INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

# East Dunbartonshire Council

Annual audit report to the members of East Dunbartonshire Council and the Controller of Audit 2006-07

31 October 2007

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

# Contents



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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 introductory section of this report.
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If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Grant Macrae, who is the engagement leader for our services to East Dunbartonshire Council, telephone 0131 527 6611, email grant.macrae@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Lorraine Bennett, our Head of Audit in Scotland, either by writing to her at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 222 2000 or email to lorraine.bennett@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

# Executive summary

This report summarises our work for the 2006-07 year and our findings in relation to our audit of the accounts, corporate governance and performance management arrangements.

### Accounts

On 28 September 2007 we issued an audit report giving our unqualified opinion on the accounts of East Dunbartonshire Council and its group for the year ended 31 March 2007.

In forming our unqualified opinion, we considered the adequacy of the disclosure made in note 2 to the financial statements concerning a local authority's duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each rolling three year period. As disclosed in note 2 to the financial statements the Council failed to comply with this statutory requirement for the three year period ended 31 March 2007 in respect of the environment, facilities management, and grounds maintenance significant trading operations.

We have included an emphasis of matter paragraph in our audit opinion drawing attention to this failure to comply with a statutory requirement.

### Financial position

The Council has reported net operating expenditure of £194.273 million against approved departmental budgets of £195.600 million. The Council reported a deficit on its income and expenditure account of £3.529 million which resulted in a net decrease on the Council's general fund balance during the year of £2.425 million after adjusting for statutory and non-statutory requirements through the statement of movement on general find balance. The closing general fund balance was therefore £6.829 million, against the Council's prudential reserves policy target of £2.000 million. A significant element of the general fund balance has, however, been earmarked for specific purposes. The results for the year included an increase to the Council's provision for equal pay and single status implementation of £4.917 million.

The housing revenue budget for 2006-07 was set for a net surplus of £0.600 million. The actual outturn was a deficit of £0.404 million, resulting in an accumulated surplus of 0.216 million at 31 March 2007. Revaluation of council housing in the year resulted in an increase in their valuation of £116.128 million.

The Council's seven significant trading operations recorded an overall deficit of £1.422 million in 2006-07, as a result of single status costs of £2.878 million being provided for during the year. Over the three year period ended 31 March 2007, a cumulative surplus of £0.359 million was achieved, however, individually the Council's environment, facilities management, and grounds maintenance significant trading operations failed to achieve their statutory break-even target.

Capital expenditure of £29.578 million was incurred during the year, funded by government grants and contributions from third parties of £9.247 million, sale of assets of £5.341 million, revenue of £0.797 million, resulting in an increase in the Council's capital financing requirement of £14.193 million which was achieved through borrowing.

## Corporate governance

The Council has included a statement on internal financial control within the accounts, which has been signed by the chief executive and the head of finance and ICT. This has been prepared in accordance with the SORP and reports that there is a sound system of internal financial control in place and that appropriate mechanisms are in place to identify any areas of weakness. This statement accords with the internal audit assurance statement and annual internal audit report. In line with prior years, the statement notes that there is a risk posed by adequate division of duties within certain service areas.

The Council has a corporate risk management strategy in place which sets out the Council's formal approach to managing risk. The audit and risk management committee receives regular reports on performance and progress in improving the Council's risk management arrangements.

The May 2007 local government elections saw a number of new members being elected and a new administration being formed. Elected members were provided with a formal induction and training during May 2007.

We have issued two management reports during the year as a result of our work to review the systems of internal controls established by Council management. No grade one, significant, recommendations resulted from our findings. In light of business continuity issues encountered by the Council in early 2007, we agreed with the head of finance and ICT to conduct an extended review of the Council's IT controls and IT business continuity planning. One grade one recommendation was made as a result of this work. This recommendation was in relation to system interface issues giving rise to a number of work-around processes which require manual intervention.

