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INFRASTRUCTURE, GOVERNMENT &
HEALTHCARE

East Dunbartonshire Council

Annual audit report to the members and the Controller of Audit

2007-08

31 October 2008

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

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

It is for the benefit of only East Dunbartonshire Council and is made available to the Accounts Commission and Audit Scotland (together the beneficiaries), and 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 introductory section of this report.

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Executive summary

This report summarises our work for the 2007-08 year and our findings in relation to our audit of the financial statements, corporate governance and performance management arrangements of East Dunbartonshire Council ("the Council").

Financial statements

On 25 September 2008 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 2008.

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 2008 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.

The Council signed a Public Private Partnership agreement during 2007-08 for the construction of six new high schools. The schools are due to be completed during 2009-10 at which point the existing school buildings will be demolished. As a result an impairment of £23.5 million has been made to the carrying value of operational properties to represent the decision to demolish some of the school estate.

Financial position

The Council has reported net operating expenditure of £233.622 million against approved departmental budgets of £209.867 million. The significant variance against budget is due to the impairment of the schools estate carrying value at 31 March 2008. After adjustment for statutory and non-statutory movements on the general fund balance, the closing general fund balance was £8.9 million, an increase of £2.1 million from the previous year. Of the general fund balance £5.3 million has been set aside for particular purposes, £2.5 million was additionally earmarked by the Council under a commitment to reinstate this level of available reserves and the remaining balance represents uncommitted reserves at the year end.

The housing revenue budget for 2007-08 was set for a net surplus of £0.578 million. The actual outturn was a surplus of £0.223 million, resulting in an accumulated surplus of £0.439 million at 31 March 2008. The carrying value of council housing stock was measured using component accounting for the first time in 2007-08, with £2.051 million of additions capitalised as individual components of the dwellings.

The Council's seven significant trading operations recorded an overall deficit of £1.869 million in 2007-08, as a result of single status costs of £3.291 million being provided for during the year. Over the three year period ended 31 March 2008, a cumulative deficit of £2.729 million was reported. Individually the Council's environment, facilities management, and grounds maintenance significant trading operations failed to achieve their statutory break-even target.

Capital expenditure of £41.977 million was incurred during the year, funded by government grants and contributions from third parties of £14.931 million, sale of assets of £27.747 million and revenue of £0.413 million, resulting in a decrease in the Council's capital financing requirement of £1.114 million.

The budgeting process for 2009-10 is currently underway. The Scottish Government has advised a Council Tax freeze for the authorities. In response to this the Council has budgeted for efficiency savings of 2.5%.

Corporate governance

The Council has included a statement on internal financial control within the accounts, which has been signed by 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.

We have issued three management reports relating to the year as a result of our work to review the systems of internal controls established by Council management. The financial controls report was presented to the Audit & Risk Management sub-committee on 8 May 2008, covering the operation of the key financial systems. No grade one, significant, recommendations resulted from our findings. We also presented an information technology controls report to the May sub-committee meeting. This report followed up on the recommendations of the 2006-07 report on the same matter. The report noted that one significant recommendation had not yet been fully implemented in relation to manual input by ICT staff in the absence of effective interfaces for the Saffron Housing Rents system. In accordance with our plan, we also reported our work on the Council's arrangements in relation to risk areas identified through consideration of Audit Scotland's Priorities and Risks Framework

There were no material instances of fraud reported in 2007-08. Overall, we considered that the Council has adequate arrangements in place for managing obligations with respect to the National Fraud Initiative.

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 2007-08. This statement is not subject to audit in this financial year. The Council reported cashable efficiency gains delivered in the year of £2.668 million, and non-cash savings in 26 areas.

The Council is currently subject to a Best Value audit from Audit Scotland. In preparation for the audit, the Council approved a corporate improvement plan which is used to monitor actions and the Council's preparation for the audit. As noted in our PRF report, progress against this plan has slipped.

Statutory performance indicators

We audited the Council's 2007-08 statutory performance indicators submission during August 2008 placing reliance on work by internal audit as appropriate. 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 full supporting evidence for all assets as the evaluation process was not yet completed.

Introduction

Audit framework

This was the second year of our five-year appointment as external auditors of East Dunbartonshire Council ('the Council'). This report to the members 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 financial statements;
- review and report on:
  - the Council's corporate governance arrangements as they relate to: the review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; their financial position
  - the Council's arrangements to achieve Best Value
  - other aspects of the Council's arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan for the year discussed with the audit & risk management committee.

KPMG's audit methodology is risk based. 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 process. We used the material developed by Audit Scotland in 2007-08 in our assessment of the 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 entity's own responsibilities for putting in place proper arrangements to account for its 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, through accountable officers, to make arrangements to secure Best Value.

We have structured the report around the headings financial statements audit, financial position, governance arrangements and performance management arrangements.

Acknowledgement

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

Financial statements audit

- On 25 September 2008 we issued an audit report giving our unqualified opinion on the accounts of the Council and its group for the year ended 31 March 2008. We have included an emphasis of matter paragraph in our audit opinion drawing attention to the failure to comply with the statutory requirement for all significant trading operations to breakeven over a 3 year period.
- During 2007-08, the Council signed a Public Private Partnership agreement for the construction of six new high schools across the Council. As a result of this agreement an impairment of £23.5 million was considered necessary, to reflect the remaining economic benefit from schools due to be demolished in 2009-10.
- The Council increased its provision for single status costs to £9.6 million at 31 March 2008. Since then circa 80% of staff have agreed to new terms and conditions and payment of £7.7million has been released from the provision in 2008-09 to meet backdated payments.
- The pension liability has been disclosed by the Council in relation to the requirements of FRS17 – *retirement benefits*. The assumptions of the actuarial report were considered by management and deemed to be appropriate. The actuarial valuation at 31 March 2008 resulted in the liability decreasing by £38.1million to £8.4million (2006-07: £46.5million) primarily due to a change in the discount rate applied by the actuary
- The Council has applied FRS25 – *financial instruments: presentations and disclosures*, FRS26 – *financial instruments: recognition and measurement* and FRS29 – *financial instruments: disclosures* for the first time under the 2007 SORP.

