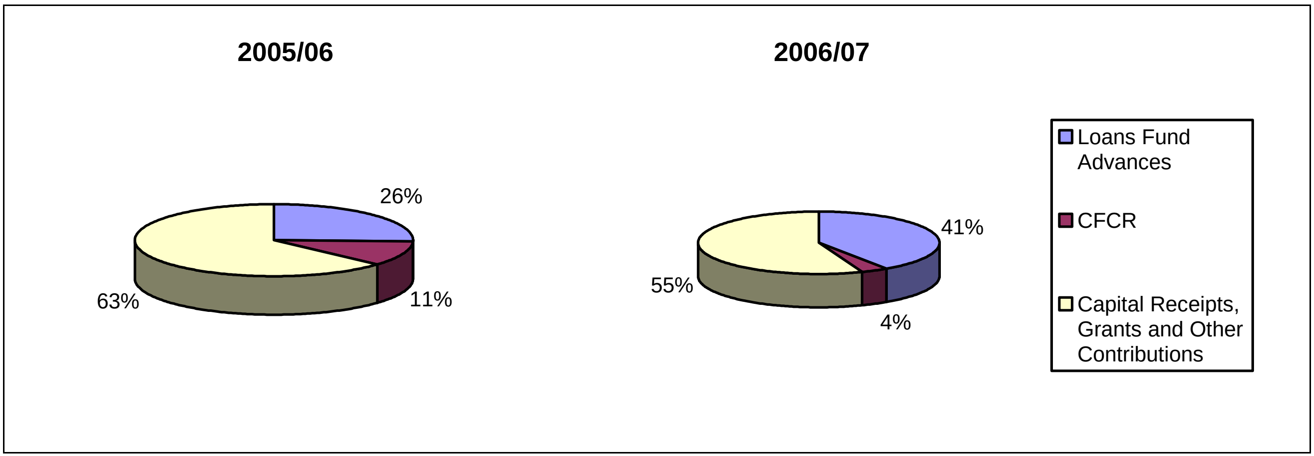
Capital performance 2006/07

47. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2006/07 were set in February 2006.

48. Following in year revision, budgeted capital expenditure for 2006/07 was £43.353 million. Slippage, principally in social work and housing projects, resulted in an underspend of £4.026 million (15%) in the general fund services capital plan and £2.497 million (15%) in the HRA capital plan. Slippage in the housing project was primarily due to water infrastructure problems in Midlothian. It is planned these problems will be overcome by a consortium of groups, private developers and the Council investing in the water infrastructure.

49. Capital expenditure in 2006/07 totalled £37.3 million, rising from £26.3 million in 2005/06. Capital investment in the last two years was funded as shown below. As the Council has increased its capital spending, the proportion funded by debt has increased with aggregate long-term borrowing at 31 March 2007 of £130.469 million, an increase of £40.2 million on the previous year.

Sources of finance for capital expenditure 2006/07



50. Increased borrowing was, in part, undertaken to finance the future capital programme. Comments on arrangements for borrowing in advance of need are included below.

51. Some 97% of long-term borrowing at the year-end matures after more than 10 years, and the Council has actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk.

Forward capital programme

52. The general fund services capital plan for 2007/08 and 2008/09 anticipates annual capital expenditure of £35.354 million and £26.221 million respectively. However, the Council has identified a significant affordability gap in relation to its current plans, and is reviewing options for progressing these over the next four years.

Key risk area 1

Borrowing and temporary investments

53. In recent years, a number of councils have held significant amounts of cash and temporary investments largely as a result of decisions to take advantage of favourable interest rates when considering borrowing requirements to fund planned capital programmes. In these circumstances the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

54. As at 31 March 2007 Midlothian Council held cash and temporary investments totalling £65.399 million. We have requested and received a specific representation from the Director, Corporate Services that all borrowing in advance of immediate requirements has been made for a legitimate purpose in accordance with legislation and has been on-lent in the interests of prudent cash management. In the Director's assessment any early borrowing is justified in its own right as representing the best time for borrowing the amounts required, without regard to temporary investment possibilities and the 'profit' that might arise from these.

