

To: POLICY AND RESOURCES (FINANCE) SUB-COMMITTEE		Subject: AUDIT SCOTLAND REPORT TO MEMBERS ON THE 2003-2004 AUDITED ACCOUNTS
From: DIRECTOR OF FINANCE		
Date: 17 December 2004	Ref: AC/KA	

1. Introduction

- 1.1 This report advises the Committee that the appointed external auditors, Audit Scotland, have now completed the audit of the Council for the financial year 2003-2004. Under the statutory provisions of the Local Government (Scotland) Act 1973, the external auditor is required to submit a report to Members of the Council and to the Controller of Audit summarising all the significant matters which have arisen and reporting on the outcome of the audit. A copy of the Report to Members together with the audited Annual Accounts was presented to the Council at its meeting on 2 December 2004. At that meeting, the Council referred the report to the Policy & Resources (Finance) Sub-Committee to monitor implementation of the action plan.
- 1.2 The auditor's report is structured in accordance with the way in which the audit work is planned and undertaken:
- Executive Summary and Introduction (sections 1 and 2)
 - Matters relating to the audit of the Council's annual accounts (section 3)
 - Matters relating to governance issues including work done on internal controls (section 4)
 - Matters relating to performance management including work done on local and national studies, best value and the statutory performance indicators (section 5)
- 1.3 The auditor's report is comprehensive and although there are a number of issues identified that required management action, the main findings and conclusions of the report are generally positive. An action plan has been completed and has been agreed with Audit Scotland to progress the matters arising (copy at Annex A). The Director of Finance will monitor progress against the agreed actions.

2. Financial Statements

- 2.1 Section 3 of the external auditor's report relates to the audit of the Council's annual accounts and associated matters.
- 2.2 The Council's accounts have received an unqualified audit opinion, which states that they

present fairly the financial position of the Authority as at 31st March 2004. In addition, the Council's six trading operations established following the introduction of the Local Government in Scotland Act 2003 also achieved their required financial objectives and clear audit opinions. The audited Annual Accounts have now been advertised for public inspection.

- 2.3 The auditor has however required to insert an explanatory paragraph in his opinion that relates to a technical failure by the Council to comply with a statutory requirement. The matter, which is a complex one, is detailed fully in the auditor's report but primarily relates to the inability of the Care Commission to process an application by the Council for registration by the deadline date of 1 October 2003.
- 2.4 Consequently, expenditure incurred after this date on certain Social Work services was not strictly in accordance with the relevant statutory requirements. Members should note that the issue is somewhat technical but that the failure to comply was not attributable to the actions of the Council and that there is no suggestion that the expenditure incurred was somehow improper or inappropriate. We also understand, that it has been necessary to include a similar paragraph in the accounts of all other Scottish local authorities.
- 2.5 In respect of the General Fund Balance of £14.558m, Members will be aware of the Council's financial planning strategy to maintain a reduced contingency for the 2004-2005 financial year of £5.989m increasing to the authorised level of £8m in 2005-2006. In addition, resources have already been earmarked or utilised for service enhancement during 2004-2005. As outlined in my previous report to the Council of 7 July 2004 these commitments amount to £6.799m leaving a balance of £1.770m available for consideration when setting the 2005-2006 budget.
- 2.6 Proposals have also been brought forward for the element of the Housing Revenue Account Balance, which is beyond the £1.2m contingency reserve. Council has approved the allocation of £0.090m to increase the provision for doubtful debtors and the retention of £0.400m to be held to offset any unforeseen cost pressures and uncertainties, which may arise during 2004-2005.
- 2.7 In reviewing the financial statements presented for audit and the financial stewardship of the Council, the external auditor notes that a high standard of accounts and accompanying working papers have been provided by Council officers. No material issues arose during the audit process and the only changes required between the unaudited and audited accounts were again of a technical nature involving re-classifications and had no impact on the overall results or financial position of the Council.
- 2.8 The external auditor also confirmed that the Council's Statement on the System of Internal Financial Control, which is published alongside the annual accounts, was in accordance with relevant guidance and was not inconsistent with the results of the audit. The Council's statement recognised the need to further develop and embed risk management processes across the Council and it is pleasing to note that the external auditor has acknowledged the work being done, across the Council, to progress the Council's risk management arrangements.

3. Governance and Regularity

- 3.1 Section 4 of the auditor's report relates to the audit of the Council's annual accounts and associated matters.
- 3.2 The external auditor has reported that although some recommendations resulted from the work done on internal controls that these did not relate to major areas of concern and that systems were generally found to be operating satisfactorily. This mirrors comments provided separately by the Council's Audit Manager in his annual opinion on the adequacy and effectiveness of the Council's internal controls in 2003-2004.

4. Performance Management

- 4.1 Section 5 of the auditor's report relates to performance management including work done on local and national studies, best value and the statutory performance indicators.
- 4.2 The external auditor produces individual reports on the various pieces of work done under the performance management heading and action plans have been agreed with relevant officers to address all the issues identified. Among the areas highlighted by the external auditor, the comments relating to the need to further progress and develop asset management planning arrangements are most noteworthy.
- 4.3 The external auditor has commented on the importance of asset management planning arrangements for ensuring that fixed assets are managed efficiently and effectively and that proper consideration is given to the suitability and sustainability of those assets in determining capital planning priorities and strategic and service planning issues.
- 4.4 Although recognising the progress that has been made to date, the external auditor considers that the Council still has much to do to complete the necessary tasks in this area. Housing and Property Services staff will shortly agree an action plan with the external auditor. The Director of Finance will monitor subsequent progress against this plan to ensure that actions are properly implemented.

5. Recommendation

5.1 The Committee is requested to:

- Note the Auditor's Report to Members including the action plan agreed with the Chief Auditor; and
- Agree that the Director of Finance will monitor and report back to the Committee on progress against the agreed actions.



Director of Finance

For further information please contact Alistair Crichton, Director of Finance on Ext 2200

Annex A Action plan

Final Report	Action		
Page / Paragraph Reference	Issue to be addressed by the Council	Who by	Comments / Date
8/19	<p><u>Revaluations</u></p> <p>The Council should review its community assets to ensure that they have been appropriately categorised as such.</p>	Accounting Manager	This review is already underway addressing priority areas first and will be completed for all areas by 30 June 2005.
11/33	<p><u>Risk Management</u></p> <p>The Council should continue to develop its risk management processes. Risk registers should be finalised as soon as practicable in accordance with the agreed programme.</p>	Director of Finance	We will continue to develop risk management arrangements in accordance with the risk management corporate working group action plan. We currently intend to complete departmental risk registers by 31 May 2005.
15/14	<p><u>Asset Accounting</u></p> <p>The Finance Department should ensure that information contained within the fixed asset register is complete and accurate.</p>	Head of Accounting Services	The Department will continue to ensure that the information contained within the fixed asset register is complete and accurate.
23/23	<p><u>Asset Management Planning</u></p> <p>The Council should ensure that asset management planning is further developed and used to inform the capital and strategic planning process.</p>	Director of Housing and Property Services	We will continue to develop asset management planning arrangements and will prepare an action plan by 31 December 2004 which will detail the necessary actions to finalise the Council's asset management plan and proposed timescales. We will regularly monitor progress against these actions.