Reporting arrangements and timetable

Scottish local authorities are required under Regulation 4 of the Local Authority Accounts (Scotland) Regulation 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by the 30 June. We are pleased to confirm that the Council adhered to this requirement by lodging accounts with the Controller of Audit by this deadline. This allowed for completion of the audit and consideration and approval of the financial statements on 25 September 2008.

Format of the Accounts

The financial statements have been prepared in accordance with the Code of practice on Local Authority Accounting in the United Kingdom 2007 (the SORP). The SORP specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local authority and to prepare group financial statements where they have material interests in subsidiaries, associates or joint ventures.

The SORP is reviewed and updated annually by the CIPFA/LASAAC Joint Committee and the 2007 version, applicable to 2007/08, was issued in June 2007. The 2007 SORP contains a number of substantive changes from the previous edition, including;

- Changes to fixed asset accounting requirements. This includes the creation of a revaluation reserve and a capital adjustments account, replacing the previous fixed asset restatement account and the capital financing account; and

- The application of FRS25 – *financial instruments: presentations and disclosures*, FRS26 – *financial instruments: recognition and measurement* and FRS29 – *financial instruments: disclosures* for the first time by local authorities

The Council has prepared its accounts in accordance with the 2007 SORP and completed the SORP disclosure checklist for review by the auditors.

Audit opinion

On 25 September 2008 we issued an audit report giving our unqualified opinion on the accounts of the Council and its group for the year ended 31 March 2008.

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 2008 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 18 September 2008. There were no significant matters arising from that report, apart from those highlighted below, which we wish to bring to your attention.

Fixed assets

Impairment of high schools' carrying value

During 2007-08, the Council signed a Public Private Partnership agreement for the construction of six new high schools across the Council. The new schools are due to be operational during 2009-10. Upon the opening of the new schools, five existing schools will be demolished. As a result of this decision the expected useful life of these assets has been reduced to 2 years from between 22 and 33 years.

The significant reduction in the existing life required the carrying value of the schools to be considered. An impairment of £23.5million was required covering four of the schools with a previous carrying value of £25.6million, which excludes associated sports halls which will continue in use. One of the schools is due to be disposed of upon completion of the PPP project, with expected receipts in excess of the carrying value; therefore no impairment was considered necessary for this asset.

The carrying value at 31 March 2008 reflects the remaining economic benefit from the schools and will be depreciated over the remaining expected useful life of the assets.

Recognition of amounts due on disposal

During the year the Council agreed to the sale of the Bearsden Academy site to a private sector developer as part of tripartite agreement in which additional land has been purchased from a third party. A replacement school under the PPP agreement will be constructed on this land. Payment is made by the private sector developer in 3 instalments with simultaneous payment by the Council to the third party for the land purchase. Interest is due to the Council together with the final instalment from the developer of at least £1.25million which was omitted from the draft accounts. Sixty percent of this excess receipt over the agreed sale price is to be shared with the third party following receipt of the third instalment. Therefore an amount of £500,000 is retained by the Council and £750,000 payable to the third party.

As a result, debtors over 12 months have increased by the full amount receivable of £1.25million, creditors over 12 months have increased by the share due to the third party of £750,000 and a profit on disposal of £500,000 recognised in 2007-08. This has then been accounted for appropriately in the useable capital receipts reserve.

Recognition and valuation of surplus land

During 2007-08, the surplus asset category was revalued upwards to reflect three tracts of land identified for disposal. This land was previously held at nil value by the Council and was correctly revalued to market value upon the decision to dispose of it. It was noted from discussions with Council staff that the Council holds title to various land either not included in the asset register or included at nil value. This land has nil current or expected market value but will be revalued in the event of a potential purchaser being identified. The Council should review the land it holds, and ensure an appropriate strategy is in place for the use or disposal of this land. This review should also consider any Common Good implications relating to the title deeds for the land.

Recommendation 1

Provisions

Single status

In 1999, a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms).

Single status costs of £4.6million were provided for in the year ended 31 March 2007 to provide for backdated costs under the single status agreement to 1 April 2006. In the past year the Council has continued to progress its commitment to single status through the Partnership at Work Forum and by providing newsletters to employees. A further provision has been made of £5million to provide for single status costs in respect of the year ended 31 March 2008 based on the prior figure uplifted for pay awards and changes to the staffing structure. The total provision at 31 March 2008 was £9.6million.

Post year end the Council has also presented new contracts of employment to all employees and around 80% have been accepted by September 2008 resulting in their move to the new pay scale and payment of backdated award where applicable. Payments of £7.7million were made during September representing a similar percentage. The provision will be released in 2008-09 to meet these backdated payments.

From 1st April 2008 employees who have not accepted the revised employment contracts have been remunerated at a higher level where their base salary under the single status model is greater than their current salary.

Equal pay

The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal.

In prior years the Council made a number of offers to staff in respect of settling equal pay claims and a provision was included in the financial statements for the year ended 31 March 2007 of £1.5million which was based on the claims outstanding. During 2007-08 there have been no new cases or cases closed. Payment of £888,000 was made and released from the provision to HMRC in respect of backdated tax on equal pay settlements previously paid.

The remaining provision at 31 March 2008 has been increased to £0.8 million based on the expected cost of settling cases. The Council has also recognised a contingent liability in respect of possible future claims.

Pensions

The pension liability has been disclosed by the Council in relation to the requirements of FRS17 – *retirement benefits*. The assumptions of the actuarial report were considered by management and deemed to be appropriate. The actuarial valuation at 31 March 2008 resulted in the liability decreasing by £38.1million to £8.4million (2006-07: £46.5million) primarily due to a change in the discount rate applied by the actuary. Within the pension liability of the Council, there exists teachers' unfunded elements of £6.7million which have been disclosed separately from the Local Government Pension Scheme in the financial statements for 2007-08.

Financial instruments

The 2007 SORP required the Council to disclose financial instruments in 2007-08 in accordance with FRS25 – *financial instruments: presentations and disclosures*, FRS26 – *financial instruments: recognition and measurement* and FRS29 – *financial instruments: disclosures* for the first time. The Council has made appropriate disclosures and calculations in relation to the SORP requirements, including derecognition of the deferred premiums of early repayment of debt held at 31 March 2007 and the creation of a financial instruments adjustment account. As the SORP specifically stated that the prior year comparatives were to remain unchanged, adjustments have all been processed in 2007-08.