55. Borrowing and investment decisions often require to be made quickly in response to changes in available interest rates. However, we found that documentation of the business cases supporting individual treasury management decisions of this type required to be improved, better enabling the council to clearly support such decisions with an assessment of how it has reached the view that the advance borrowing is justified. Business cases should clearly exclude any interest earned on funds which, as a result, become temporarily available for investment. The estimated date when funds are expected to be required and the rate of interest expected to apply had the borrowing been deferred until the funds were required should be clearly recorded.

Key risk area 2

Significant trading operations

56. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.

57. The Council has identified three trading operations – Building Maintenance, Roads Maintenance and Investment Properties. In the three years to 31 March 2007, the STO's met the statutory target.

Financial outlook

Current budget

58. The Council's revenue budget for 2007/08 was approved in February 2007. The budget is based on a Band D council tax level of £1,210, unchanged from the previous year. The budget included a contribution of £0.803 million from uncommitted general fund reserves and set aside £3 million for additional costs associated with the single status agreement and equal pay (see below).

59. While a balanced budget was able to be prepared for the 2007/08 financial year, the Council has identified an underlying gap between available resources and recurring revenue budgets estimated as £3.2 million from 2008/09 onwards. The existing long term financial plan for the HRA does not support the current annual contribution to the general fund of around £1 million beyond 2007/08. The Scottish

Government has not given any commitment that the Schools Fund will continue beyond 2007/08, with around £1.4 million of recurring expenditure currently funded from this source. The Director, Corporate Services has also highlighted that there is no scope to access further recurring funding from unallocated reserves, without impinging on the reserve strategy.

60. The council's financial strategy incorporates the application of anticipated capital receipts totalling over £18 million to fund the repayment of debt over the period from 2006/07 to 2008/09. The practical effect of this is to release revenue funding to support other items of expenditure. Clearly such an approach is unlikely to be sustainable over the medium term. The majority of such amounts have been earmarked to support non-recurring items, and as such have not been built into the underlying revenue funding base. Smaller amounts have, however, been earmarked for general debt support. Capital receipts applied in this manner are obviously not otherwise available to support capital expenditure.

61. An affordability gap in current general services capital plans is highlighted above. The Director, Corporate Services has reported that this is likely to increase as further pressures on planned capital spending emerge and that the council cannot bridge this gap through additional borrowing, as the revenue budget will not support the additional debt repayment charges that would result.

62. Work on developing a sustainable financial strategy for 2008/09 and beyond is continuing. Clearly the council faces significant challenges in balancing revenue and capital demands, and ensuring that planned activity is affordable within available resources. It is important that the council is able to deliver a medium-term strategy that achieves balanced budgets, while maintaining effective service delivery. The overall financial outlook and progress in developing the council's future budget are the subject of continuing reports from the Director, Corporate Services.

Key risk area 3

Equal pay

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

64. Estimated costs of £4.510 million were recognised in the 2005/06 financial statements for the one-off cost of dealing with the equal pay legislation, with further expenditure of £1.443 million incurred in 2006/07. In common with many other Scottish Councils, Midlothian Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to

specific groups of employees as part of a compensation package. A number of payments have now been made. A provision of £2.142 million has been made as at 31 March 2007 for the settlement of remaining cases. Costs are likely to continue to accrue until the implementation of the single status agreement.

Single status

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

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

67. The Council is continuing work to develop its new pay and grading structure, but progress has been slow during 2007. There was an impasse in negotiations with the trades unions withdrawing from discussions and submitting a complaint to the Central Arbitration Committee on the disclosure of job evaluation results. The Council has recently decided to adopt a job family approach, including a review of Terms and Conditions. It is planned the project will integrate with other programmes such as Customer First and the Modernising Agenda by introducing new working practices, such as the length of the working day/week. The project, now known as Modernising Midlothian has a revised target implementation date of 1 July 2008.

68. While amounts have been set aside in the current and future year's budget, until single status is implemented the initial and ongoing costs to the Council cannot be reliability estimated, representing a continuing financial risk to the Council.

