

## ANGUS COUNCIL

THURSDAY 6 NOVEMBER 2008

## ANGUS COUNCIL ANNUAL REPORT AND ACCOUNTS 2007/08 AND THE REPORT TO MEMBERS ON THE 2007/08 AUDIT OF ANGUS COUNCIL

## JOINT REPORT BY THE CHIEF EXECUTIVE, THE DIRECTOR OF CORPORATE SERVICES AND THE HEAD OF FINANCE

**ABSTRACT:**

This report covers Henderson Loggie's Report to Members on the 2007/08 Audit of Angus Council and asks the Council to formally note the 2007/08 Annual Report and Accounts including the Audited Accounting Statements for Angus Council. The report also advises members of the intention to publish a summarised version of the accounts and seeks approval of further carry forwards under the terms of the budget virement flexibility scheme.

**1 RECOMMENDATION**

The Council is asked to:-

- (i) note the content of Henderson Loggie's Report to Members on the 2007/08 Audit of Angus Council ([Appendix 1](#));
- (ii) note and agree the comments by the Chief Executive, Director of Corporate Services and Head of Finance in relation to the report to Members;
- (iii) agree to refer this committee report to the Monitoring Group for their interest;
- (iv) note the 2007/08 Annual Report and Accounts for Angus Council which will be published shortly after the Council meeting ([Appendix 2](#));
- (v) note that a summarised version of the 2007/08 Annual Accounts will be published for circulation in the county ([Appendix 3fp](#); [3ra](#); [3bs](#); [3hra](#); [3fs](#); [3ca](#); [3sr](#); [3rc](#));
- (vi) note that the £2.901 million of 100% carry forwards approved through committee reports 148/08, 640/08 and 343/08 have been reduced by £0.735 million to £2.166 million to reflect annual 2007/08 departmental outturns (£1.713 million for revenue budget 100% carry forwards and £0.453 million for transfers to Special Funds);
- (vii) approve a further 100% carry forward request of £0.206 million in respect of ring fenced monies for Other Housing;
- (viii) approve that £0.375 million of 50% carried forwards by departments from 2007/08 to 2008/09 under the terms of the budget virement flexibility scheme.

**2 INTRODUCTION**

- 2.1 The Council is required by law to prepare a set of Accounting Statements (the Accounts) which set out its financial position at the end of each financial year. These Accounts are prepared by the Head of Finance and his team on a draft basis and are subsequently submitted to an External Auditor appointed by the Controller of Audit for independent review.
- 2.2 The Council's draft Accounting Statements for financial year 2007/08 were approved by the Council at its meeting on 26 June 2008 for submission to the Controller of Audit. This report provides details of the outcome of the external audit process (in the

form of a Report to Members from the Auditor) and also presents the finalised Annual Report and Accounts for Angus Council for financial year 2007/08.

2.3 Henderson Loggie were appointed for the five year period beginning 2006/07 as the external auditors of Angus Council and the report attached at Appendix 1 is their second annual report to be issued to Members of the Council and the Controller of Audit.

2.4 Angus Council has now produced its Annual Report and Accounts 2007/08 and a copy is attached as Appendix 2.

2.5 Through their external audit role Henderson Loggie:-

- provide an opinion on the financial statements in accordance with relevant legal and regulatory requirements and international standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission;
- review and report on the Council and its group corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Council's financial position;
- review and report on the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value; and
- review and report on whether the Council has made adequate arrangements for collecting, recording and publishing prescribed performance information.

2.6 The purpose of the auditor's report is to briefly summarise all significant matters which have arisen during the course of the audit which is considered worthy of Members' attention. In the report they are grouped under three distinct headings:-

- Financial
- Governance
- Performance

2.7 The purpose of this report is to provide a brief comment, where appropriate, on the main issues raised within Henderson Loggie's report. The Head of Finance can however provide more detailed commentary on specific issues or concerns that Members may have on the Accounts or the Auditors Report and members are asked to liaise with the Head of Finance in this regard.

