INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

West Dunbartonshire Council

Annual audit report to the members and the Controller of Audit

2007-08

31 October 2008

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

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 West Dunbartonshire Council ("the Council").

Financial statements

On 30 September 2008 we issued an audit report giving our unqualified opinion on the financial statements of West Dunbartonshire Council and its group for the year ended 31 March 2008. The Council has complied with its statutory requirement to conduct each of its significant trading operations so that income is not less than expenditure over the rolling three year period ended 31 March 2008.

The Council signed a Public Private Partnership agreement during 2007-08 for the construction of four secondary schools and one new primary school. The schools are due to be completed in 2009-10. For three of the schools on handover the existing school buildings will be demolished and a further site is earmarked for sale. As a result, accounting standards required a reduction of £27.6 million be made to the carrying value of schools to reflect the economic value of the schools to the Council over their remaining two to three year lives.

Within the unaudited accounts, the Council had made provision for its obligations in respect of back-dated implementation of the single status agreement with effect from 1 April 2006, as well as outstanding equal pay claims. Following a Council decision in August 2008, implementation of the single status agreement is now expected to be imposed with an effective date of 1 March 2009. As a result, the provision for back-dating of payments due under single-status was reversed. However, the Council was committed to additional equal pay claims as well as compensation payments to staff which resulted in a closing provision of £13.5 million.

Financial position

The Council has reported net operating expenditure of £220.3 million against approved departmental budgets of £195.9 million. The significant variance against budget is due to the reduction in the schools estate carrying value at 31 March 2008. The closing general fund balance was £3.3 million (2007: £4.6 million), with £1.0 million being earmarked for ring-fenced purposes. Free reserves have increased by £1.2 million to £2.3 million at the year end. The level of free reserves remains, however, below the Council's set level for prudential reserves of £4.8 million.

The housing revenue account reported a net surplus of £0.6 million against an original break-even budget. The accumulated surplus on the housing revenue account is £1.5 million at 31 March 2008.

Capital expenditure of £28.0 million was incurred during the year, funded by government grants and contributions and receipts from the sale of assets, resulting in a decrease in the Council's capital financing requirement of £2.5 million.

The budgeting process is currently underway for 2009-10. The Scottish Government has advised a Council Tax freeze for Scottish local authorities. The Council approved its budget in February 2008. In addition to the expenditure targets set in the budget, each directorate has additional objectives which include to develop income streams and achieve 1% efficiency savings in 2008-09.

Corporate governance

The Council has included a statement on internal financial control within the financial statements. 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. The Council has, however, recognised weaknesses identified by Audit Scotland in their Audit of Best Value and Community Planning report of February 2007 which has been subsequently reviewed in the year.

We issued three management reports in 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 & performance review committee on 16 April 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 committee meeting on 11 June 2008. This report followed up on the recommendations of the 2006-07 report on the same matter. The report made two grade one, significant, recommendations in respect of data security processes and disaster recovery testing. In accordance with our plan, we are in the process of finalisation our work on the Council's arrangements in relation to risk areas identified through consideration of Audit Scotland's Priorities and Risks Framework, in particular the implementation of single status as a result of a specific request by the Council.

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

Performance management

Best Value audit

Audit Scotland published their follow-up review on the Council's progress against their Best Value Improvement Plan in January 2008. The report noted the progress made by the Council within a short timescale but recommended that further focus on improvement was required by the Council.

The Council has continued to report its progress to Council on a regular basis throughout the year. The Council's Best Value Improvement Plan is progressed through five workstreams, each led by an executive director and supported by nominated lead officers and a trade union representative. This structure has been facilitated by the appointment during the year of three new permanent executive directors to bring the Council's corporate management team to its full complement of five.

Efficient government and statutory performance indicators

The Council's annual efficiency statement for 2007-08 was presented to the corporate and efficient governance committee in August 2008. This statement was not subject to audit in this financial year. The Council has reported cashable efficiency gains delivered in the year of £4.4 million, with a further £0.2 million of non-cashable savings reported.