Key risk area 4

Efficient government

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

70. Efficiency savings of £0.276 million have been built into the budget for 2007/08. In 2006/07 efficiency savings of £0.807 million were incorporated into the budget alongside service reductions totalling £0.874 million. The financial settlement for 2007/08 anticipated aggregate recurring savings of £2.558 million by 2007/08.

71. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Government, they had a responsibility to report efficiencies on the Government's five key operational themes as set out in "Building a Better Scotland" (Procurement, Absence Management, Asset Management, Shared Services and Streamlining Bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all councils in May 2007 to assist in the preparation of standardised efficiency statements to be published for the first time in 2006/07.

72. The council has established an efficient government plan setting its approach to efficiency and to undertaking efficiency reviews. An update of the plan was provided to members in June 2007. The Council prepared an efficiency statement for 2006/07 in August 2007. This reported overall savings of £1.944 million in 2006/07 (including £0.330 million in non-cashable savings) against a target of £0.861 million. The main efficiencies reported included:

- Procurement (£0.277 million);
- Debt restructuring (£0.475 million);
- Improved Council Tax collection (£0.180 million).

73. The Council expects to achieve efficiencies of £3.139 million in 2007/08 (of which £0.840 million will be non-cashable). It is anticipated that a larger proportion of efficiencies will come from the Council's Process Improvement Framework which is covering a range of service areas. Specific actions are not yet in place to deliver £0.428 million of the expected amount and work is continuing to identify these. Achieving the level of savings required will present the Council with a continuing challenge, building further savings on top of those achieved in previous years.

Key risk area 5

Asset management

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

governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.

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

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

76. The Council manages assets valued at £511 million. While development work continues, building on plans for the schools estate and social housing, further progress is required to ensure that corporate strategies and objectives are properly supported by asset management plans in the long-term. The Council had been working towards development of a council-wide Asset Management Plan (AMP) by March 2007 although this timescale has now slipped. An asset management framework has been agreed and a member/ officer group has been established to consider asset decisions.

Key risk area 6

77. Given the current development stage of both the corporate and national highways AMP, there are no indications, as yet, of any potential savings generated or increased costs likely to be incurred. As noted above the council has a significant programme of asset disposals, generating capital receipts to support future capital expenditure or the repayment of debt.

Governance

Introduction

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

Overview of arrangements in 2006/07

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

80. The council has a local code of corporate governance in place, supported by an internal assurance system covering financial and non-financial controls.

81. A Corporate Governance Assurance Statement is included within the annual financial statements. This provides a summary by the Leader and Chief Executive of the overall governance arrangements that are in place within the council and its group and commentary on areas requiring further improvement. These include:

- Developing a robust financial strategy (see paragraphs 58 to 62 above);
- Implement a more structured approach to help deliver service improvement, identify efficiencies and manage risk more effectively;
- Address weaknesses in budgetary control and financial monitoring arrangements within the Education and Communities and Commercial Services divisions;
- Further develop asset management planning (see paragraphs 74 to 77 above);
- Introduction of a corporate project management framework;
- Progress an improvement plan addressing the issues arising from the HMIE joint inspection of services to protect children and young people in the Midlothian Council area.

Performance Review Committee

82. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. Members in Midlothian Council have the opportunity to challenge service

activities and performance through the operation of the Performance Review Committee (PRC) which has a scrutiny role in relation to both performance management and audit issues. During 2006 the remit of the PRC was extended to ensure it met audit committee principles.

83. The May 2007 elections had a significant impact on the composition of the Committee. It is still made up of 11 non cabinet members, but is now chaired by a member of the opposition party and has a significant majority (82%) of opposition members.

Internal Audit

84. Internal audit plays a key role in the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the Council's internal audit arrangements.

85. Our review highlighted concerns over Internal Audit's limited coverage of key financial systems. This restricts the extent to which we are able to rely on internal audit's work and limits the overall assurance that internal audit can offer to management about the systems of internal financial control (see below). Subsequent to this, Internal Audit produced a 3 year strategic plan to ensure fuller coverage of the key systems. However, Internal Audit is currently recruiting to fill two vacancies (equivalent to half of its staffing establishment). As a result of these vacancies the 2007/08 audit plan will not be achieved. This is likely to impact on the level of reliance we may place in subsequent years and consequently we may require to increase our own audit activity in the relevant areas.