## Performance management

### Efficient government and best value

The Council has convened a strategic best value and efficiency group (SRG) to review services with a view to deliver best value through achievement of efficiencies, streamlining and best practice. The SRG is an officer group chaired by the chief executive, reporting to the policy and resources committee, or other committee as appropriate.

The Council has published its annual efficiency statement for 2006-07 on its website. This statement was not subject to audit in this financial year. The Council has reported cashable efficiency gains delivered in the year of £4.058 million, in line with the level of efficiencies assumed in setting the budget for 2006-07.

The Council has not yet been subject to a Best Value audit, with this now expected in early 2008. In preparation for the audit, the Council has approved a corporate improvement plan which is used to monitor actions and the Council's preparation for the audit.

### Statutory performance indicators

We audited the Council's 2006-07 statutory performance indicators submission during August 2007, in conjunction with the Council's internal audit team. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return. However, we reported one indicator, corporate management indicator 8 on asset management, as being unreliable since the Council was unable to provide supporting evidence due to information not being available.

# Introduction

## Audit framework

This was the first year of our five-year appointment as external auditors of East Dunbartonshire Council ("the Council"). This report to the members of the Council and the Controller of Audit outlines our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice* ("the Code"), the scope of the audit was to:

- provide an opinion on the Council's accounts;
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland) the:
  - Council's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position
  - Council's arrangements to achieve Best Value
  - other aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources
  - arrangements for preparing and publishing statutory performance information;
- examine and report on grant claims and other returns submitted by the Council, to the extent required by the relevant authorities, and in accordance with any guidance issued by Audit Scotland.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan for the year discussed with the Council's audit and risk sub-committee.

To assist in the development of a consistent approach to the audit across bodies, Audit Scotland publishes *Priorities and Risks Framework* guidance, setting out a number of areas for consideration during the audit planning process. We used the material developed by Audit Scotland in 2006-07 in our assessment of the Council's processes and management arrangements. Our own planning process also identified a number of other areas for specific attention.

## Basis of information

External auditors do not act as a substitute for the Council's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and to make arrangements to secure Best Value.

## Acknowledgement

We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during the first year of our work in the discharge of our responsibilities.

# Accounts audit

### Audit opinion

On 28 September 2007 we issued an audit report giving our unqualified opinion on the accounts of the Council and its group for the year ended 31 March 2007.

In forming our unqualified opinion, we considered the adequacy of the disclosure made in note 2 to the financial statements concerning a local authority's duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each rolling three year period. As disclosed in note 2 to the financial statements the Council failed to comply with this statutory requirement for the three year period ended 31 March 2007 in respect of the environment, facilities management, and grounds maintenance significant trading operations. We have included an emphasis of matter paragraph in our audit opinion drawing attention to this failure to comply with a statutory requirement.

Our findings on the Council's accounts production process were made in our report to those charged with governance, issued 13 September 2007. There were no significant matters arising from that report, however, five recommendations to improve the process were accepted by management.

We wish to bring the following issues to your attention.

### Compliance with the SORP 2006

The Code of Practice on Local Authority Accounting in the United Kingdom 2006 ("2006 SORP") introduced a number of substantive changes to local authority accounting and accounts presentation. The main changes included:

- the removal of the requirement to make a capital financing charge;
- the replacement of the consolidated revenue account and statement of total movement on reserves with an income and expenditure account, statement of movement on general fund balance and statement of total recognised gains and losses;
- changes to the housing revenue account to bring it line with the above revised single entity format; and
- a requirement to group the `core' financial statements together followed by the notes to the core statements followed by the `supplementary' statements (eg the housing revenue account, council tax and non-domestic rate collection accounts).

The income and expenditure account provides the best measure of the Council's financial result for the year, and is prepared in line with the accounting conventions of UK Generally Accepted Accounting Practice (UK GAAP). The statement of movement on the general fund balance reconciles the Council's result for the year with the amount which is required under statute and non-statutory proper practices to determine the Council's budget requirement and consequently its Council Tax demand. As such, this statement also provides important information on the Council's stewardship.