We audited the Council's 2007-08 statutory performance indicators submission during August 2008, placing reliance on internal audit as appropriate. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return. However, we reported issues with two indicators, one which was not reported and another which was considered to be unreliable.

Introduction

Audit framework

This was the second year of our five-year appointment as external auditors of West 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 and performance review 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 30 September 2008 we issued an audit report giving our unqualified opinion on the financial statements of the Council and its group for the year ended 31 March 2008.
- During 2007-08, the Council signed a Public Private Partnership deal for the construction of five new schools across the Council. As a result of this agreement an impairment of £27.6 million was considered necessary, to reflect loss in economic benefit from schools due to be demolished in 2009-10.
- The Council increased its provision for single status and equal pay costs at 31 March 2008 by £7.1 million to £13.5 million. This movement took account of the Council's decision after the balance sheet date to impose the single status agreement with effect from 1 March 2009, but to reach additional compromise agreements and make compensation payments to staff.
- The net pension liability, including a pension asset for the local government pension scheme, has been disclosed 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 net liability decreasing by £46.1 million to £10.3 million (2006-07: £56.4 million) primarily due to a change in the discount rate being applied.
- 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 financial statements to the Controller of Audit by 30 June. We are pleased to confirm that the Council adhered to this requirement by lodging unaudited financial statements with the Controller of Audit by this deadline. This allowed for completion of the audit and consideration and approval of the financial statements by the audit deadline of 30 September 2008.

Format of the financial statements

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 including 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 financial statements in accordance with the 2007 SORP and completed the SORP disclosure checklist for review by ourselves.

Audit opinion

On 30 September 2008 we issued an audit report giving our unqualified opinion on the financial statements of the Council and its group for the year ended 31 March 2008.

In forming our unqualified opinion, we considered the Council's duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so that income is not less than expenditure over each rolling three year period. As disclosed in note 3 to the financial statements the Council has complied with this statutory requirement for the three year period ended 31 March 2008.

Our findings on the Council's financial statements production process were made in our report to those charged with governance, issued 22 September 2008. Our report was considered by the audit and performance review committee convened on 25 September prior to the financial statements being certified. There were no significant matters arising from that report, other than the following issues, which we wish to bring to your attention.

Fixed assets

Adjustment to the carrying value of the schools estate

During 2007-08, the Council signed a Public Private Partnership deal for the construction of four new secondary schools and one new primary school. The new schools are due to be operational between July 2009 and November 2010. Upon the completion of three of the new schools, handover will take place and the existing buildings will be demolished to allow playing fields and car parking to be constructed on the existing school sites. We understand that the primary school site does not yet have an expected demolition date although it is still anticipated to be within the next three years.

As the decision to demolish the current buildings had been approved by the year end, accounting standards required the current carrying values of the five schools to be reduced to reflect that these sites were earmarked for demolition, and that their economic benefit to the Council had been reduced from in excess of 20 years to two to three years. In technical accounting terms this adjustment is known as an impairment.

A further school site will remain with the Council after completion of the new school as Council educational services are currently housed in part of the building. However, after the decision to vacate the buildings and sell the site, the current carrying value has been adjusted to reflect the expected sale proceeds of this site on the same basis as the other sites.

The net impact of the adjustments required as a result of the impairment, was an increase in expenditure of £27.6 million through the income and expenditure account. This charge was reversed in entirety through the statement of movement on general fund balance, resulting in no net impact on the

Council's general fund balance. The Council's net asset position was, however, decreased by £27.6 million.

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.

Impairment and valuation of fixed assets

The 2007-08 capital programme included enhancement expenditure on the basis that it increased substantially the extent of use or useful economic life of the asset. In some instances management identified that works did not increase the value and that the expenditure should be impaired. In our audit we reviewed these impaired enhancements and concluded that no audit adjustment was necessary as there was no indication that the carrying value of the assets were significantly misstated. We concluded that some of these works were valid capital spend, but by their nature they indicated an impairment in opening carrying value of the asset to which they relate.