86. The Internal Audit Manager produced an annual report for 2006/07, but as in previous years he was unable to provide an explicit opinion on the adequacy of the overall system of internal control. The council intended to address this issue through the implementation of the Internal Audit 3 year strategic plan. The situation is now unlikely to be resolved before 2008/09.

Key risk area 7

Systems of internal control

87. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the Council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Payroll
- Accounts Payable (creditors)
- Housing Rents
- Council Tax
- Benefits
- Main Accounting System

Prevention and detection of fraud and irregularities

88. At the corporate level, the Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include a counter fraud and corruption strategy.

NFI in Scotland

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

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

91. There is no formal (documented) plan for the Council's approach to the NFI. Discussions with relevant officers revealed a structured approach was planned for the follow up of reported matches with the focus to be on high quality matches, but this was not documented nor has a timetable been drawn up against which progress could be monitored. In addition, the Council is not making full use of the web based application to record all of its investigation work, thereby potentially under reporting.

92. Overall the council has made limited progress in following up reported matches, particularly in the area of benefits (the majority of matches fall within this category) and creditors. It is apparent that a lack of resources has been dedicated to this valuable initiative.

Key risk area 8

93. We noted that the Council has not notified tenants that their data has been used in the data matching exercise. The Council had planned to notify tenants within the annual rent letter in January 2007, but this was overlooked at the time. Tenants should have been notified in advance to ensure compliance with the code of practice on data matching. Where individuals were not notified at the time of collection of data, retrospective fair collection notices should be issued at the earliest opportunity.

Governance outlook

94. The increasingly difficult financial position, continued pressure for identifiable improvements in efficiency and performance, and changes to ways of working following the outcome of the 2007 elections are likely to present some challenges which test the robustness of the Council's governance arrangements in the year ahead and beyond.

95. Continuing improvements in governance arrangements are required to ensure that the council is best placed to meet these challenges. These include improvements to financial planning and control, underpinned by improved internal audit coverage and reporting.

96. The council needs to remain vigilant against the risks of fraud and corruption, taking full advantages of the opportunities offered by new technologies within established codes for data matching, while at the same time ensuring that it responds effectively to the threats posed by illicit use of those technologies. Further commitment to the National Fraud Initiative will be required to ensure that the full benefits of this exercise are realised.

97. Following the May 2007 elections, the political composition of Midlothian Council has changed, with no one party in overall control. The Labour administration has continued, operating as a minority administration. A cabinet based decision making model remains in operation, but overall governance arrangements should be kept under review to ensure that they best support changed circumstances, including the new system of multi-member wards.

Financial statements

Introduction

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

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

99. We also review the Corporate Governance Assurance Statement by considering the adequacy of the process put in place by the Council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Council.

Overall conclusion

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

101. The Council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Audited accounts were finalised prior to the target date of 30 September 2007 and will soon be available for presentation to the Council and publication. The financial statements are an essential means by which the Council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

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

- replacement of the consolidated revenue account with a traditional income and expenditure account;
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit;

- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses;
- parallel changes to the group accounts that would result in them being easier to understand and having a common format to single entity statement of accounts.

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

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

104. Overall, we were satisfied that the Council had prepared the accounts in accordance with the revised SORP. The following significant adjustments were made to the figures included in the un-audited accounts provided for public inspection (although these did not change the deficit for the year):

- reclassification of £32 million of current assets from cash & bank to investments; and
- reclassification of a further £1.962 million from current debtors to long term debtors.

Group accounts

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

106. The group accounts include the 2006/07 results of Pacific Shelf 826 Ltd, Shawfair Developments Limited, Lothian and Borders Police Board, Lothian and Borders Fire and Rescue Service and Lothian Valuation Board based on un-audited accounts. The auditors of these bodies have confirmed that there are no planned changes to the draft accounts. We have also been assured by the Director, Corporate Services that the Council is not aware of any matters which would significantly affect the Council's group accounts.