As a result of the above, the Council processed a prior year adjustment to reflect changes in the previously reported financial statements, in line with the requirements of FRS 3 `reporting financial performance.'

## Significant accounting / auditing issues identified

### Revaluation of fixed assets

A full revaluation of non-housing land and buildings was undertaken in 2005-06 and resulted in an increase in asset values of £80 million. The previous auditors commented in their annual audit report for 2005-06 that this large increase in valuation indicated that the Council's asset valuations may have been understated within the accounts of earlier years. In 2006-07, the Council revalued its council housing in line with its policy of a rolling 5-year revaluation programme. An increase in valuation of £116.128 million as at 1 April 2006 was processed in the accounts. This large increase in valuation is consistent with the result for non-housing land and buildings in the prior year.

In the unaudited accounts, housing capital additions during 2006-07 of £6.374 million had been written off directly to the fixed asset restatement account ("FARA"). Discussions with management and the Council's valuer, as well as the 2006 SORP requirements for capitalisation of expenditure, confirmed that these additions should be capitalised and added to the housing asset base for the year, and depreciated in line with the Council's policy. Capitalisation in year of additions should minimise the revaluation increase experienced every five years. In addition this treatment accords with the accounting requirements of the 2007 SORP whereby debits can only be taken to the revaluation reserve, the replacement for the FARA, to reverse previous revaluation gains for the same asset.

*Recommendation one*

### De-minimis capital expenditure

The Council had identified £1.421 million of de-minimis capital expenditure which they had not assigned to asset categories, and thus had written off directly to the FARA instead of taking to the income and expenditure account. Following further analysis of this expenditure by management, the expenditure has now been categorised and capitalised as it met the requirements of FRS 15 `tangible fixed assets'.

### Fixed asset register

The Council completed a matching exercise in 2006-07 between the information held by the estates and that held in the accounts by finance which had not been completed by the time of certification of the prior year accounts. As a result of this exercise a number of adjustments were processed to the opening revaluation. This exercise has also identified that the 2005-06 revaluation omitted certain land and building assets, which will now be included in the 2007-08 revaluation programme.

*Recommendation two*

### Common good and trust funds

The presentation of the Council's Common Good and Trusts Funds was adjusted in the accounts in order to show charitable and non-charitable funds separately in accordance with Office of the Scottish Charity Regulator ("OSCR") requirements. New OSCR regulations will impose stricter reporting on all charities in future years, which could increase significantly the administrative burden on the Council of holding these funds.

*Recommendation three*

# Financial position

## General fund

The Council reported a financial deficit in 2006-07 of £2.425 million (2005-06: £2.960 million).

| | Actual £000 |
|---|---|
| **Income and expenditure result** | |
| Net operating expenditure | 194.273 |
| Income: revenue support grant, council tax and non-domestic rates | 190.744 |
| **(Surplus) / deficit to be met from balances b/forward** | **3.529** |
| Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year | (1.104) |
| **Result for the year: (Increase) / decrease in general fund balance** | **2.425** |
| General fund balance brought forward | 9.254 |
| **General fund balance carried forward** | **6.829** |

The deficit for the year was expected by the Council as a result of the cost implications surrounding settlement of equal pay claims and implementation of the single status agreement. During 2006-07 the Council has progressed its commitment to implementation of a revised pay and grading structure. As payments to employees are to be back-dated to 1 April 2006, these costs have been recognised within the net cost of services for the year, with a provision made to allow for the estimated liabilities.

The Council added £4.917 million to its equal pay and single status provision during the year, while settlements of £0.121 million were made in respect of equal pay. The closing provision balance at 31 March 2007 was £6.098 million of which £0.900 million was paid in July 2007 to reflect settlement of the Council's tax liability on equal pay payments already made.

## Reserves and balances

The Council has a prudential reserves policy to retain minimum free reserves of £2.000 million. The outturn general fund balance position for 2006-07 is £3.6 million above the budgeted position, however, the majority of this additional surplus has been earmarked for specific purpose. The free reserves are currently below the target prudential reserves level and are currently forecast to remain below the target for 2007-08, with forecast free reserves of £0.894 million at 31 March 2008.