Mugdock County Park Joint Committee

During 2007-08 the decision was taken by Mugdock Country Park Joint Committee to amend the agreement governing the body. As a result of this amendment, audited statutory accounts will no longer be prepared for the body after the 2007-08 accounts are signed. The park will continue to operate but as a part of East Dunbartonshire Council for statutory reporting, with contributions continuing to be received from Stirling Council. The group accounts section of the Council's accounts discloses this change to the reader of the accounts.

Public Private Partnership (PPP)

Financial closure on the East Dunbartonshire schools public private partnership was achieved during 2007-08. Construction work on six new secondary schools has since commenced. 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 reviewed this judgement and reported in our 2006-07 annual audit report 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 under UK Generally Accepted Accounting Principles.

We note that the Government has announced that the Central Government Financial Reporting Manual will be compliant with International Financial Reporting Standards (IFRS) from 2009-10. As a result, the CIPFA/LASAAC Joint Committee will be required to consider the same with the local authority SORP from 2010/11. 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. We recommend early preparation.

Recommendation 2

Financial position

- The closing general fund balance was £9million, an increase of £2.1million from the previous year and £1.1million in excess of the 2007-08 budgeted position. However, the closing reserve position of the Council remains in the lower quartile of all Scottish Councils in actual terms
- The budget setting process acknowledged a range of financial pressures totalling £7.7million facing the Council which needed to be addressed in balancing the budget for 2008-09, with the longer term financial position of the Council in years 2009-10 onwards expected to present difficulties in balancing the budget.
- Capital expenditure of £42million was incurred during the year, funded by government grants and contributions from third parties of £14.9million, sale of assets of £27.7million and revenue of £0.4 million, resulting in a decrease in the Council's capital financing requirement of £1.1million.
- The Council has short term investments of £27.5million at 31 March 2008 (31 March 2007: £26.3 million). This level of short term investments is not out of line with other similar sized Council and specific elements of these resources are earmarked for settlement of equal pay and single status liabilities, a significant sum amount of which has now been paid, and other expected future costs.

General fund

The Council has reported net operating expenditure of £233.6million against approved departmental budgets of £209.9million. The significant variance against budget is due to the impairment of the schools estate carrying value at 31 March 2008. The impairment through the Income and Expenditure Account was subsequently reversed in the Statement of Movement on the General Fund Balance with no significant impact on the general fund out-turn.

The Council reported a surplus on the general fund balance for 2007-08 of £2.1million. This result achieved the Council's plans to restore available general fund balances to £2.5million, with a further £1.1million of uncommitted surplus generated beyond the budget position. This was attributable to effective financial management and additional efficiencies generated across the Council during 2007-08.

	Actual £000
Income and expenditure result	
Net operating expenditure	233,622
Income: funding from RSG, NDR and Council Tax	(199,116)
(Surplus) / deficit to be met from balances b/forward	**34,506**
Loan repayments, capital financed from current revenue and fixed asset adjustments	(36,604)
Result for the year: (Increase) / decrease in general fund balance	**(2,098)**
Add to General fund balance brought forward on 1 April 2007	6,829
To arrive at General fund balance carried forward at 31 March 2008	**8,927**

Housing revenue account (HRA)

The Council's HRA returned a surplus of £223,000 (budget £578,000 surplus). The balance on the housing revenue account fund balance at 31 March 2008 was therefore £439,000 (31 March 2007: £216,000).

Rent arrears as at 31 March 2008 totalled £717,000 and represent 6.4% of gross rental income for the year. A bad debt provision of £579,000 has been set, with former tenant arrears provided against at 85% regardless of age. The Council should review its bad debt policy to reflect more accurately the collection rates experienced locally.

Recommendation 3

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 2008 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	2005-06 surplus / (deficit) £000	2006-07 surplus / (deficit) £000	2007-08 surplus / (deficit) £000	3 year surplus / (deficit) £000
Property maintenance	581	13	276	**870**
Roads	213	(84)	59	**188**
Environment	(2)	(595)	(277)	**(874)**
Fleet management	774	880	142	**1,796**
Vehicle maintenance	28	70	96	**194**
Facilities management	(1,160)	(1,261)	(1,646)	**(4,067)**
Grounds maintenance	128	(445)	(519)	**(836)**
Total	**562**	**(1,422)**	**(1,869)**	**(2,729)**

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 £7.668 million being charged to the trading accounts over the three year period.

The Council through the January 2008 meeting of the Policy & Resources Committee, decided to reintegrate from 1 April 2008 all the trading operations within its general activities, with the exception of the property maintenance operation, which will continue to be operated as a significant trading operation. The Council is required to demonstrate best value in all its operations and should ensure that this is applied to the former trading operations. In addition, the transition from trading operations to service department will result in changes in the way transactions are recorded and the Council should ensure that the systems and controls are appropriate to the new status of these operations.

Recommendation 4

Reserves and balances

On 1 April 2007 the Council was required to amalgamate the fixed asset restatement account and the capital financing account to create a capital adjustment account in accordance with the 2007 SORP. The SORP also required a revaluation reserve to be created. The Council has created and appropriately utilised these reserves in accordance with the 2007 SORP.

The movement on the general fund balance is shown in the following table and demonstrates £1.1 million of uncommitted reserves in excess of the budgeted position for 31 March 2008.

	2007-08 £m
Total general fund balance carried forward	**6.8**
Surplus reported for 2007-08	2.1
General fund balance at 31 March 2008	**8.9**
Earmarked for particular purpose	(5.3)
Free reserves	3.6
Prudential reserves	(2.5)
Additional uncommitted reserves at 31 March 2008	**1.1**

Audit Scotland's overview of the local authority audits 2007, showed East Dunbartonshire Council as having the fifth lowest unallocated general fund balance as a percentage of net cost of services. During 2007/08, the Council has improved this indicator from 0.7% to 1.6%. However, the total closing general fund balance of the Council remains in the lower quartile of all Scottish Councils in actual terms and the Council should ensure that reserves are appropriate given the future financial pressures and current economic climate.