2.8 Sections 3 to 6 below highlight the main issues raised in Henderson Loggie's Report.

### **3 FINANCIAL**

#### **Audit Opinion**

3.1 The Council achieved the statutory deadline for the submission of its draft accounts for audit (30 June 2008). The statements presented for audit had been prepared using the format introduced by the 2007 Statement of Recommended Practice (SORP). The audit was completed with the issue of an unqualified audit opinion on 29 September 2008.

3.2 A number of significant audit adjustments were identified during the course of the audit, mainly to ensure that the requirements of the SORP were met. The majority of the proposed audit adjustments were agreed and the financial statements were amended. These audit adjustments arose mainly in areas of the Accounts which had changed, in some cases significantly, under the 2007 SORP. The constant stream of significant changes to Recommended Accounting Practice which have arisen in recent years continues to present a major challenge for both Council officers and external auditors.

3.3 The net effect on the Council's General Fund Balance from the adjustments made was an overall increase of £1.767 million. This increase was wholly due to a decision by the Head of Finance to review downwards the provision made in the draft accounts for equal pay liabilities in light of more up to date information becoming available to inform these complex projections.

#### **Significant Trading Operations (STOs)**

3.4 The auditor specifically highlights Significant Trading Operations (STOs) in that they met their statutory three-year break-even target covering the three years to 31 March 2008. It is also noted that the action recommended through the 2006/07 accounts audit for the Council to put in place Service Level Agreements (SLAs) between the Council's three STOs and the relevant client departments has now been undertaken.

3.5 Members may be aware that a full best value review of the Waste Management STO is underway in accordance with the recommendation in this regard arising from the 2006/07 accounts audit. The auditors have accepted assurances from the Head of Finance that a formal review of the Council's three STOs will be carried out during 2008/09 to determine whether they still meet the criteria for significant trading organisations and whether the results should continue to be disclosed separately or alternatively included within the Cost of Service figures.

#### **Reserves and Provisions**

3.6 Members attention is drawn to Statement 2 and Note 29 in the Accounting Statements relating to the General Fund balance. As Members are aware the Council accounts for its General Fund services separately from the Housing Revenue Account (HRA) as required by law. What has however perhaps been less clear in previous years is that in statutory accounting terms the HRA is simply a ring-fenced component of the wider General Fund. By law and ignoring Common Good Funds and Charities the Council only has a limited number of Accounts (Funds) which it can operate. These are:-

- the General Fund;
- the Capital Fund;
- the Insurance Fund; and
- the Renewal & Repair Fund.

3.7 In simple terms all other funds or reserves which the Council has (aside from Common Good and Charities) need to be accounted for under one of the four main funds listed above. At the year end therefore and for the purposes of the Council's statutory accounts the HRA and other reserves (as listed in Note 29 to the Accounts) are included in the overall General Fund Balance. This accounting requirement does not in any way change how the Council operates its General Fund and HRA and for budget setting and other internal purposes the Council will continue to regard General Fund and HRA as separate accounts. Members are asked to bear these points in mind when looking at the Accounts and the figures quoted on General Fund Balance levels, etc.