The Council also has a repairs and renewals fund. The balance in the fund at 31 March 2007 was £0.716 million (31 March 2006 £0.800 million).

## Housing revenue account (HRA)

The Council's HRA returned a deficit of £0.404 million (budget £0.600 million surplus). The balance on the housing revenue account fund balance at 31 March 2007 was therefore £0.216 (31 March 2006 £0.620 million).

The adverse variance for the year was principally as a result of higher debt charges incurred during the year. In 2004, the Council transferred 861 properties to Hillhead Housing Association but as reported by the previous auditors, the Council had not yet received funding from the Scottish Executive to support the debt repayments. This had a further impact on the 2006-07 outturn, however, towards the end of the year the Council received £4.240 million from the Scottish Executive for full repayment of the debt associated with the stock transfer.

Rent arrears as at 31 March 2007 totalled £0.830 million, in line with the prior year figure, and represent 7.5% of gross rental income for the year.

## Significant trading operations

Councils have a statutory target of generating revenues not less than expenditure over a rolling three year period for each trading operation. The summarised financial position of the trading accounts maintained by the Council for the three year period ended 31 March 2007 are shown below. This demonstrates that the Council failed to achieve its statutory objective in respect of the environment, facilities management, and ground maintenance significant trading operations.

| **Trading operation** | **2004-05 surplus / (deficit) £000** | **2005-06 surplus / (deficit) £000** | **2006-07 surplus / (deficit) £000** | **3 year surplus / (deficit) £000** |
|---|---|---|---|---|
| Property maintenance | 119 | 581 | 13 | **713** |
| Roads | (76) | 213 | (84) | **53** |
| Environment | 38 | (2) | (595) | **(559)** |
| Fleet management | 471 | 774 | 880 | **2,125** |
| Vehicle maintenance | 104 | 28 | 70 | **202** |
| Facilities management | 417 | (1,160) | (1,261) | **(2,004)** |
| Grounds maintenance | 146 | 128 | (445) | **(171)** |
| **Total** | **1,219** | **562** | **(1,422)** | **359** |

The primary reason for this was the settlement of equal pay claims dating back to 2001-02, and implementation of single status from 1 April 2006. This resulted in additional expenditure totalling £3.945 million in 2005-06 and 2006-07 being charged to these three trading accounts. The environment trading operation has a deficit before single status costs in 2006-07, as a result of high FRS 17 costs.

## Capital investment programme and prudential borrowing

The Council incurred capital expenditure during the year of £29.578 million. This was funded through a combination of external borrowing (£14.193 million), capital grants (£7.740 million), capital receipts

(£5.341 million), third party contributions (£1.507 million), and revenue (£0.797 million). The Council's closing capital financing requirement as at 31 March 2007 was £136.629 million.

The Council operates a rolling capital programme. The original approved general services capital expenditure for 2006-07 was £19.225 million, revised subsequently to £20.618 million to account for slippage in the previous year's programme. The progress on the Council's capital programme is reported to the policy and resources committee throughout the year. The final outturn position reported to committee identified slippage of £2.019 million to be carried forward into 2007-08.

Housing capital expenditure of £6.663 million was incurred against an initial budget of £5.000 million. The Council provided a standard delivery plan to the Scottish Executive in 2005 outlining their plans to achieve the housing quality standard by 2015 which had been deemed acceptable by Communities Scotland.

