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Tayside Contracts Joint Committee

Annual audit report to

Tayside Contracts Joint Committee and the Controller of Audit

Year ended 31 March 2012

28 September 2012

Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Tayside Contracts Joint Committee ("the Joint Committee") and is made available to Audit Scotland and the Accounts Commission for Scotland (together "the beneficiaries"). It has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

We also draw your attention to the following:

- the Joint Committee's proper officer is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve the Joint Committee's proper officer and management from its responsibility to address the issues raised and to maintain an adequate system of control.

Executive summary

The financial and operating environment in which the Joint Committee operates continues to change, particularly due to increasing costs of raw materials and potential future changes to the constituent council budgets. These changes will result in new and emerging financial and non-financial risks.

We have completed our audit for 2011-12 and have issued unqualified opinions on the financial statements of the Joint Committee.

The Joint Committee produced financial statements in line with the required timetable. The quality of information provided by the finance team was good.

The Joint Committee achieved a surplus of £1.080 million compared with a budget of £944,000 in respect of the year ended 31 March 2012.

The business plan included an objective to return a surplus of £750,000 to the constituent councils in respect of 2011-12. As a result of the final outturn, the amount returned was increased to £1.0 million.

The construction and facilities services divisions have both achieved the prescribed financial objective of achieving a break even position over a rolling three year period, with surpluses of £169,000 and £2.185 million ,respectively (excluding IAS 19 adjustments for pensions).

The construction services division created a business improvement team during 2011-12 responsible for transforming internal processes and considering internal and external partnership working to ensure delivery of an efficient service and the business plan objectives. The division performed strongly, maintaining levels of income despite a smaller winter programme than in the prior year and demonstrating its commitment to cut costs in an environment where the cost of raw materials used by the division continues to increase.

The facilities division has performed well, driven by an increase in the number of meals sold of 6.8% in respect of catering and the acquisition of new cleaning contracts. Following implementation of a revised operating structure from 1 April 2011, comprising a single division managing catering and cleaning services, with six fewer senior manager posts, staff cost savings of around 13% year on year have been achieved.

The success of the Joint Committee's partnerships with the constituent councils have been acknowledged, and they have all been extended for another three years to 2015. The business plan recognises the value of partnership working for the Joint Committee's continued success and a key performance target has been established to achieve 30% of construction income from partnerships by 2013-14. During 2011-12 a roads maintenance partnership was established with Perth and Kinross Council for a period of three years and further partnerships are under discussion.

The Joint Committee expects there to be further inflationary pressures on raw materials and a potential increase in employment costs due to the Scottish Government's policy of introducing a 'Living Wage'. This could have a potential impact of around £600,000.

Efforts are being made to reduce costs further with innovative initiatives such as using GPS technology to monitor driver behaviour, a new road paving system which could cut both energy and raw material usage and a new catering management system which will rationalise the menus across regions, optimise menu planning and minimise food wastage.

Audit risks were identified around opening balances; the financial position; inventories and long term contracts; provisions; and statutory trading operations. No audit adjustments were necessary as a result of our consideration of these areas.

In March 2012, the Joint Committee adopted a local code of corporate governance and agreed to assess performance against the code on an annual basis, with the first review in June 2012. Following that review, management reported over 90% compliance with the existing guidelines adopted and has identified actions to enhance performance in remaining areas.

Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making.

Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practise* ("the *Code*"). This specifies a number of objectives for our audit.

We reported, in our audit strategy, our responsibilities in respect of the audit. The Joint Committee's responsibilities are set out in appendix two.

This report summarises our work for the year ended 31 March 2012.

We wish to record our appreciation of the co-operation and assistance extended to us by Joint Committee staff during the course of our work.

Financial statements	
Draft financial statements were provided on 4 June 2012, in line with the required timetable. The draft financial statements were of a good standard. We have issued unqualified audit opinions on the 2011-12 financial statements.	-
Use of resources	
The Joint Committee achieved a surplus of £1.080 million compared with a budget of £944,000 in respect of the year ended 31 March 2012. The business plan included an objective to return a surplus of £750,000 to the constituent councils in respect of 2011-12. As a result of the final outturn, the amount returned was increased to £1.0 million.	Page 4
The Joint Committee met its financial targets through effective financial planning and management throughout the year.	Page 4
Governance	
In March 2012, the Joint Committee adopted a local code of corporate governance and agreed to assess performance against the code on an annual basis, with the first review in June 2012. Following that review, management reported over 90% compliance with the existing guidelines adopted and has identified actions to enhance performance in remaining areas.	Page 9
Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively.	Page 9
We have reviewed the governance statement and have confirmed that it is in line with guidance and reflects our understanding of the Joint Committee.	Page 9

Financial position

The Joint Committee achieved a surplus of £1.080 million compared with a budget of £944,000 in respect of the year ended 31 March 2012.