Capital Accounting

107. Individual council dwellings are subject to a valuation when they are to be sold under the Right to Buy (RTB) scheme. RTB sale values that have been achieved form the basis of an annual desktop revaluation of the housing stock. However, the council's approach is relatively unsophisticated. No account is taken of variations in value between wards and differences in size and state of repair of the properties sold.

108. No full revaluation of the housing stock has been undertaken for the purposes of updating the carrying value of these assets. The aim of a desktop review is to capture any significant changes in value 'in-year' and to avoid any major fluctuations on the quinquennial revaluation. It should not replace a full revaluation.

109. In our view, the Council needs to review its approach to the revaluation of its housing stock

Key risk area 9

Public Private Partnership

110. In April 2006, the Council provided a view on the accounting treatment of the Primary School PPP Project, for the construction of eight new schools. We have considered the Council's proposed accounting treatment and have concluded that the Council's final judgement on the proposed accounting treatment as off balance sheet is reasonable.

Legality

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

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

113. The Office of the Scottish Charities Regulator (OSCR) is responsible for facilitating and monitoring compliance with the Act and Regulations. In discussion with the CIPFA Directors of Finance section, OSCR has agreed transitional arrangements for 2006/07, highlighting a wish to adopt a proportionate

approach to any remedial action taken in response to breaches of the legislation. In particular it will be sufficient that the audited accounts of the Council under the local government SORP be passed to OSCR by 31 December 2007 together with a further analysis providing a breakdown of the accounts of each registered charitable body. Discussion is continuing in relation to arrangements for the future transition towards full compliance with the requirements of the Act and Regulations.

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

Financial reporting outlook

115. Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and to changing accounting rules. The council will need to improve its arrangements for the valuation of council houses.

116. The requirements of newly introduced charities legislation are onerous in terms of enhanced accounting disclosures. While the Regulations provide some scope to rationalise existing charitable trust arrangements, work will be required to ensure that the council complies fully with legal requirements in future financial reporting in relation to its registered charitable trusts. In the interim it is essential that the Council maintains a continuing dialogue with OSCR and meets the requirements of any transitional arrangements that may be agreed.

Changes to the 2007 SORP

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

118. The effect of this change will be to significantly increase the annual charge to the income and expenditure account in the year that any future loan restructuring takes place, with an adjustment being made to the charge to the general fund. Where the replacement debt is subject to a variable interest rate or is a LOBO, the annual charge to the general fund will typically be greater than currently

experienced (broadly about twice as much). In other cases there will be no change to the impact on the general fund compared to current practice. Existing balances may continue to be written off over current periods.

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

International Financial Reporting Standards

120. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) with effect from 2008/09. The government also announced its intention to publish whole of government accounts on an IFRS basis from 2008/09. After discussion, CIPFA/LASAAC has agreed for 2008/09 to continue to adopt IFRS within the SORP through the application of UK GAAP. It is considered that the accounts are likely to be materially similar to those prepared under IFRS because the SORP has been following the Accounting Standards Board's international convergence agenda. This option also allows for consideration of the long term future of the due process for the development and maintenance of proper accounting standards for local government.

121. CIPFA/LASAAC will also work with the Treasury to ensure that consolidation information, appropriate to the sector, is available in 2008/09 for local government whole of government accounts.

122. A move towards full IFRS compliance is anticipated in 2009/10. Any future move to IFRS in local government is likely to have a significant impact in two primary areas:

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

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

of accounting for the public sector side of PPP transactions over the summer and is expected to bring proposals to the Financial Reporting Advisory Board in the autumn.