The Council's annual treasury management strategy is reported to Council before the commencement of the financial year to which it relates. The following table outlines the Council's forecast capital expenditure and borrowing needs until 2009-10.

| | **2006-07 estimate £000** | **2006-07 actual £000** | **2007-08 estimate £000** | **2008-09 estimate £000** | **2009-10 estimate £000** |
|---|---|---|---|---|---|
| Total capital expenditure | 28,156 | 29,578 | 22,655 | 24,200 | 14,000 |
| *Financed by:* | | | | | |
| Capital grants | 5,421 | 7,740 | 3,252 | - | - |
| Capital receipts | 4,165 | 5,341 | 3,345 | 4,000 | 4,000 |
| Contributions | 1,507 | 1,507 | 6,140 | 13,000 | 2,000 |
| Revenue | 1,021 | 797 | 380 | - | - |
| **Net financing need for the year** | **16,042** | **14,193** | **9,538** | **7,200** | **8,000** |

The Council has short term investments of £26.300 million (31 March 2006 £24.400 million). While this level of short term investments is not out of line with other similar sized Councils, and specific elements of these resources are earmarked for settlement of equal pay and single status liabilities, the Council does not outline in its treasury management strategy the target level of short term investments which it is aiming to hold.

*Recommendation four*

## Future financial plans

The budget setting process acknowledged a range of financial pressures totalling £6.1 million facing the Council which needed to be addressed in balancing the budget and setting the council tax increase for 2007-08. These included the revenue implications of capital projects such as the Kirkintilloch leisure centre, higher fuel and utility bills, increased care home and free personal care costs (given the Council's demography) and the ongoing obligations for equal pay and single status, estimated at £4.36 million in 2007-08.

The longer term financial position of the Council in years 2008-09 onwards is expected to be tight, however, the budget papers have not outlined detailed figures to Council members until the announcement of the next three year spending review. Following this, the Council's strategic best value and efficiency group is expected to provide a report to the policy and resources committee outlining the Council's strategy for the three year budget cycle commencing 2008-09.

East Dunbartonshire Council's schools PPP project ("the Scheme") reached financial close in August 2007. The final accounting judgement of the Council's financial advisors was that the underlying assets associated with the construction and operation of the Scheme will be off-balance sheet to the Council. We have reviewed this judgement and concluded that we are not minded to challenge the Council's view that it will be appropriate for the assets provided under the Scheme not to be accounted for on its balance sheet.

The Council's financial advisors have drawn attention to the fact that the Government has announced that the Central Government Financial Reporting Manual will be compliant with International Financial Reporting Standards (IFRS) from 2008/09. As a result, the CIPFA/LASAAC Joint Committee will be required to consider the same with the local authority SORP. This has increased the risk that the accounting treatment of the Scheme will need to be re-assessed in the future to take account of the impact of IFRS on accounting for PFI/PPP projects.

Notwithstanding the potential impact on accounting for PFI/PPP projects, the adoption of IFRS will require the Council to invest significant time and resources within the finance function in preparing IFRS-compliant financial statements for the first time.

*Recommendation five*

# Corporate governance

## Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the Council is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on the Council's corporate governance arrangements as they relate to:

- the Council's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

## Systems of internal control

### Statement on internal financial control

The Council has included a statement on internal financial control within the accounts. This has been prepared in accordance with the SORP and reports that there is a sound system of internal financial control in place and that appropriate mechanisms are in place to identify any areas of weakness and to take appropriate action. This statement accords with the internal audit assurance statement and annual internal audit report. In line with prior years, the statement notes that there is a risk posed by adequate division of duties within certain service areas. The statement makes reference as appropriate to the Group entities included within the Council's group accounts.

Internal audit were able to conclude in their annual assurance statement that "reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year to 31 March 2007."

While not a statutory requirement in Scotland, the Council has not yet included a wider governance statement covering its overall internal control environment or corporate governance structures.

*Recommendation six*

### Internal audit

In our Audit Planning Memorandum, we outlined our planned audit approach, which seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. In accordance with our Audit Planning Memorandum and International Standard on Auditing 610, we have therefore completed a formal evaluation of the Council's internal audit function.

The CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* ("the CIPFA Code") was issued in November 2006. The CIPFA Code establishes eleven key areas of good practice. We assessed the internal audit function against each of these areas and made a number of observations in our management report issued 21 March 2007. While we were able to place formal reliance on the work of internal audit, we made eleven performance improvement recommendations designed to enhance full compliance with the 2006 CIPFA Code of Practice going forward.