The business plan included an objective to return a surplus of £750,000 to the constituent councils in respect of 2011-12. As a result of the final outturn, the amount returned was increased to £1.0 million.

The construction and facilities services divisions have both achieved the prescribed financial objective of achieving a break even position over a rolling three year period with surpluses of £169,000 and £2.185 million, respectively (excluding IAS 19 adjustments for pensions).

Financial position

2011-12 was the first year of the Joint Committee's new three year business plan which was approved on 9 May 2011. The business plan sets out the strategic objectives of the Joint Committee and is supported by service plans for each division and unit. The overall theme of the business plan is "Transformation – delivering more for less".

The business plan includes five key business objectives:

- deliver on financial targets;
- provision of quality services which meet clients' expectations;
- protection of the environment;
- effective management and development of people; and
- ensuring the safety and welfare of people and the public.

The business plan included financial forecasts and the original 2011-12 budget anticipated a surplus of £944,000. The final outturn was a surplus of £1.08 million. The following table summarises the Joint Committee's overall performance against budget in 2011-12.

	Budget £'000	Actual £'000	Variance £'000
Income	62,033	65,668	3,635
Expenditure	61,089	64,588	3,499
Surplus	**944**	**1,080**	**136**

During 2011-12, external income was £65.7 million (2010-11, £65.9 million). Income from constituent local authorities – Angus, Dundee City and Perth and Kinross Councils – decreased by £1.2 million to £58.2 million compared with 2010-11. Income from public bodies and other customers increased by £1.0 million to £7.5 million, compared with 2010-11.

The Joint Committee is reliant on the constituent local authorities, and associated public bodies (including PPP school contracts) for the majority of its income (95%). While the constituent authorities have extended the existing contracts to 2015, there remains a risk that the Joint Committee could not reduce fixed costs as quickly as income could fall.

The requirement of the Joint Committee's constituent local authorities, as detailed in the business plan, was to return a surplus of £750,000 in respect of the year ended 31 March 2012.

As a result of the positive variance on the Joint Committee's outturn, an increased distribution of £1.0 million is to be made to the constituent local authorities. This is distributed based on the proportions agreed by the Joint Committee in November 2011 (which are expected to remain for three years), being Angus Council, 31.5%, Dundee City Council, 33.0% and Perth and Kinross Council, 35.5%. The remaining balance of £80,000 has been retained within the general fund which has increased to £967,000 as at 31 March 2012 (1.5% of 2011-12 turnover).

Net comprehensive expenditure for the year ended 31 March 2012 was £13.6 million (2010-11, income £19.1 million). The significant variance is primarily a result of actuarial losses on pension assets and liabilities of £13.8 million (2010-11, gain £11.7 million).

Statutory trading operations

The Local Government in Scotland Act 2003 prescribes that the Joint Committee's trading operations should achieve a break-even position over a rolling three year period.

The construction and facilities services divisions have both achieved this financial objective three year surpluses of £169,000 and £2.185 million, respectively (excluding pension adjustments for pensions).

Financial position (continued)

The construction division performed strongly, maintaining levels of income despite a smaller winter programme than in the prior year and demonstrating its commitment to cut costs in an environment where the cost of raw materials used by the division continues to increase.

Construction services division – trading account

The construction services division created a business improvement team during 2011-12 responsible for transforming internal processes and considering internal and external partnership working to ensure delivery of an efficient service and the business plan objectives.