Recommendation 5

Future financial plans

The budget setting process acknowledged a range of financial pressures totalling £7.7 million facing the Council which needed to be addressed in balancing the budget for 2008-09. These included the Scottish Government requirement for a freeze in council tax, higher staff costs, price inflation, refuse collection and disposal charges and increased care home and free personal care costs (given the Council's demography).

The longer term financial position of the Council in years 2009-10 onwards is expected to present difficulties in balancing the budget. The removal of ring-fenced funding and the current settlement from the Scottish Government has left a significant shortfall in future government funding for the PPP project. Management are currently pursuing this issue with the Scottish Government and CoSLA. Following from 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.

The Council's strategy in place to finance the PPP and Kirkintilloch Initiative relies on grant funding, third party contributions, capital receipts and transfers from revenue to finance payments. This funding strategy is vulnerable to significant fluctuations from capital receipt forecasts and funding from sources out-with the council's control. Discussions with management indicate that they have considered the impact of future cash-flows, given the current economic climate, and that they do not have any current concerns in relation to financial exposure of the Council.

Capital investment programme and prudential borrowing

Capital expenditure of £42million was incurred during the year, funded by government grants and contributions from third parties of £14.9million, sale of assets of £27.7million and revenue of £0.4 million, resulting in a decrease in the Council's capital financing requirement of £1.1million.

The Council operates a rolling capital programme. The original approved general services capital expenditure for 2007-08 was £25.9million, revised subsequently by £1.1million to £26.9million during the year. 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 £3.3million to be carried forward into 2008-09. The Capital programme set for 2008-09 amounted to £38.8 million, a significant increase on the 2007-08 programme.

Housing capital expenditure of £5.018 million was incurred against an initial budget of £4.865 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 2010-11.

	2007-08 actual £million	2008-09 estimate £million	2009-10 estimate £million	2010-11 estimate £million
Total capital expenditure	27.533	38.855	24.142	19.250
Financed by:				
Capital grants	3.440	6.189	8.700	5.500
Capital receipts	5.790	5.806	6.132	6.440
Revenue	0.499	0.000	0.000	0.000
Contributions	11.834	15.090	2.140	0.140
Net financing need for the year	**5.970**	**11.770**	**7.170**	**7.170**

Borrowing in advance of need

In recent years, a number of councils have disclosed significant amounts under investments largely as a result of decisions to take advantage of favourable interest rates when considering borrowing requirements to fund planned capital programmes. In these instances, councils are still required to demonstrate their consideration and compliance with the conditions set out in Audit Scotland's long standing Note for Guidance 96/5.

This guidance sets out the key factors to be considered by a council when determining whether the decision to borrow in advance of need and lend on a temporary basis is reasonable. From our review of the Council's borrowing activities, we found that one loan of £4million was taken out during 2007/08. This loan was to replace an expiring loan and fund the 2007/08 capital programme spending.

The Council has short term investments of £27.5 million at 31 March 2008 (31 March 2007: £26.3 million). This level of short term investments is not out of line with other similar sized Council and specific elements of these resources are earmarked for settlement of equal pay and single status liabilities, a significant sum amount of which has now been paid, and other expected future costs. Officers have advised this was due to cash flow management rather than borrowing in advance of need.

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Corporate governance

- The statement on internal control does not include any significant weaknesses. The chief internal auditor has, however, stated in the 2007-08 annual assurance statement that "*notwithstanding the ongoing issue in relation to the division of duties, it is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2008.*"
- The Council has agreed a governance structure for its Common Good and Trust Funds but requires to appoint members to the five trustee posts with some urgency to ensure appropriate arrangements are in place going forwards.
- The Council has investigated all of the matches from the 2006-07 NFI exercise, updated the online records and reported progress to their audit and standards committee. Relative to Council size, the £235,000 identified in overpayments and fraud was the highest in Scotland. Testing of the matches found that appropriate action had been taken by the Council and evidence obtained to support the conclusions made. Overall, we considered that the Council has adequate arrangements in place for managing obligations with respect to NFI.
- The Council had engaged in developing individual training and development plans for its members, with detailed roles and responsibilities to be defined through this process, in addition to training already provided.
- The chief executive and two of the three corporate directors have accepted appointments with other local authorities during 2008. The other corporate director has only been in post since September 2006. This represents a complete change in the four senior officer roles in the last two years.

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.

Entities are responsible for establishing arrangements for ensuring the proper conduct of their 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 corporate governance arrangements as they relate to:

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

Systems of internal control

Statement on internal financial control ("SIFC")

The Council is responsible for maintaining and reporting on the system on internal control. The statement provides details of the internal control environment, risk management and control frameworks. The system of internal control is an ongoing process to identify and evaluate the probability and impact of risks that may prevent the Council from achieving its policies, aims and objectives.

The Council relies on the following support in achieving an effective system of internal control:

- comprehensive budgeting systems;
- regular review of financial reports which measure financial performance against forecasts;
- service plans and budgets which set targets and measure financial and service performance;
- clearly defined capital expenditure guidelines;
- the work of managers within the council in meeting their responsibilities to comply with financial regulations;
- project management disciplines; and
- consideration of external and internal audit reports by Audit & Risk Management sub-committee.

The SIFC has been prepared in accordance with the 2007 SORP and provides an overview of the arrangements at the Council to assess internal financial control and an overall assessment of the level of assurance for the Council and its group.

The statement on internal control does not include any significant weaknesses. The chief internal auditor has, however, stated in the 2007-08 annual assurance statement that "*notwithstanding the ongoing issue in relation to the division of duties, it is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2008*."

Corporate Governance Statement

Whilst not a statutory requirement in Scotland, the Council has included a wider governance statement covering its overall internal control environment and corporate governance structures in the 2007-08 annual accounts. This statement has been signed by the Leader of the Council and the Chief Executive and provides an appropriate summary of these wider arrangements covering the following areas:

- strategic arrangements;
- managing the council;
- community engagement; and
- stewardship, conduct and ethics.