### Risk management

The Council has a corporate risk management strategy in place which sets out the Council's formal approach to managing risk. The audit and risk management committee receives regular reports on performance and progress in improving the Council's risk management arrangements. The Council has been in the process of embedding its risk management strategy during 2006-07 with operational risk registers being established for individual service areas. Risk reports are generated for each area reviewed covering the assessment of risk, actions identified to mitigate the risks and a quantification of the cost impact of risks. Each report is presented to the audit and risk sub-committee for discussion.

A three year corporate risk register is also being established and the Council is in the process of integrating its risk registers with its performance management systems.

### Internal controls

Drawing on the work of internal audit, in accordance with our plan we undertook detailed testing in relation to both entity-level and key financial controls. Our work in this area included consideration of the principal accounting systems to assess whether the related controls were designed appropriately and operating effectively to prevent or detect a material misstatement of the accounts, consideration of management's reporting arrangements and review of the IT control environment.

Our management reports issued on 21 March 2007 and 21 September 2007 have made a number of recommendations to management to improve the control environment. While there were no grade one ("significant") recommendations contained in these reports, fifteen grade two ("material") recommendations were made which were accepted by management.

As a result of business continuity issues encountered by the Council in March 2007, we agreed with the head of finance and ICT an extended scope review of the Council's IT business continuity planning general IT control environment and reported our findings on 28 September 2007. One grade one ("significant") recommendation was made and agreed with management along with a number of other recommendations to improve the Council's processes. This grade one recommendation was in relation to system interface issues giving rise to a number of work-around processes which require manual intervention.

## Prevention and detection of fraud and irregularity

The Council has adopted a fraud and irregularity strategy governing the procedures to be followed in the event of a fraud or suspected fraud. Where management are made aware of a suspected fraud, procedures are in place to co-ordinate an investigation. The Council operates a whistle-blowing hotline with calls received by internal audit. Activity on the hotline is reported as a standing item to the audit and risk sub-committee.

There were no material frauds reported to the audit and risk sub-committee during 2006-07.

## National Fraud Initiative

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. For 2006-07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27.0 million 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.

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.

We undertook a review to ensure that the Council has put in place the appropriate systems and processes in order to meet the requirements of this recurring exercise and our findings were reported to the Council in our second interim management report. Whilst the arrangements in place have been found to work effectively and good progress has been made in some areas, we made two grade two ("material") recommendation to management, along with one grade three ("minor") recommendations. At the time of writing this report, 1,104 matches have been cleared out of 1,520 in total, with frauds totalling £25,808 identified to date. The Council expects to clear all data matches by the end of December 2007.

## **Standards of conduct**

All elected members are provided with a copy of the Code of Member Conduct. This document sets standards of conduct to be applied to elected members in carrying out their duties. The code requires members to disclose any pecuniary or other interests and provides general guidance on the receipt of hospitality and gifts. Members are required to formally sign a declaration of acceptance of office which includes a declaration that they will adhere to the Code. The Council has established a list of members' interests and a register of gifts and hospitality. This is reviewed on a regular basis. Employees of the Council are also provided with a code of conduct governing their employment.

## **Impact of May elections**

The Council has a history of having political representation from all the major political parties, with no individual political party holding a dominant position. This has resulted in a hung administration in previous years. The May 2007 elections returned a labour-conservative coalition administration, with jointly 11 seats out of 24. Twelve new councillors were returned compared to the previous Council.

As a result of the Council's previous history, management are used to having significant political representation across the political spectrum and consequently no specific additional preparation was made to adjust to the multi-member wards introduced in 2007.

Standard induction training covering the Council scheme of delegation, legal requirements, plus sessions on budgeting and administration were provided to new councillors, and made available to returning councillors as refresher training. Induction training was also provided to cover ethics, the role of councillors on quasi-judicial committees and the differing responsibilities of membership and convenorships of Council committees.

# Performance management

**Efficient government, best value and community planning**

The Council has convened a strategic best value and efficiency group (SRG) to review services with a view to deliver best value through achievement of efficiencies, streamlining and best practice. The SRG is an officer group chaired by the chief executive, reporting to the policy and resources committee, or other committee as appropriate.