- Income has decreased by £642,000 (1.4%).
  - Spending by constituent councils on construction was largely unchanged. While management expect similar levels of income in 2012-13, there is likely to be further pressure on the underlying council budgets in future years and this presents a risk to the Joint Committee's activities.
  - As a result of a comparatively milder winter in 2011-12, around half the amount of salt was utilised, offset by some additional costs in respect of road repairs following the harsh winter in the previous year.
- Direct labour costs after pension adjustments, have increased by £2.6 million (34.5%).
  - A net pension charge of £0.3 million is included in 2011-12 (2010-11: net income £4.3 million). These costs are allocated between direct labour and overheads.
  - Total staff costs (excluding pension adjustments) have decreased from £14.6 million in 2010-11 to £13.9 million in 2011-12, primarily in respect of reduced overtime expenditure.
- Purchases have increased by £85,000 (0.6%).
  - As a result of cost control, there has only been a small increase in direct purchase costs despite significant inflation of raw material costs, many of which are linked to the price of oil and have risen by up to15%.
- Sub-contractor costs have risen significantly (85%) due to a number of large projects in the year which required outside assistance.

  The use of sub-contractors does, however, assist the Joint Committee in mitigating some risks from any unexpected downturn in business activity.
- Transport and plant hire costs have reduced by £1.5 million (41.5%), as a result of the milder winter in 2011-12.
- Overheads have fallen by £161,000 before adjustment for pension costs included within this caption.

Construction services division

	2012 £'000	2011 £'000	Movement £'000
Income			
Charges to constituent councils	37,921	38,389	(468)
Charges to internal users	154	144	10
Other income	4,505	4,689	(184)
	42,580	**43,222**	**(642)**
Expenditure			
Direct labour	10,017	7,448	2,569
Direct purchases	13,862	13,777	85
Sub-contractors	9,496	5,122	4,374
Transport and plant hire	2,045	3,500	(1,455)
Overheads	7,833	6,557	1,276
Depreciation	1,742	1,596	146
Depot rental charges	429	507	(78)
Interest payable	394	379	15
	42,818	**38,886**	**3,932**
Net surplus/(deficit) including IAS19 adjustments	**(238)**	**4,336**	**(4,574)**
Net surplus/(deficit) before IAS19 adjustments	**29**	**25**	4

Financial position (continued)

The facilities division has performed well driven by an increase in the number of meals sold of 6.8% in respect of catering and the acquisition of new cleaning contracts.

Following implementation of a revised operating structure from 1 April 2011, comprising a single division managing catering and cleaning services, with six fewer senior manager posts, staff cost savings of around 13% year on year have been achieved.

Facilities services division – trading account

The facilities services division implemented a new operating structure from 1 April 2011, comprising a single division managing catering and cleaning services, with six fewer senior manager posts. The division's activity remains labour intensive and a focus on workforce planning and revised establishment control and vacancy management policy, introduced in 2011-12 has supported staff cost management. Given the lower margin on the division's activities, strong cost control arrangements are, in our view, key to continued financial sustainability.

- Income increased by £383,000 (1.7%).
  - Catering income increased by £312,000 (2.6%). While there was a 6.8% increase in meals sold, this was partially offset by price reductions agreed with the constituent councils.
  - Cleaning income increased by £141,000 (1.5%), primarily related to new work.
- Direct labour costs have increased by £3.3 million (34.5%) including pension adjustments.
  - A net pension charge of £0.3 million is included in 2011-12 (2010-11: net income £3.9 million). These costs are allocated between direct labour and overheads.
  - Total staff costs (excluding pension adjustments) have increased from £100,000. There was an increase in full time equivalent headcount from 880 to 962, largely offset by savings of 13% associated with the revised management structure.
- Purchases have increased by £274,000 (7.2%). This primarily relates to food costs and demonstrates that the costs savings and efficiencies made by the Joint Committee during the year have successfully offset inflation in underlying food prices. In our view, it is, however, likely that food price pressures will continue in 2012-13.
- Overheads have increased by £213,000 (10.8%) before adjustment for IAS 19 costs. This is a primarily a result of increased investment into non-capital equipment.

Facilities services division

	2012 £'000	2011 £'000	Movement £'000
Income			
Charges to constituent Councils	21,448	20,996	452
Charges to internal users	152	158	(6)
Other income	1,794	1,857	(63)
	23,394	**23,011**	**383**
Expenditure			
Direct labour	14,501	11,163	3,338
Direct purchases	4,103	3,829	274
Overheads	4,299	3,193	1,106
Depreciation	32	29	3
Depot rental charges	26	28	(2)
Interest payable	12	13	(1)
	22,973	**18,255**	**4,718**
Net surplus/(deficit) including IAS19 adjustments	**421**	**4,756**	**(4,335)**
Net surplus/(deficit) before IAS19 Adjustments	**691**	**890**	**(199)**

Financial position (continued)

Short and long-term capital and working capital requirements are met by an overdraft facility with and borrowing from Dundee City Council.