We recommend, however, that management review the 2008-09 capital programme to identify where enhancements may indicate an impairment to the carrying value of an existing asset. Additionally, we identified other non-material capital enhancements that did not appear to meet the requirements of FRS 15 'tangible fixed assets' for capitalisation. Management should improve on the 2007-08 capital expenditure review process to ensure that only valid capital expenditure is capitalised.

Recommendation one

In 2008-09 the five year rolling programme of valuations will include schools and social work homes. We note that the accounting policy for the valuation of council dwellings is comparative open market value discounted for potential sales under the right to buy legislation. Given the move away from right to buy schemes, a market based valuation methodology may no longer be the most appropriate valuation methodology. In addition, the increased emphasis on component accounting, in accordance with the SORP, indicates that the approach to valuing affected assets may need to be reconsidered.

We recommend that due to the above matters management liaise with the valuer to determine the most appropriate valuation methodology prior to the 2008-09 valuation process.

Recommendation two

Provisions

Single status and equal pay

The single status agreement between local government employers and trade unions has been in place since 1999 and involves merging the pay and working arrangements for APT&C and manual employees. Implementation of the agreement, which affects over 5,000 of the Council's workforce, would allow the Council to meet its statutory obligations under the Equal Pay Act 1970. 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. The agreement has also given councils the opportunity to review existing policies and employment arrangements to update outdated working practices, while complying with its equal pay requirements.

The Council has been working on implementation of the single status agreement over a number of years, through the Pay Modernisation Joint Working Group ("the JWG"). Implementation of the new pay and grading structures was agreed to be in place with effect from 1 April 2006, even if agreement was not reached until after that date. As a result, any negotiated agreement reached would be back-dated to 1 April 2006.

Single status costs of £5.7 million were provided for in the year ended 31 March 2007 to provide for backdated costs under the Single Status Agreement to 1 April 2006. As no collective agreement was reached with staff and trades unions during 2007-08, the unaudited financial statements provided a further £7.1 million for the costs associated with 2007-08.

Subsequent to the year end, as a result of the delay in reaching a collective agreement, the Council has held several full Council meetings to consider its approach to implementation of the agreement. At a special Council meeting in May 2008, a motion was approved which substantially increased the potential offer to be made to staff, with harmonisation of terms and conditions at the "highest rate" and a protection period of five years to be put in place. Full costings of this proposal were conducted subsequent to the motion being passed, and after clarification with trades unions as to what their request of "highest rate" harmonisation actually meant. These costings indicated an increased annual cost to the Council of £4.69 million per annum over and above the original single status offer to staff.

Following this decision, officers and members requested that we specifically review the Council's approach to implementation and the reporting of information to members. We are currently finalising this report.

As a result of case law decisions in the UK in respect of single status implementation during 2008, a further special meeting was held by the Council in August 2008 to reconsider the May 2008 decision. The Council's legal officer advised the meeting that this did not require suspension of standing orders as the more recent case law required that the Council's decision be revisited. At this meeting, the Council decided to impose implementation of the single status offer, but, since this cannot be done retrospectively an imposition date of 1 March 2009 was agreed.

Following discussions with Council finance officers, this event has been recognised as a post balance sheet event providing additional information on the provision as at 31 March 2008 for single status implementation. While the provision for back-dating of payments was no longer required, the Council has recognised that it is liable for additional equal pay claims from employees who had accepted compromise agreements limiting the Council's exposure only up to 31 March 2006, and that provision would need to be made for the expected value of these costs.

The August 2008 Council decision also included allowance for a one-off payment to be made to all staff as an incentive payment for accepting the new terms and conditions to be offered and imposed. Council took the view that the expectation of staff had been raised in terms of receipt of back-payment for single status implementation, and while formal back-pay was no longer payable as the agreement would be implemented going forward, then the Council had an obligation to compensate staff accordingly.

