

**APPENDIX 2 – KEY MATTERS IDENTIFIED IN EXTERNAL AUDIT REPORT 2006-2007 AND ACTION BEING TAKEN BY THE COUNCIL**

Ref	Matter Identified By External Audit	Action Being Taken By Council
<b>1</b>	<b>Financial statements - To provide an opinion on the Council's financial statements for the year ending 31 March 2007.</b>	<b>Financial statements for the year ending 31 March 2007.</b>
1.1	We gave an unqualified opinion on the Council's 2006-07 financial statements on 28 September 2007.	Noted.
1.2	Our audit opinion, however, draws attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis.	The Council acknowledged this at its meeting in June and the requirement to address deficits and to demonstrate services continue to deliver best value. The Head of Facility Services will carry on reviews to establish whether these services still deliver best value and the action required to address the deficits and also demonstrate best value. The major contributing factors to the deficits are equal pay and single status.
1.3	The Council is forecasting a £32 million funding gap over the next 5 years. This presents a significant challenge to develop a sustainable medium term financial strategy that delivers a balanced budget.	The figures quoted are from the Financial Strategy Baseline Regulations as reported to Council in September. The next stage of the Financial Strategy in terms of addressing the funding gap will be developed during the budget process.
1.4	Develop a sustainable medium term financial strategy, aligned to corporate priorities, that explicitly incorporates anticipated efficiency savings and delivers a balanced budget.	Agreed and included in action plan for external audit report on Best Value. Budget for 2008-09 will address these issues.
1.5	Establish clear and transparent plans for using all reserves.	The Council reviews its reserves each year when setting its budget and this recommendation will be addressed during the budget process.
1.6	The Council's finance team prepared well for implementing the 2006 Statement of Recommended Practice (SORP) and the standard of accounts and supporting working papers were good,	Noted.

	ensuring statutory deadlines were met and few audit adjustments required.	
1.7	Prepare early to ensure full compliance with the requirements of the 2007 SORP in the preparation of the Council's 2007-08 annual accounts.	The SORP guidance notes will be available in December and as with previous years the Council will identify action required following receipt of detailed guidance notes. The good preparation for 2006 SORP has been recognised by external audit.
<b>2</b>	<b>Governance - To review and report on the Council's corporate governance arrangements, including: systems of internal financial control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position.</b>	
2.1	We have concluded that the Council's systems of internal financial control are operating adequately and governance arrangements are well developed.	Noted.
2.2	The Council prepared well for the elections in May 2007 and good arrangements are place for member training and induction.	Noted.
2.3	Further work is required to develop a framework to support the inclusion of a Statement on Internal Control in the Council's 2007-08 accounts.	The Council has previously prepared a Statement on Internal Finance Controls. The move to a broader statement on internal controls was agreed by the Executive Committee in August.
2.4	Ensure an appropriate assurance framework is developed to support the inclusion of a Statement on Internal Control in the Council's 2007-08 annual accounts. This framework should include effective risk management arrangements, an extension of the role of internal audit to provide assurances on the operation of non-financial systems, and arrangements to enable Directors to provide signed 'statements of assurance' each year confirming the effective operation of systems of internal control.	Currently being progressed by Internal Audit
2.5	Plan to evaluate the effectiveness of existing political governance	The response to the external audit interim follow up report on Best

	arrangements when these arrangements have had time to mature.	Value agreed by the Executive Committee on 18 October 2007 committed the Council to undertaking such a review by August 2009.
2.6	The Council has not sufficiently prioritised participation in the National Fraud Initiative to improve arrangements to prevent and detect fraud and corruption.	This is being addressed by Internal Audit and Head of ICT & Financial Services.
<b>3</b>	<b>Performance - To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance as they relate to economy, efficiency and effectiveness in the use of resources and arrangements for preparing and publishing statutory performance indicators.</b>	
3.1	The Council responded positively to Audit Scotland's Best Value report published in February 2006. The progress made by the Council provides a sound basis from which to take forward the improvement agenda. The Council must now focus on turning strategies into action to embed best value principles throughout the organisation.	Noted. The outcome of the external auditors interim report on Best Value was reported to the October Executive Committee. This included an action plan to address the various matters raised in the report.
3.2	The Council has recently introduced a performance management system which offers significant potential to act as a key driver for improving economy, efficiency and effectiveness. The system needs to be rolled out across departments as a matter of priority and there remains significant scope for further improvement in the Council's overall framework for performance management.	An accelerated timescale for implementation of the performance management system has been agreed with additional resources seconded from departments.
3.3	The Council's risk management arrangements are insufficiently developed as an effective operational management tool.	The action plan to the external audit report on Best Value indicated how it was proposed to address this issue.
3.4	A number of the Council's assets, are now either surplus to requirements, not fully utilised or no longer fit for purpose. In particular, nearly three quarters of the Council's 80 primary schools have occupancy rates of less than 60%.	A review of surplus assets is underway and proposals on modernisation of the school estate are under development.

3.5	Focus on implementing the strategies and plans developed in response to Audit Scotland's Best Value report to embed a culture of performance and continuous improvement across its services. In particular, the Council's framework for performance management should be further developed and implemented across all service as a matter of priority.	The Council has identified what is required. Reports on capacity and business improvement were made to the October Executive Committee and an accelerated timescale for implementing the performance management system has been agreed and resourced.
3.6	Bring forward plans to review how efficiently the Council manages its property portfolio to ensure the Council's property estate supports the achievement of corporate objectives, usage of buildings is optimised and surplus assets identified to reduce costs, improve efficiency and generate capital receipts.	A review of surplus assets is already underway, a review of non operational assets is also being undertaken and a framework for developing asset management reporting has been agreed.