The overall financial position of the Joint Committee is adversely impacted by the accounting for its participation in the Tayside Superannuation Fund. The net liability from this participation has increased by £13.6 million to £36.3 million. While these liabilities fall due over the long term, they represent a continuing cost pressure for the Joint Committee, particularly where third parties in the private sector will have lower costs.

Balance sheet as at 31 March 2012

	31 March 2012 £'000	31 March 2011 £'000	Movement £'000
Property plant and equipment	8,860	9,161	(301)
Non current assets	**8,860**	**9,161**	**(301)**
Inventories	2,561	1,826	735
Short term debtors	12,907	15,808	(2,901)
Cash and cash equivalents	4	4	-
Current assets	**15,472**	**17,638**	(2,166)
Bank overdraft	(2,278)	(3,143)	865
Short term borrowing	(834)	(699)	(135)
Short term creditors	(12,666)	(13,263)	597
Short term provisions	(295)	(1,129)	834
Current liabilities	**(16,073)**	**(18,234)**	**2,161**
Net current liabilities	**(601)**	**(596)**	**(5)**
Long term creditors	(698)	(1,200)	502
Long term provisions	(292)	(321)	29
Long term borrowing	(5,084)	(4,953)	(131)
Pensions liability	(36,342)	(22,666)	(13,676)
Long term liabilities	**(42,416)**	**(29,140)**	**(13,276)**
Net liabilities	**(34,157)**	**(20,575)**	**(13,582)**
Usable reserves	1,193	1,110	83
Unusable reserves	(35,350)	(21,655)	(13,695)
Total reserves	**(34,157)**	**(20,575)**	**(13,582)**

- Inventories have increased by £735,000 (40.2%). This is as a result of the 2011-12 winter being significantly less harsh than the prior year. As such, the Joint Committee's salt stocks unused at year end have increased. The salt is purchased in advance of need to ensure availability and control costs.
- Short term debtors have decreased by £2.9 million (18.4%) following management focus on debt control and follow-up.
- The bank overdraft has reduced by £865,000 (27.5%) due to improved financial performance and as a result of the timing of the £1.0 million payment to the constituent councils falling after 31 March 2012.
- Short and long term borrowing combined has increased by £266,000 (4.7%):
  - This is as a result of £969,000 of new loans taken out during the year to fund capital expenditure offset by payments made against the loans. Favourable borrowing costs available to the Joint Committee mean that loan funding, rather than leases are the preferred method of funding the purchase of assets. Similarly, there has been a reduction in lease creditors. No new finance leases have been taken out in the year.
- Short term provisions have decreased by £834,000 (73.9%). This is consistent with the level of provisions before 2010-11 which was increased as a result of significant one-off provisions associated with remedial works required to roads following the use of substandard supplier materials.

Audit focus areas

Audit risks were identified around opening balances; the financial position; inventories and long term contracts; provisions; and statutory trading operations.

As shown on page four, the construction and facilities services divisions have both achieved the prescribed financial objective of achieving a break even position over a rolling three year period.

No adjustments were necessary as a result of our consideration of these areas.

Issue	Key risk and implications	KPMG comment
Opening balances	International Standard on Auditing (UK and Ireland) 510: *Initial audit engagements – opening balances* requires us as auditors to obtain sufficient appropriate audit evidence about whether: ▪ opening balances contain misstatements that materially affect the current period's financial statements; and ▪ appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes are appropriately accounted for, presented and disclosed in accordance with the applicable financial reporting framework.	We considered issues from the 2010-11 audit through review of the annual report, review of the 2010-11 financial statements and specific testing in respect of certain opening balances. We also considered the process and operation of controls and the presentation of information in the financial statements. Our work uncovered no issues around the opening balances that would materially effect the financial statements and confirmed that accounting policies were appropriate and consistent between the prior and current year.
Inventories and long term contracts	The Joint Committee has significant inventories in the form of raw materials and salt stores. It is also required to recognise turnover from long term contracts appropriate to the stage of completion of the contracts, the businesses and industries in which they operate.	We reviewed internal audit's reports following attendance at stock counts and carried out stock cost testing to ensure that the purchase cost of stock was correctly recorded in the Joint Committee's underlying records. We also reviewed the slow moving stock report and confirmed that the stock provision appears reasonable. Based on our discussions with management and consideration of documentation, the Joint Committee does not participate in long term contracts (more typically, contracts provide a framework for the provision of services).
Provisions	The Joint Committee makes significant provisions in respect of the requirement to undertake remedial works and quarry reinstatement costs.	Provisions as at 31 March 2012 decreased by £863,000 to £587,000, compared with 2010-11. The remedial works provision has reduced by £804,000. The significant reduction primarily related to a one-off issue arising in the prior year which led to defects in the top surface of roads that had been laid by the Joint Committee. We discussed the basis for provisions made by management and considered consistency with the prior year and evidence of costs incurred after the year end.