Internal audit

During 2007-08 internal audit planned to complete reviews in respect of a number of areas directly relevant to governance arrangements and systems of control. Similar to 2006-07 we have completed an evaluation of the internal audit service in order to inform our approach in terms of reliance. This has allowed us to take into account internal audit's findings and conclusions in our work. In our annual audit plan we identified that work in respect of housing and council tax benefits, non-domestic rates, council tax and BACS processing is relevant to our own responsibilities and have placed reliance on this work, where appropriate.

Internal controls

Drawing on the work of internal audit, in accordance with our plan, we completed detailed testing in relation to organisation wide, IT controls and key financial controls. Our work on organisation wide controls included consideration of financial reporting, risk management, information systems and communication, and the general tone and conduct set by the Council's leaders. We utilised Audit Scotland's Priorities and Risks Framework in the completion of this work. A report of our findings is to be presented to the Audit and Risk Management sub-committee of our findings. In respect of the Council's corporate governance arrangements while we found that these provide an effective framework for the governance of the Council, we made some recommendations aimed at improving these arrangements. Our report includes 3 significant recommendations in relation to:

- reviewing the status and skills requirements of the Audit and Risk Management sub-committee as part of the Council's review of decision making structures;
- monitoring and reporting progress in relation to achievement of the Corporate Improvement Plan;
- the nature, level and frequency of reporting significant issues to Council in order to ensure demonstration of appropriate scrutiny by members.

Our key financial controls work considered 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 financial statements. The findings of this work were presented to the Audit & Risk Management sub-committee on 8 May 2008, no grade one, significant, recommendations resulted from our findings.

We also presented an information technology controls report to the May sub-committee. This report followed up on the recommendations of the 2006-07 report on the same matter. The reported noted that one significant recommendation had not yet been fully implemented in relation to manual input by ICT staff in the absence of effective interfaces for the Saffron Housing Rents system.

The implementation of audit recommendations, from both internal and external audit reports, is being monitored by the internal audit function. It is management's intention that progress will be reported to the Audit and Risk Management sub-committee on a periodic basis. This represents good practice.

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 sub-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 2007-08 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 Management sub-committee for discussion.

A corporate risk register and financial risk register have also been established and the Council is in the process of integrating its risk registers with its performance management systems.

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Common good and trust funds

Under the charity legislation, compliance with which is monitored by the Office of the Scottish Charities Regulator (OSCR), the Council is required to submit details of the governance arrangements for charities administered by it. As part of the submission, details of the governance arrangements in place, including the appointed trustees requires to be provided. The Council has agreed a governance structure but requires to appoint members to the five trustee posts with some urgency to ensure appropriate arrangements are in place going forwards.

Recommendation 6

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 Management sub-committee during 2007-08.

National Fraud Initiative

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. The Council provided payroll data for the exercise. The NFI has generated significant savings for Scottish public bodies, but if fraud or overpayments are not identified, assurances may be taken about internal arrangements for preventing and detecting fraud. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application.

The overpayments and savings identified by participating bodies in Scotland during the 2006-07 exercise is currently £9.7 million. This is likely to increase in the months ahead as bodies complete their follow up work. Guidance was issued in April 2008 to outline the requirements for data preparation and submission for inclusion in the 2008-09 NFI exercise which commences on 6 October 2008.

The NFI 2006-07 results (data matches) were made available 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 during the course of the 2006-07 audit, and updated our understanding of the status of investigations into data matches as part of our interim audit visit in February 2008. Our responsibilities in relation to the NFI exercise include completing a questionnaire evaluating the Council's response to NFI and sample testing of cleared matches, which was submitted to Audit Scotland in February 2008

The Council has investigated all of the matches from the 2006-07 NFI exercise, updated the online records and reported progress to their audit and standards committee. Testing of the matches found that appropriate action had been taken by the Council and evidence obtained to support the conclusions made. Overall, we considered that the Council has adequate arrangements in place for managing obligations with respect to NFI.

The Council also submitted additional datasets in relation to council tax benefit and are currently investigating the additional matches returned to them. As with the initial exercise, the Council intends to investigate every match.

Audit Scotland's National Fraud Initiative in Scotland 2006-07 report issued in May 2008, noted that, "relative to council size (measured by total annual benefit expenditure), East Dunbartonshire Council has the highest yield from 2006-07 HB investigations with £235,000 of overpayments and fraud." This reflects the resources applied by the Council in investigating all the data matches from the NFI exercise.

Fraud Submission

Reports have been prepared with the assistance of Internal Audit and been made to Audit Scotland of the frauds that have been reported in the Council during year.

There were 26 cases of frauds in excess of £5,000 identified. 25 of these were Housing Benefit / Council Tax Benefit, totalling £384,000, the majority identified through data-matching exercises including the National Fraud Initiative. A further case of misappropriation of assets was also reported during 2007-08, as were two other cases of a less significant monetary nature.

Approval of financial statements

Best practice is for the Audit and Risk Management sub-committee to consider both the financial statements and our report thereon prior to final approval and adoption of the audited financial statements and their submission to the Accounts Commission by 30 September each year. Whilst these were reviewed by the Policy and Resources Committee in September 2008, we recommend an audit committee be planned each September going forward.

Recommendation 7

Impact of May 2007 elections

The May 2007 elections returned a hung administration for the Council with a labour-conservative coalition administration being formed holding 11 of the 24 seats. Of the 24 seats, half of these were new councillors with the others returning members from the previous administration. The Council has a history of significant political representation from across the political spectrum. We reported in our 2006-07 annual report the immediate impact of the May 2007 elections, and have updated our understanding since then.

Members training

The Council provided comprehensive induction training covering the Council scheme of delegation, legal requirements, plus sessions on budgeting and administration were provided to all councillors. Induction training was also provided to cover ethics, multi-member wards, the role of councillors on quasi-judicial committees and the differing responsibilities of membership and convenorships of Council committees. In addition to this some members have also undertaken additional courses in order to enhance their performance in their role. The Council had engaged in developing individual training and development plans for its members, with detailed roles and responsibilities to be defined through this process.

The Companies Act 2006 introduced a wide range of changes including new provisions for company directors. It is important that all Council representatives are aware of their legal duties and responsibilities when undertaking their roles in what are separate legal entities. We understand that members have received guidance on the Companies Act and its implications during training sessions following the elections.