### Annual efficiency statement

The Council has published its annual efficiency statement for 2006-07 on its website. This statement was not subject to audit in this financial year. The Council has reported cashable efficiency gains delivered in the year of £4.058 million, in line with the level of efficiencies assumed in setting the budget for 2006-07. These savings have been identified across the themes identified in the Scottish Executive's Efficient Government agenda.

The efficiency statement notes that the majority of savings were contained within individual service plans and reported at the respective committee level. The Council intends that in future its efficiencies will be captured and monitored on the Council's new performance management system.

The 2007-08 revenue budget was set on the basis of a 1.9% increase in council tax, the lowest rise ever applied by the Council. Further cashable savings totalling £2.0 million were identified in order to balance the budget.

### Best Value

The Local Government in Scotland Act 2003 introduced new statutory duties relating to Best Value and community planning. As a result, the Accounts Commission introduced new arrangements for the audit of Best Value. The scope of Best Value and community planning is broad, but in overall terms a successful council will:

- work with its partners to identify a clear set of priorities that respond to the needs of the community in both the short and the longer term;
- be organised to deliver those priorities; and
- meet and clearly demonstrate that it is meeting the community's needs.

The Council has not yet been subject to its first Best Value audit, and this is now not scheduled until early 2008. The Council has been in preparation for the audit and is taking forward a corporate improvement plan which seeks to draw on best practice identified through other council best value audit reports, as well as tools such as Audit Scotland's priorities and risks framework.

### Shared services

The Council is a member of the multi-agency shared services project which looks to develop and deploy a multi-agency shared service capability for Clackmannanshire, Stirling, Falkirk, Perth and Kinross and East Dunbartonshire Councils covering human resources, procurement, finance and payroll. A bid of £2.243 million has been submitted to the National Shared Services Board with an outline business case produced for the individual and collective council partners to progress through the new councils political leadership.

### Community planning

The Council launched its new 5-year Community Plan at the Community Assembly in October 2006. The Plan identifies five core objectives for East Dunbartonshire, with a purpose to underpin the delivery of the strategic vision and provide effective strategic direction for partner organisations.

The Council has agreed that the community planning objectives should form the basis for its new Corporate Development Plan, 2007-2010, to accord with the recommendations of Audit Scotland's national report that corporate plans of a council should incorporate the community planning objectives.

The Council is further developing its service planning so that strategic service objectives drawn-up by Directorates are aligned against the new community planning objectives. This is to be rolled out through 2007-08.

In January 2007, a report was taken to the Community Planning Partnership ("CPP") Board on the subject of the Audit Scotland review of community planning, providing a self review of the Council's CPP. The format of the self-assessment paper covered the required characteristic, the assessed performance of the Council, the evidence to support the assessment, and improvement actions as required and identified.

## Performance management

The Council's performance reporting structure has been based on corporate performance management template reports which are prepared by the Council's scrutiny panels and presented to the relevant service committee on a 6-monthly cycle. The Council has recently invested in a dedicated electronic performance management system designed for local authority reporting. This system will allow the monitoring and reporting of key service objectives, outputs and outcomes at a consistent and corporate level.

As part of the revised pay and grading structure review, the Council is also seeking to roll out its Performance Management Development Programme for all employees. This will be used to monitor performance and achievement of objectives at individual level.

## Statutory performance indicators

The Local Government Act 1992 requires the Council to publish information relating to their activities in any financial year which will facilitate the making of appropriate comparisons (by reference to the criteria of cost, economy and efficiency) between the standards of performance achieved by different authorities in that financial year; and the standards of performance achieved by such bodies in different financial years.