We have considered the decisions after the balance sheet date in accordance with FRS 21 and concluded that the nature of the provision had indeed changed. We are, however, satisfied that the

Council has additional equal pay compensation obligations and have also satisfied ourselves that it is also appropriate to recognise within the 2007-08 financial statements elements in respect of the incentive payments to staff which are due to be paid in 2008-09. Management's best estimate of the cost of these Council decisions resulted in there being no amendment to the carrying value of the provision from the unaudited financial statements, as the amount provided was not considered to be materially different from that now required.

We note that the incentive payments are currently due to be made in 2008-09. Once additional details are available on the exact nature and value of these payments, we will consider in full as part of our 2008-09 audit the Council's rationale and justification in terms of Best Value for these payments.

The implementation of the single status agreement represents a significant risk area for the Council and while it is ongoing the Council remains exposed to risk of additional claims in respect to inequality in terms of working practices. The Council has recognised a contingent liability in respect of possible future claims. Imposition of the single status agreement also constitutes a significant exercise for the Council, both in terms of the logistical exercise as well as the need to consult and inform staff accordingly throughout the process.

The Council should ensure that appropriate resources continue to be allocated to the ongoing single status agreement implementation and that risks in the process are identified and mitigated appropriately.

Recommendation three

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 net liability decreasing by £46.1 million to £10.3 million (2006-07: £56.4 million) primarily due to a change in the discount rate being applied.

Review of the actuarial report indicated that the closing liability comprised of a net asset in the Strathclyde Pension Fund of £1.2 million offset by a liability of £11.5 million in respect of unfunded teachers' liabilities. In accordance with the SORP requirements, these amounts have been disclosed separately.

Debt management

A revised debt policy was submitted to the corporate and efficient government committee in March 2008 before circulating to stakeholders for consultation. After a policy impact assessment formal approval is scheduled for late 2008.

Provision for bad debts

In 2006-07 we recommended that management review the accounting policy for bad debts and the methodology for providing against bad and doubtful debt to ensure that the valuation of Council debtors remains accurate. In calculating the provision for bad debt finance officers have assessed aged debts to obtain assurance over the recoverability of these debts.

Employee debt

At 31 March 2007 the Council had £1.4 million of debt owed by around 500 current employees. Steps taken by management during 2007-08 have reduced the council tax outstanding balance by £0.3 million to a total of £1.1 million, of which £0.2 million related to the 2007-08 tax year. This debt related to around 440 employees' accounts at 31 March 2008 (31 March 2007: 500 employees' accounts).

In 2006-07 we recommended that there was scope for formalised reporting of the progress the Council is making in reducing employee debt in order to demonstrate effective management of this specific debt profile. We understand that an action plan was reported to the audit and performance review committee, but there has not been any formal reporting on progress. We recommend that the committee receives periodic reporting to monitor progress against the action plan.

Recommendation four

Accounting for grant income

'Capital' grants

The Council receives significant income in the form of 'capital' grants from the Scottish Government and its agencies. The audit process included an adjustment where a 'capital' grant was capitalised but it did not meet the FRS 15 *Tangible fixed assets* requirements for recognition as an asset. Further instances of expenditure being capitalised in relation to a 'capital' grant were identified. We recommend that prior to accounting for the transactions, management review the nature of the expenditure to determine its nature and the correct accounting treatment.

Recommendation five

Deferred income

Review of deferred income balances identified two instances where the Council had rolled forward 2007-08 income, but exceeded the amount allowable under the terms of the grants. In one of these cases, the additional grant income was offered and accepted by management close to the year end. The total of these audit differences was non material and review of other balances did not identify any further audit differences. There is, however, a risk that additional grant funding may be accepted by officers without explicit consent to carry forward into a future financial year. Where spend may have subsequently have been committed to these projects in the next financial year, there is the potential for an adverse impact on service budgets.

We recommend that management ensure that each directorate is aware of such risks and that for 31 March 2009 procedures in place are reminded to staff to ensure that there is no risk of loss of income.

Recommendation six

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 de-recognition of the deferred premiums of early repayment of debt held at 31 March 2007 and the creation of a financial instruments adjustment account. The SORP specifically stated that the prior year comparatives were to remain unchanged, with adjustments processed to the opening balance sheet in 2007-08.