- 3.8 The auditor highlights that the Council's General Fund balance for the year shows an underspend of £7.168 million against a budgeted use of resources of £6.210 million, resulting in an increase in the General Fund Balance of £0.958 million and sets out details of significant underspends in the body of the report. Full details of this were also provided in Report 650/08 to the Council in June 2008. This underspend increased the General Fund balance (excluding HRA and other reserves) to £17.476 million. However, the auditor highlighted that £15.383 million of this is committed leaving an uncommitted General Fund balance of £2.093 million.
- 3.9 The Council has now carried out a job evaluation exercise as part of Single Status and implemented new pay rates and conditions on 1 April 2008. As at 31 March 2008 £1.590 million was earmarked within the committed General Fund balances to allow costs of the initiative to be phased in over a number of years.
- 3.10 The auditor highlights the updated position in respect of equal pay claims. The Council's draft accounts included a provision of £2.945 million. However, following the implementation of single status by the Council on 1 April 2008 officers were able to undertake a more accurate assessment of the potential liability in this regard. Based on this more accurate information and the related detailed projections carried out a reduction in the equal pay provision of £1.768 million was agreed with the auditor. The Council recognises that it may have further liabilities beyond the amount provided for but due to the uncertainties around the legal position are unable to determine the probable outcome. External audit recognise that a prudent approach has been adopted by the Council with allowance for potential further equal pay liabilities beyond those covered by the accounting provision being earmarked within the General Fund Balance.
- 3.11 Other pressures highlighted include increasing energy and recycling costs and free personal care costs. These costs are currently being contained within the existing available resources. However, the use of balances and budgets from previous years, approved for carry forward under the budget flexibility carry forward scheme is used to help ease the budgetary impact in the 2008/09 budget. The 2008/09 pay award has also been identified as an area of financial risk given that the present employer offer is above the level provided for in the Council's budget.
- 3.12 The Housing Revenue Account (HRA) reported a deficit of £0.323 million compared to a budgeted surplus of £0.137 million resulting in an adverse variance of £0.460 million. This variance was mainly due to additional CFCR contributions to fund the overall Housing Capital Programme improvements.

#### **Common Good**

- 3.13 Discussions took place with the auditor with regard to recently issued LASSAC guidance "Accounting for Common Good" and the Council's arrangements for borrowing by the Arbroath Common Good Fund from the Consolidated Loans Fund. It was agreed that the Arbroath Common Good Fund borrowing undertaken to fund improvements to the Webster Theatre would be adjusted in order that the funds advanced would be from the Council's General Fund rather than the Consolidated Loans Fund. The relevant adjustments were made to the financial statements in a manner which ensured that there was no financial impact on to either the Council or the Arbroath Common Good Fund.

## 4 GOVERNANCE

- 4.1 The auditor highlights that the Council's committee structure is now fully aligned with the revised senior management structure. Revised Corporate and Community Plans have been approved, covering the period 2007 to 2012. As part of the 2008/09 budget setting process, further work was undertaken to improve the transparency of the linkage between the budget setting and service, corporate and community planning.
- 4.2 Both the Chief Executive and the Chief Internal Auditor carry out an annual review of compliance with the Local Code of Corporate Governance (the Local Code). These reviews form the basis of the annual corporate governance statement included in the Council's annual report and accounts document. From all the reviews undertaken the auditor has concluded that the core governance arrangements are sound, but further work is required to ensure full compliance with the Local Code.
- 4.3 The Council has put arrangements in place to revise the Local Code to ensure compliance with the revised framework published by CIPFA/SOLACE - ***Delivering Good Governance in Local Authorities***. It is intended that the revised code and associated action plan would be operative from 1 April 2009.
- 4.4 The auditor agreed to place reliance on a number of internal audit's reviews however, four of the reports on which they planned to place reliance had not been finalised prior to the completion of the year-end audit. Only one of these, Payroll, impacted directly on the financial statements. It had previously been agreed that internal audit would rely on the high level control testing carried out by external audit as part of the financial control evaluation work, and that internal audit would carry out more detailed transaction testing. The results of the financial control evaluation testing were reported in their *Financial Statements Audit Plan* (report 2008/04).
- 4.5 The auditor highlights that the Council completed work on the 2006/07 National Fraud Initiative during 2007/08. Total overpayments identified amounted to £40,000 and recovery proceedings have begun for £31,000 of this total. The auditor highlighted that the Council was fully committed to the exercise, expending significant resource and effort in checking potential matches.
- 4.6 The auditor notes that the 2008/09 National Fraud Initiative began in October 2008 and they will again monitor the Council's participation in the exercise. They have confirmed that the preparations for the new exercise have been full and efficient and that the data planned to be submitted is in place.