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.

Remuneration for Councillors

Prior to the May 2007 elections, members were not paid a salary for their council duties but were compensated under The Local Authorities etc (Allowances) (Scotland) Regulations 1995 through a system of allowances that varied according to the population of the local authority area. Members were also able to claim travel and subsistence expenses incurred in carrying out council duties.

Under the Local Governance (Scotland) (Remuneration) Regulations 2007 however elected members are now remunerated. The Regulations provide that all Councillors receive a remuneration of £15,452 per annum. In addition, councils may pay remuneration to Councillors designated to hold positions of responsibility. The Regulations group councils into bands having regard to their size and remuneration is payable according to the provisions which apply to each band. East Dunbartonshire Council is grouped in Band B. The amounts payable to the leader and provost are set out in the Regulations with the remaining senior councillor remuneration determined by the Council. The total payable shall not exceed £212,476 and the number of senior councillors should not exceed 11. The remuneration arrangements agreed by the Council are in line with the Regulations.

Changes at senior officer level

The chief executive and two of the three corporate directors have accepted appointments with other local authorities during 2008. The other corporate director has only been in post since September 2006. This represents a complete change in the four senior officer roles within the first two years of our appointment as auditors. This turnover in senior officers will require members and officers to work closely to ensure the appointment process is carried out in plenty of time to aid the smooth handover to a new chief executive and corporate directors. Care will also be needed to ensure there is minimum disruption to services and the corporate management of the council and no interruption to progress in implementing the Council's corporate development and improvement plans during the recruitment and handover period.

Recommendation 8

Performance management

- The Council is currently subject to its first Best Value audit, expected to be completed during 2008. The Council made preparations for the audit including 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.
- The Council has published its annual efficiency statement for 2007-08. This statement is not subject to audit in this financial year. The Council reported cashable efficiency gains delivered in the year of £2.668 million in excess of budgeted levels, and non-cash savings in 26 areas.
- Overall when comparing performance in 2007/8 with that of the previous year the council's performance worsened by 5% or more in 20 SPIs and performance improved by 5% or more in 16 indicators.

The *Code* requires that, in accordance with guidance provided by Audit Scotland, we consider the Council's arrangements in relation to Best Value and other aspects of the arrangements to manage performance in relation to economy, efficiency and effectiveness in the use of resources.

The responsibility to ensure that the Council has appropriate arrangements in place to manage and monitor performance lies with management and the members of the Council.

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.

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 is currently subject to its first Best Value audit, expected to be completed during 2008. The Council made preparations for the audit including 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. We noted in our PRF report that the timetable for implementing the corporate improvement plan has met with some slippage.

Efficient government

The efficient government initiative is a five-year programme with the aim of tackling waste, bureaucracy and duplication in Scotland's public sector. We understand that in response to the council tax freeze and other financial pressures on the constituent authorities that a 2.5% efficiency target has been set for future revenue budgets.

The Council has published its annual efficiency statement for 2007-08. This statement is not subject to audit in this financial year. The Council reported cashable efficiency gains delivered in the year of £2.668 million in excess of budgeted levels, and non-cash savings in 26 areas. The efficiency statement notes that the majority of savings were in streamlining bureaucracy and workforce planning & absence.

Shared services

The Council is a member of a multi-authority project currently investigating the resources applied to service delivery in order to identify potential efficiency savings and service improvements, with shared services an option under consideration.

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 incorporated the community planning objectives within its new Corporate Development Plan, 2008-2011, to accord with the recommendations of Audit Scotland's national report that corporate plans of a council should incorporate the community planning objectives. The Corporate Development Plan also incorporates the objectives of the Single Outcome Agreement between the Council and the Scottish Government.

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 and individual's performance goals are also aligned to overall objectives. This is to be rolled out over the coming years.

E-procurement

The Council had previously initiated an e-procurement scheme which was subject to significant delays. The project has been re-visited and is currently being implemented with efficiency savings and operational improvements expected to be realised upon completion of the roll-out in the coming year.

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 publishes "The Publication of Information (Standards of Performance) Direction" each year establishing the performance indicators to be published. We audited the Council's 2007-08 statutory performance indicators submission against this Direction during August 2008. The Council provide responsible officers with appropriate guidance and a completion timetable in advance of the year end. It was noted that a significant number of returns were not returned in accordance with the agreed timetable. We recommend management monitors timely completion in future years.

Recommendation 9

It is the responsibility of the Council to ensure that as far as practicable, the information which is published is complete and accurate. There are 56 Performance Indicators ("PIs") in total, all of which have to be graded as either 'A','X', 'FTR', or 'N/S' as follows:

A: The data appears to be reliable in material respects

X: The lack of available systems, and /or reliable data and/or decision rules has resulted in the Council producing information which, in the auditor's view is unreliable

FTR: The Council has not returned any figures for the indicator as no accurate inventory is maintained. This is classified as a 'Failure to Report'.

We have a duty to "be satisfied that the Council has made such arrangements for collecting, recording and publishing performance data as are required to ensure that, so far as practicable, everything published is accurate and complete".

Overall when comparing performance in 2007/8 with that of the previous year the council's performance worsened by 5% or more in 20 SPIs with performance improved by 5% or more in 16 indicators. Significant areas of improvement where performance increased by over 20% in 2007-08 were:

- The number of probationers seen by a supervising officer within one week due to a changes in working practices;
- The average time to process new benefit claims has decreased due to more efficient working practices being introduced;
- The percentage of buildings from which the council delivers services suitable and accessible to disabled people has increased due to work carried out by the Council in year and a review of all assets owned and operated by the Council;
- Attendance at indoor sports facilities has increased significantly due to the opening of the new Kirkintilloch Leisure Centre during 2007-08;
- The number and percentage of Children's Hearing Reports submitted within the target time has improved due to changes in working practice.

- The percentage of qualified staff working in residential children's homes has increased due to improved staff training and professional development;
- The number of days to relet properties has decreased due to clarification in the indicator relating to which properties to include;
- Current tenant arrears recovery have improved from the prior year due to effective management of the process and additional staff training;
- The average time to respond to a noise complaint in site has improved due to a number of variables; and
- The number of refuse collection complaints has decreased due to improved service delivery.