The Accounts Commission issues a Direction each year establishing the performance indicators to be published. We audited the Council's 2006-07 statutory performance indicators submission against this Direction during August 2007. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return. However, we reported one indicator, corporate management indicator 8 on asset management, as being unreliable since the Council was unable to provide supporting evidence due to information not being available

# Appendix – action plan

| Priority rating for performance improvement observations raised | | |
|---|---|---|
| **Grade one**: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. | **Grade two**: Issues that have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system. | **Grade three**: Issues that would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced. |

| No. | Issue and performance improvement observation | Management response | Officer and due date |
|---|---|---|---|
| 1 | The 2006 SORP requires local authorities to prepare a revaluation reserve for the first time. The 2006 SORP recognises that this is a significant task and therefore has delayed mandatory implementation of this specific requirement until 1 April 2007. Nevertheless, during the course of our audit, we identified a number of areas of accounting for fixed assets that would not be permitted once this aspect of the SORP was implemented. The creation of a revaluation reserve also requires enhanced information on assets held and movements arising from changes in prices and revaluations.<br><br>The Council should take steps as a matter of priority to prepare for the mandatory introduction of a revaluation reserve. In particular, accounting policies relating to fixed assets should be reviewed so as to ensure compliance with the 2007 SORP and the fixed asset register should be enhanced to enable effective monitoring of the movements in the carrying values on an asset-by-asset basis.<br><br>*(Grade one)* | The Council will ensure that 2007/08 accounts comply with the 2007 SORP. | Corporate finance manager<br><br>30 June 2008 |
| 2 | The Council have recently committed to the purchase of fixed asset software. This will replace the current spreadsheet based asset register. We noted in the process of our audit that the only record maintained of council houses is within the Saffron system. It is recommended that the information is also entered into the new asset register and a regular reconciliation performed between the two systems.<br><br>(*Grade two*) | The new asset register will eventually hold data on all Council assets. Until this happens corporate finance will still hold their spreadsheet asset register, and this is reconciled to the Saffron system. | Corporate finance manager<br><br>Completed |

| No. | Issue and performance improvement observation | Management response | Officer and due date |
|---|---|---|---|
| 3 | The Council currently operate a number of common good and trust funds with charitable status. New OSCR regulations will impose stricter reporting on all charities in future years. Until March 2008, OSCR are allowing applications for the amalgamation of charities into larger charities covering the objectives of all the prior charities. It is recommended that the Council considers using this to ensure that compliance with charity legislation in future years is more manageable.<br><br>(*Grade two*) | The Council intends to investigate amalgamation of charities to assist with future compliance. | Corporate finance manager<br><br>March 2008 |
| 4 | The Council's treasury management strategy does not outline the target level of short term investments which the Council expects to hold during the next financial year. While the Council's level of investments is currently in line with other councils of a similar size, it is recommended that the treasury management strategy is expanded to provide greater clarity of information on short term investments to members.<br><br>(*Grade three*) | The Council will review the information provided in the next treasury management strategy due in March 2008, and expand information as necessary to improve clarity. | Corporate finance manager<br><br>March 2008 |
| 5 | While the timescale for adoption of IFRS within the local authority SORP is not yet confirmed, the first time preparation of IFRS-compliant accounts will require significant time investment by the Council's finance section. It is recommended that the Council give consideration to the preparations required to convert to IFRS and ensure that appropriate resources will be in place when required.<br><br>(*Grade two*) | As SORP changes come out for consultation, the Council will ensure that consideration is given to proposed changes. Resources in the Council are fairly constrained and it is anticipated that focus will only be given to this once timescales are clearer. | Corporate finance manager<br><br>Timescale not yet known |
| 6 | The Council currently prepares a statement of internal financial control covering itself and the bodies within its group accounts envelope. A number of other councils have moved to preparation of a wider governance statement in the form of either a statement of internal control or a statement of corporate governance. While this is not yet a statutory requirement, it is recommended that the Council give consideration to the steps required to move to a wider form of governance statement, and the evidence which would be required to support this.<br><br>(*Grade two*) | The Council will include consideration of a wider governance statement within its 2007/08 closure timetable. This will ensure consideration is given to whether the necessary evidence is there to support inclusion in 2007/08 if deemed desirable. | Head of finance and ICT<br><br>March 2008 |

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