## 5 PERFORMANCE

- 5.1 The auditor's report highlights that the Excelsis performance management system is in place throughout the Council and is used for service planning, updating risk registers and reporting to Council groups and committees and to the Community Planning Partnership.
- 5.2 The Single Outcome Agreement (SOA), which was developed with input from community planning partners, was signed in July 2008. Work is underway to develop a governance framework and performance management arrangements which will be crucial to the delivery and monitoring of the SOA.
- 5.3 The Council's 2007/08 Efficiency Statement was submitted to the Scottish Government in August 2008. The Council exceeded its notional target for the year by

£2,000. The target for cashable efficiency savings for the three year period 2005-2008 was exceeded by £0.403 million (11%). For the period 2008-2011, the Council aims to deliver savings of at least £1 million to £1.25 million per annum and has in place a planned approach to delivering efficiency savings via Best Value reviews and departmental savings identified as part of the annual revenue budget setting process. Further efficiencies are anticipated in 2008/09 from the Council's membership of the Tayside Procurement Consortium and Scotland Excel and from the implementation of the PECOS e-procurement system, which will be rolled out during 2008/09.

- 5.4 The auditor highlights that the Statutory Performance Indicator return made the 31 August 2008 deadline and the publication met the 30 September deadline. They concluded that the systems were reliable for all of the indicators reported with the exception of the Teachers' element of Corporate Management 1:Sickness Absence.
- 5.5 The auditor's report also highlights areas of relative strength and relative weakness in the Performance Indicators but this is qualified because of the limitations of interpretation which apply in some cases. Generally speaking Angus performs well against other Councils on these performance indicators and was in the top two quartiles of performance in 43 of the 82 indicators based on 2006/07 information. The auditor's report highlights issues around the sickness absence figure which members of the Strategic Policy Committee were advised of at their recent meeting.
- 5.6 The auditor concluded that the Council has made good progress in the review of Corporate Asset Management, particularly in corporate property management. The auditor emphasises that the Council needs to continue to improve the linkage between asset management plans and the overall budgeting and planning processes. This work will build on the review of the affordability of the General Fund Financial Plan.

## **6 OVERALL POSITION**

- 6.1 The audit process has identified a few issues which need to be addressed and areas where improvements can and need to be made and these are acknowledged and accepted by Council officers. No specific actions have however arisen from the audit which need to be specifically identified for Members or the Controller of Audit and the auditor's report does not therefore contain an action plan this year. The auditors report is a positive one overall for the Council and highlights the many areas of good practice and ongoing improvement which is underway. It is particularly pleasing to note the achievement of the statutory deadlines for concluding the accounting and auditing process in addition to the accounts receiving an unqualified audit certificate.

## **7 2007/08 ANNUAL REPORT AND ACCOUNTS (INCLUDING AUDIT CERTIFICATE)**

- 7.1 The Council is asked to note the 2007/08 Annual Report and Accounts (Appendix 2) and to formally acknowledge the content of the 2007/08 Audited Accounting Statements and the issue of the Audit Certificate with no qualifications, which means that the auditor is satisfied that the Council has operated a satisfactory standard of financial stewardship during 2007/08.

- 7.2 Although they are compliant with law and applicable standards the Council's Accounts are complex and detailed and do not therefore lend themselves to review by most local citizens. In order, therefore, to present information on the financial performance of the council in a more easily understood format the summarised version of the accounts (attached at Appendix 3) will be published. The leaflet will be distributed at the Council meeting. The summarised accounts will be held at public access points of the council and distributed to recipients of the full Annual Report and Accounts. It should be noted that publication of the accounts in this summarised form has been recommended by the Local Authority Accounts (Scotland) Advisory Committee (LAASAC).