The areas of concern where performance has declined significantly, by 20% or more from the prior year are:

- A decrease in overpayments recovered, when expressed as a percentage of housing benefit overpayments. Whilst the overall result is better than 2005-06, a decrease of 32% was experienced in 2007-08;
- The percentage of householder planning applications dealt with within two months has decreased due to complexity of applications and staff resource issues; and
- The amount and percentage of former tenant arrears written off has increased due to new procedures to identify and write-off irrecoverable amounts.

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 full supporting evidence for all assets as the evaluation process was not yet completed.

National reports

Audit Scotland carries out a national study programme on behalf of the Accounts Commission. Reports are received by the Chief Executive and considered by the senior management team throughout the year and reported to members as appropriate. In addition to the National Fraud Initiative in Scotland 2006/07 and the Priorities and Risks Framework reports summarised previously, the following relevant reports were issued by Audit Scotland:

Value for Money in public sector corporate services

This report was produced as a joint project by the UK Public Sector Audit Agencies. The Agencies, including Audit Scotland, have worked together to develop indicator sets for measuring the value for money performance of five core functions: finance, human resources, ICT, estates management and procurement.

Use of the indicator sets is to be voluntary, with individual organisations deciding whether or not they would add value to their own performance management systems, benchmarking activities and improvement plans. We note that the Council is currently engaged in developing its performance management arrangements and draw attention to the content of this report.

The indicators have been designed to ensure that all those who chose to gather data will be able not only to assess their own value for money performance but also compare results against other public sector organisations elsewhere in the UK. The Agencies believe that this will be of substantial benefit to many chief executives and senior management teams.

Dealing with offending by young people – performance update

This report forms an update to the December 2002 and November 2003 reports issued by Audit Scotland under the same title. The study measured progress against the key recommendations of this report and identified areas where further progress is needed by various public sector bodies. Recommendations relevant to the Council were:

- Local authorities and other agencies should work to deliver on the local improvements required to successfully implement the agenda set out in the Youth Justice Improvement Programme;
- Needs assessment activity should be strengthened at local authority level so that agencies are able to demonstrate that services are addressing local needs and reducing levels of offending behaviour;
- Local authorities and their partner should develop coherent and integrated approaches to services for children and young people not in education, employment or training, in particular for those excluded or not attending school; and
- Local authorities should ensure that the key departments, such as education, are engaged more effectively with the youth justice strategy agenda.

Sustainable waste management

Collecting household waste is a vital and universal council service. In recent years there has been significant new investment intended to bring about major changes in waste management. Audit Scotland's study reviewed the work of councils, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of waste being sent to landfill. Significant recommendations from the report, relevant to local authorities designed to make managing waste more economic, efficient and effective were:

- A technical evaluation of kerbside recycling systems should be undertaken to indentify the most cost-effective systems to achieve the levels of recycling required to meet the Landfill Directive targets;
- Councils should ensure that their current waste management systems offer Best Value by conducting option appraisals before extending their recycling schemes. Options appraisals should include market testing as a way of demonstrating best value; and
- Working together with the Scottish Government, SEPA and other agencies, a decision should be reached and an action plan agreed on the facilities required for treating waste that is not recycled to achieve the 2010, 2013 and 2020 Landfill Directive targets. This decision should ensure the effective procurement of facilities for treating waste that is not recycled.

Improving the schools estate

The School Estate Strategy was launched by the Scottish Government and the Convention of Scottish Local Authorities (COSLA) in 2003. Its aim is to raise and maintain the quality of the school estate over a period of at least 10 to 15 years, leaving no schools in unsuitable condition for 21st century education. The report evaluates the impact of the strategy on school buildings and what has been achieved to date, regardless of the funding routes chosen for improvement works. The report makes the following key recommendations:

- The Scottish Government and councils should review the School Estates Strategy and set specific, measurable and meaningful targets to ensure that the aims of the strategy are clearly expressed and progress can be properly assessed;
- The Scottish Government should identify a financial strategy for achieving the aims of the School Estates Strategy. The amount of financial investment required should be estimated now and kept under review as information improves and progress towards targets continues. The financial strategy should allow for the long lead-in time required for major school-building projects;
- Councils should use Scottish Government guidance to make sure that future school design strikes a good balance for the comfort of everyone who uses the building. Environmental sustainability should be a key element of school design;
- The Scottish Government and councils should do more to identify and share good (and bad) practice in school design and estate management. This could lead to efficiency savings through shared approaches;
- Planning for future changes in pupil numbers is essential and all councils should estimate pupil rolls for at least ten years ahead. They must review these assessments at least annually in order to reflect potential short-term demographic changes.
- Councils should seek to transfer learning from experiences on school estate management to improve general asset management across their organisations as appropriate.

Impact of race equality duty

In November 2008, Audit Scotland will publish a national report about the impact of the race equality duty. The report will:

- Examine the impact of the duty on council services and people from minority ethnic communities;
- Consider the main factors that affect the performance of councils on race equality;
- Set out how councils can now improve their performance;
- Make recommendations to councils as well as to national bodies that are active in the equalities field and have a role to play in supporting councils meet their race equality responsibilities.

Following publication, Audit Scotland will track councils' progress in addressing the recommendations.

Audit Scotland publishes national reports throughout the year. The Council should ensure that these continue to be received and reviewed by management. Identifying appropriate actions to ensure that recommendations are addressed and the reporting of significant issues to members constitutes continued good practice.

New Housing Benefit ("HB") Audit

Audit Scotland took over the Benefit Fraud Inspectorate's responsibilities for the inspection of housing benefits in Scotland on 1 April 2008. Audit Scotland has no inspection function and has therefore integrated the responsibilities with the current benefits audit process carried out by local external auditors.

The annual subsidy work will continue and will inform the new work. Audit Scotland has decided that the new HB audit will be carried out by a central specialist tem of benefit auditors who will work closely with the Council's external auditor.

The new HB audit will consider the extent to which the Council is complying with the Local Government in Scotland Act 2003 in achieving continuous improvement in the performance of their benefits service. The benefits auditor will consider the Council's past track record of, and potential for, achieving continuous improvement.