Public Private Partnership (PPP)

The West Dunbartonshire schools public private partnership project was concluded in January 2008. Construction work on four new secondary schools has since commenced. The final accounting 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.

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.

In 2006-07 we recommended that, 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. Management have outlined to the corporate management team during the year the accountancy resource requirements for 2008-09 onwards.

KPMG

Financial position

- The closing general fund balance was £3.3 million (2007: £4.6 million); the free reserves of the Council increased by £1.2 million to £2.3 million at the year end (2007: £1.1 million free reserves). The closing free reserves position of the Council remains below their prudential level of reserves and managements' three year target to restore these remains a priority.
- The budget setting process acknowledged a range of financial pressures 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 £28.0 million was incurred during the year funded by government grants, contributions from third parties and receipts from sale of assets. The Council has carried forward £16.6 million of capital reserves to fund future programmes.
- The Council has short term investments of £23.6 million at 31 March 2008 (2007: £14.6 million), a level which is not out of line with other similar sized Councils. Specific elements of these resources are earmarked for settlement of equal pay and single status liabilities.

General fund

The Council has reported net operating expenditure of £220.3 million against approved departmental budgets of £195.9 million. The significant adverse variance against budget was primarily due to a £27.6 million impairment of the schools estate carrying value at 31 March 2008. The impairment through the Income and Expenditure Account was reversed in the Statement of Movement on the General Fund Balance with no impact on the general fund out-turn.

In February 2007 the Council approved its budget which included a general fund closing balance of £4.3 million. Of this balance, £0.7 million represented a 2007-08 contingency provision resulting in a forecast closing general fund balance of £3.6 million. The budgeted result for the year was a deficit of £2.0 million, through planned utilisation of balances. The result for the year was a decrease in the general fund balance of £1.3 million. After taking into account the movement in the level of ring fenced grant provision, this result for the year represents an actual in-year surplus against the budget of £1.2 million.

	Actual £000
Income and expenditure result:	
Net operating expenditure	223,496
Income: funding from RSG, NDR and Council Tax	(192,968)
(Surplus) / deficit to be met from balances brought forward	**30,538**
Net additional amount required by statutory and non-statutory proper practice to be debited or credited to the General Fund Balance for the year	(29,270)
Result for the year: decrease in general fund balance	**1,258**
General fund balance brought forward	(4,566)
General fund balance carried forward	**(3,308)**

Reserves and balances

The 2007 SORP required amalgamation of the fixed asset restatement account and the capital financing account to create a capital adjustment account as at 1 April 2007. 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 in the level of general fund balances are summarised in the following table, outlining the increase in free reserves:

	2006-07 £m	2007-08 £m
Total general fund balance carried forward	**4.6**	**3.3**
Balance committed to 2007-08 budget	(2.0)	-
Balance earmarked for ring-fenced grant purposes	(1.5)	(1.0)
Free reserves	**1.1**	**2.3**

The £2.3 million of uncommitted reserves was £0.5 million in excess of the budgeted position for 31 March 2008. The Council's target for reserves is £4.8 million which the Council aim to restore over a three year period. The prudential reserves policy is based on a target of 2% of net expenditure, but following the removal of ring-fenced funding, net expenditure is now significantly higher. The total closing general fund balance of the Council remains in actual terms in the lower quartile of all Scottish local authorities.

The Council should ensure that its policy and level of prudential reserves remains appropriate given the changes to ring-fenced funding, future financial pressures and the current economic climate.

Recommendation seven

The budget setting process acknowledged a range of financial pressures totalling £6.8 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 (after taking into account Scottish Government funding of £1.2 million), higher staff costs including single status implementation and unfunded pension costs, price inflation, refuse collection and disposal charges and increased supporting people expenditure. Following the budget the Council agreed additional financial objectives including for each directorate to develop their income streams and for directorates to achieve 1% expenditure savings in 2008-09. Council meetings received monthly progress updates on these targets..

The Council has also identified significant financial challenges over the medium term which will require considerable attention and focus across the organisation to meet.