Corporate governance framework and supporting arrangements

Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making.

Corporate governance and internal control arrangements	The Joint Committee maintains an integrated governance framework to provide an appropriate structure for maintaining decision-making, accountability, control and behaviour. In March 2012, the Joint Committee adopted a local code of corporate governance and agreed to assess performance against the code on an annual basis, with the first review in June 2012. Following that review, management reported over 90% compliance with the existing guidelines adopted and has identified actions to enhance performance in remaining areas. While there have been limited changes in the composition of the Joint Committee following the local government elections in May 2012, in its *Overview of local government in Scotland*, published in March 2012, the Accounts Commission included a checklist for new and returning elected members to use to assess their own understanding and training needs which could be used as a tool to inform training needs or review the effectiveness of the Joint Committee's arrangements. Following the adoption of the code of corporate governance in March 2012, management intend to carry out a review of the key supporting policies during 2012 to ensure that these are up to date and fit for purpose. A register of policies and the relevant review dates is maintained by management. The risk management strategy and corporate risk register were reviewed by the Joint Committee in June 2012. This included arrangements for the identification, recording and monitoring of risks which appear adequate. ***Recommendation one*** Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. However, we noted that minor weaknesses exist and recommendations have been agreed with management to address these matters.
Governance statement	The governance statement provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. It describes a number of sources of assurance for the proper officer and identifies areas for improvements to be focussed in the future. We have reviewed the governance statement and have confirmed that it is in line with guidance and reflects our understanding of the Joint Committee.

Corporate governance framework and supporting arrangements (continued)

Remuneration report	Scottish Statutory Instrument 2011 number 64, The Local Authority Accounts (Scotland) Amendment Regulations 2011 amended the Local Authority Accounts (Scotland) Regulations 1985 and added the requirement for local authority bodies to prepare a remuneration report. The Local Government Finance Circular number 8/2011, issued by the Scottish Government, provides guidance that the remuneration report is a statement in its own right and not a note to the financial statements. While there is no statutory prescription on its placement in the financial statements, it suggests a suitable placement would be after the governance statement. The Joint Committee has included the remuneration report after the primary statements and notes. It is placed before the governance statement at the end of the annual report. While not out of line with some other local authorities, it is inconsistent with our experience of good practice in other sectors and the Scottish Government guidance. Management should consider reordering the content of the annual report in the future, to include the governance statement and remuneration report more prominently.
Prevention and detection of fraud	Procedures and controls related to fraud are designed and implemented effectively. The Joint Committee has appropriate arrangements to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Joint Committee members. Management has confirmed that no significant fraud or irregularities have been identified during the year.

Appendices

Action plan

The action plan summarises specific recommendations, together with related risks and management's responses.

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions and response
1 Review of corporate risk register		**Grade three**
Identified risks and opportunities facing the Joint Committee are captured in the corporate risk register together with an evaluation of the likelihood of the risk materialising, an estimate of its impact and the required management action to mitigate and respond to the risk as appropriate. The risk management strategy and corporate risk register were reviewed by the Joint Committee in June 2012. This included arrangements for the identification, recording and monitoring of risks which appear adequate. However, there is a risk that individual mitigating actions and risks are not subject to ownership by an individual or responsible officer which leads to failure to implement actions.	It is recommended that the risk register is updated to assign each risk a responsible officer who is held accountable for ensuring identified mitigated actions are implemented.	The approach we have adopted to ensure accountability for implementing the key mitigation actions is to include those actions highlighted against the risks assessed as high and medium, within the corporate improvement plan. The actions are assigned against a responsible officer within the corporate improvement plan. **Responsible officer:** n/a **Implementation date:** ongoing

Audit Scotland code of audit practice – responsibilities of the Joint Committee

Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and
- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

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