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

Final Remarks

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

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

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

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	52	**Affordability of capital plan** The Council has identified a significant affordability gap in relation to its existing capital spending plans. It is reviewing options for progressing these over the next four years. ***Risk: Capital plans are not unaffordable, prudent or sustainable and the Council may not be able to invest in established priorities.***	Revisions to the Capital Plan and associated funding since April 2007 have effectively closed the funding gap. This will shortly be reported to Cabinet. Therefore no further significant action is required.	Director Corporate Services	December 2007
2.	53 to 55	**Borrowing in advance of need** Documentation of the business cases to support individual treasury management decisions to borrow funds in advance of need requires to be improved. ***Risk: council is unable to support such decisions with an assessment of how it has reached the view that advanced borrowing is justified.***	Documentation will be improved taking due cognisance of variable market conditions.	Exchequer Manager	March 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	59 to 62	**Financial Position** While a balanced budget was set for 2007/08, the council has identified an underlying gap of £3.2 million between available resources and recurring revenue budgets from 2008/09 onwards. The council faces significant challenges in balancing revenue and capital resources and ensuring that planned activity is affordable within available resources. ***Risks: Financial plans are unsustainable.*** ***The council is unable to balance its budgets, while maintaining effective service delivery and achieving improvements in performance.***	The alignment of financial and service planning has continued during the 2008/09 budget deliberations. A target saving has been allocated to Divisions towards the funding gap. Divisions have also been requested to put forward costed Divisional and Corporate priorities for consideration by Members. The position will become clearer when the Finance Settlement is announced on 10th December 2007.	Director Corporate Services	February 2008
4.	63 to 68	**Single Status** The Council remains to implement the single status agreement. ***Risks: Initial and continuing costs are considerably in excess of expected levels.*** ***Industrial relations difficulties restrict the ability to deliver on key objectives.*** ***The Council may be judged to be contravening the equal pay act.***	Modernising Midlothian implementation underway with outline project plan in place and dedicated resources in place.	Chief Executive	July 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	69 to 73	**Efficiency programme** In a tightening financial environment and in pursuance of best value objectives there is a need to identify and release efficiencies on an ongoing basis. ***Risks: the Council is unable to achieve the efficiencies necessary.*** ***It is unclear the extent to which savings comply with definitions of efficiency. Savings achieved impact on service quality and outputs to a greater extent than intended.***	Efficient Government Plan in place. Monitoring arrangements in place with reporting to Cabinet.	CMT	Ongoing
6.	74 to 76	**Asset management planning** There has been some slippage in planned improvements to the asset management planning process. The council originally planned to have an Asset Management Plan in place by March 2007. ***Risk: Assets are not being effectively and efficiently managed and potential savings are not being realised.***	Whilst it is acknowledged there has been slippage, progress is being made. Specifically, a phased approach is being made to address the issues in the Asset Management Framework document including electronic floor plan surveys, room level condition surveys, integration of databases etc.	Director Strategic Services	Ongoing
7.	84 to 86	**Internal audit** Internal audit currently provides limited coverage of key financial systems As a result the Audit Manager is unable to provide an explicit opinion, based on the work of internal audit, as to the adequacy of the system of internal control. ***Risk: The council's review of internal control us not properly supported by the work of internal audit.***	Internal Audit coverage has been adversely affected by staffing vacancies. Recruitment options are currently being considered to bring the staff up to full complement. In the meantime, a revised audit approach and plan for the remainder of 2007/08 is being developed and will be submitted for consideration by the Council's Performance Review Committee in due course.	Head of Finance/ Internal Audit Manager	December 2007

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8.	92	**National Fraud Initiative** The Council has made poor progress in following up reported matches, particularly in the areas of benefits and creditors. ***Risk: Potential cases of fraud are undetected and potential savings are not realised.***	The initial checking of NFI referrals is resource intensive and has not been able to be carried out because of this. A reprioritisation of the Work Plan of the Investigation and Fraud Section will ensure checking of all benefit matches will take place in every category by the end of 2007/08. Staff training is required to ensure the Creditors aspect is addressed.	Head of Revenues and Housing Management Head of Finance	January 2008
9.	107 to 109	**Valuation of council houses** The Council needs to review its approach to the revaluation of its housing stock. ***Risk: Valuation methodologies are insufficiently rigorous or robust to support future reporting and decision making.***	A review of alternative options, including arrangements in other local authorities, will be undertaken and a decision made on most appropriate course of action so that any changes can be implemented for the 2007/08 accounts.	Finance Manager	February 2008