## **8 VIREMENT FLEXIBILITY BETWEEN 2007/08 & 2008/09**

- 8.1 Committee reports 148/08, 343/08 and 640/08 approved 100% carry forwards totalling £2.901 million based on anticipated revenue budget outturns at that time (£2.448 million revenue budget carry forwards to 2008/09 and £0.453 million of transfers to Special Funds). However based on the actual 2007/08 financial outturn for Education, Social Work & Health and Economic Development being lower than anticipated, the level of 100% carry forwards has been reduced by £0.735 million.
- 8.2 This report seeks approval of a further £0.206 million 100% carry forward to 2008/09 in respect of ring fenced monies for Other Housing as spend has been earmarked for specific Community Safety projects during 2008/09.
- 8.3 The Council's annual accounts for 2007/08 identified a number of departmental revenue budget underspends. Under the terms of the virement flexibility scheme, departments are permitted to carry forward the lower of 50% of this underspend, or an upper limit. The proposed 50% carry forward amounts in accordance with the scheme are set out in Table A below.

**TABLE A – BUDGET CARRY FORWARDS 2007/08 TO 2008/09**

<b>Department</b>	<b>Controllable (Over)/ Underspend £ 000</b>	<b>50% Underspend £ 000</b>	<b>Upper Limit £ 000</b>	<b>Carry Forward £ 000</b>
Education	0	0	175	<b>0</b>
Social Work & Health	0	0	175	<b>0</b>
Infrastructure Services	572	286	150	<b>150</b>
Neighbourhood Services	0	0	0	<b>0</b>
Corporate Services	584	292	150	<b>150</b>
Chief Executive	310	155	75	<b>75</b>
<b>TOTAL</b>				<b>375</b>

## **9 ACKNOWLEDGEMENT**

- 9.1 The Council is asked to formally record its appreciation of the expeditious manner in which the 2007/08 audit was conducted by the Auditors. The support and assistance provided by staff throughout the council in the successful delivery of an unqualified Audit Certificate is also gratefully acknowledged.

## **10 FINANCIAL IMPLICATIONS**

- 10.1 The main financial implications for the Council have been set out in the main body of this report.
- 10.2 The revenue budget 100% carry forward to 2008/09 identified in committee reports 148/08, 640/08 and 343/08 was £2.901 million. This needs to be reduced by £0.735 million as a result of year end departmental outturns as set out in section 8 reducing the approved 100% carry forward amount to £2.166 million. Approval is now being sought to increase this by £0.206 million in respect of a 100% carryforward from Other Housing and £0.375 million for the 50% carry forward amounts set out in section 5. This results in a total sum being carried forward to 2008/09 and transferred to Special Funds of £2.747 million.
- 10.3 The cost of producing the Annual Report and Accounts is estimated to be £2,875 and the summarised Annual Accounts £550. This total estimated cost of £3,425 can be contained in the 2008/09 Miscellaneous Other Services revenue budget held for this purpose.

## **11 HUMAN RIGHTS IMPLICATIONS**

- 11.1 There are no Human Rights implications pertaining to this report.

## **12 EQUALITIES IMPLICATIONS**

- 12.1 The issues dealt with in this report have been the subject of consideration from an equalities perspective (as required by legislation). An equalities impact assessment is not required.

## **13 CONSULTATION**

- 13.1 The Head of Law and Administration has been consulted on the contents of this report.

## **14 CONCLUSION**

- 14.1 The Council met the deadline of submitting its Accounts by the due date of 30 June 2008 and Henderson Loggie have completed the audit work and issued their Audit Certificate and Report to Members as outlined in this report. The Annual Report and Accounts and Summarised Accounts will now be published.

### **NOTE**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing this report.

**David S Sawers**  
Chief Executive

**Colin McMahon**  
Director of Corporate Services

**Ian Lorimer**  
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IL/GW  
29/10/08