Audit Scotland has published guidance on the process in the document New HB Audit – a guide for local authorities. We will liaise with management during 2008-09 in relation the impact and requirements of the new HB audit process.

Audit Scotland publishes national reports throughout the year. The Council should ensure that these continue to be received and reviewed by management. Identifying appropriate actions to ensure that recommendations are addressed and the reporting of significant issues to members constitutes continued good practice.

Inspection reports

The Council is subject to a number of inspection reports by various regulatory bodies. Whilst we note that the Council is subject to these, we expect the relevant reports to be covered by Audit Scotland's Best Value and Community Planning report, the fieldwork for which is currently underway with the findings due to be published early in 2009.

Appendix one – 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	It was noted from discussions with Council staff that the Council holds title to various land either not included in the asset register or included at nil value. This land has nil current or expected market value but will be revalued in the event of a potential purchaser being identified. The Council should review the land it holds, and ensure an appropriate strategy is in place for the use or disposal of this land. This review should also consider any Common Good implications relating to the title deeds for the land. (Grade two)	Agreed; CMT have approved a project to provide data capture for all title deeds to hold an accurate and digitised record of all land within council ownership.	Head of Planning, Development & Property Assets March 2010
2	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. We recommend early preparation within the finance team. *(Grade two)*	Agreed; officers will conduct this as part of the 2008-09 final accounts process.	Head of Finance & ICT 30 June 2009
3	The HRA bad debt provision of has been set, with former tenant arrears provided against at 85% regardless of age. The Council should review its bad debt policy to reflect more accurately the collection rates experienced locally. This should be conducted as part of a wider review of the debt recovery process in order to ensure the Council are taking appropriate action to maximise debt recovery. (Grade two)	Agreed; these arrangements are will be taken forward as part of the Corporate Improvement Plan	Director of Environment 30 June 2009

No.	Issue and performance improvement observation	Management response	Officer and due date
4	From 1 April 2008, all the trading operations will operate within the Council's general activities, with the exception of the property maintenance operation, which will continue to be operated as a significant trading operation. The Council is required to demonstrate best value in all its operations and should ensure that this is applied to the former trading operations. In addition, the transition from trading operations to service department will result in changes in the way transactions are recorded and the Council should ensure that the systems and controls are appropriate to the new status of these operations. *(Grade two)*	Agreed; the level of uncommitted General Fund reserves are considered on an outgoing basis and will be formally revisited as part of the Revenue Budget process for 2009/10 and 2010/11	Head of Finance & ICT 28 February 2009
5	The closing reserve position of the Council remains in the lower quartile of all Scottish Councils in actual terms and the Council should ensure that reserves are appropriate given the future financial pressures and current economic climate. *(Grade two)*	Agreed; this will be taken forward in timescale that meets with the OSCR's requirements	Head of Legal & Administration Head of Finance & ICT 31 March 2009
6	Under the charity legislation, compliance with which is monitored by the Office of the Scottish Charities Regulator (OSCR), the Council is required to submit details of the governance arrangements for charities administered by it. As part of the submission, details of the governance arrangements in place, including the appointed trustees requires to be provided. The Council has agreed a governance structure but requires appointing members to the five trustee posts with some urgency to ensure appropriate arrangements are in place going forward. *(Grade two)*	Agreed; this point is acknowledged and the committee cycle for future years will reflect this practice.	Head of Legal & Administration 30 September 2009

No.	Issue and performance improvement observation	Management response	Officer and due date
7	Best practice is for the Audit and Risk Management sub-committee to consider both the financial statements and our report thereon prior to final approval and adoption of the audited financial statements and their submission to the Accounts Commission by 30 September each year. Whilst these were reviewed by the Policy and Resources Committee in September 2008, we recommend an audit committee be planned each September going forward. *(Grade two)*	Agreed	Head of Finance & ICT 30 September 2009
8	The chief executive and two of the three corporate directors have accepted appointments with other local authorities during 2008. The other corporate director has only been in post since September 2006. This represents a complete change in the four senior officer roles within the first two years of our appointment as auditors. This turnover in senior officers will require members and officers to work closely to ensure the appointment process is carried out in plenty of time to aid the smooth handover to a new chief executive and corporate directors. Care will also be needed to ensure there is minimum disruption to services and the corporate management of the council and no interruption to progress in implementing the Council's corporate development and improvement plans during the recruitment and handover period. *(Grade one)*	Staffing turnover is unavoidable and since these senior management changes were made known, appropriate arrangements to mitigate any organisational risks have been implemented regarding cover/acting-up responsibilities, knowledge transfers and recruitment.	Corporate Management Team Ongoing
9	The Accounts Commission publishes "The Publication of Information (Standards of Performance) Direction each year establishing the performance indicators to be published. We audited the Council's 2007-08 statutory performance indicators submission against this Direction during August 2008. The Council provide responsible officers with appropriate guidance and a completion timetable in advance of the year end. It was noted that a significant number of returns were not returned in accordance with the agreed timetable. We recommend management monitors timely completion in future years. *(Grade three)*	Agreed; controls will be put in place to ensure compliance with timescales	Head of Policy & Public Affairs in conjunction with "responsible officers" 30 June 2008

Appendix two – progress against audit plan timetable

Audit phase, activity and deliverable	Timetable	Status
Planning		
Planning and presentation of audit plan overview to the audit and risk management sub-committee	27 February 2008	Completed on time
Control evaluation		
Interim audit visit to update our understanding of strategic financial and Council process and to identify and test controls	February – March 2008	Completed on time
Reviews of specific areas identified during the audit planning stage	March – April 2008	Completed on time
Management report plus additional IT controls report to the audit and risk management sub-committee	8 May 2008	Completed on time
Priorities and risks framework report	31 July 2008	Completed October 2008
Substantive testing and completion		
Financial statements audit work	July – September 2008	Completed on time
Audit clearance meeting	28 August 2008	Completed on time
Reporting to the audit and risk management sub-committee	September 2008	Completed on time
Signing of the financial statements following their approval by the Council	By 30 September 2008	Completed on time
Annual audit report to the members of the Council and the Controller of Audit	By 31 October 2008	Completed on time

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