Housing revenue account (HRA)

The Council's HRA returned a surplus of £0.6 million versus a budgeted breakeven position. At the time of preparing the 2008-09 budget in November 2007 the estimated surplus was £0.4 million including utilisation of £0.6 million of HRA funds. The balance on the housing revenue account fund balance at 31 March 2008 was £1.5 million (31 March 2007: £1.0 million), significantly in excess of its prudential target level of £0.6 million.

Rent arrears as at 31 March 2008 totalled £2.5 million and represent 8.9% of gross rental income for the year. A bad debt provision of £1.7 million has been set, with former tenant arrears provided against at 80% regardless of age.

Significant trading operations

Councils have a statutory target of generating revenues not less than expenditure over a rolling three year period for each significant trading operation. The summarised financial positions of the trading financial statements maintained by the Council for the three year period ended 31 March 2008 are shown below. This demonstrates that the Council has achieved its statutory objective for both significant trading operations.

Trading operation	2005-06 Surplus £m	2006-07 Surplus £m	2006-07 Surplus £m	Three year surplus £m
Housing property maintenance	1.3	1.2	0.6	**3.1**
Grounds maintenance and street cleaning	0.0	0.5	0.8	**1.3**
Total	**1.3**	**1.7**	**1.4**	**4.4**

Capital investment programme and prudential borrowing

The approved capital budget for 2007-08 was £31.6 million of which £15.0 million related to HRA assets. Actual capital expenditure of £28.0 million was incurred during the year funded by capital grants of £6.1 million, capital receipts £9.2 million and financing of £14.3 million.

The progress on the Council's general fund and housing capital programmes is reported to Council during the year. The final outturn position reported to committee identified slippage carried forward to 2008-09 of £3.6 million shared between general council services, £2.9 million and HRA £0.7 million. The total capital programme approved for 2008-09 was £30.5 million.

The Council's annual treasury management strategy was 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.

Capital expenditure	2007-08 actual £000	2008-09 estimate £000	2009-10 estimate £000	2010-11 estimate £000
Total capital expenditure	27,998	39,530	29,451	33,028
Financed by				
Capital grants	6,132	6,146	6,249	7,114
Capital receipts	9,175	15,477	7,231	9,726
Revenue contributions	-	-	-	-
Government supported borrowing level	5,155	5,070	5,070	5,070
Net financing need	**7,536**	**12,837**	**10,901**	**11,118**

In 2006-07, the treasury management strategy anticipated total capital expenditure of £40.6 million in 2007-08 and £27.1 million in 2008-09. We note that the significant increase in annual capital expenditure is now forecast to occur in 2008-09, where the forecast is for £39.5 million. We understand that the draft capital plan for 2009-10 and 2010-11 will be considered at the November October 2008 Council meeting and will be approved in its final form in the council tax setting process in January and February 2009.

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 was undertaken during 2007-08. This loan was for debt rescheduling purposes.

The Council has short term investments of £23.6 million at 31 March 2008 (31 March 2007: £14.6 million). This level of short term investments is not significantly out of line with other similar sized councils and specific elements of these resources are earmarked for settlement of liabilities in respect of single status and equal pay, of which the majority is expected to be paid before 31 March 2009. Management confirmed that the significant balances held were therefore due to cash flow management rather than borrowing in advance of need.

Corporate governance

- The statement on internal control does not include any significant weaknesses. The manager of internal audit has stated in the 2007-08 statement that "*reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's internal control system in the year to 31 March 2008.*"
- The Council intends to appoint an officer with responsibilities to ensure that the Council's OSCR obligations are fulfilled in respect to its Common Good and Trust Funds.
- The Council has investigated the majority 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 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. However, given that 2007-08 was the first year of office the uptake of training and development has been lower than expected.
- The Council referred an internal audit report on the Clydebank Leisure Centre Development to Audit Scotland who in turn requested as to consider the report and findings. Both Audit Scotland and ourselves have an ongoing interest in the matter.

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 indicate actual expenditure and financial performance against forecasts;
- setting targets which measure financial and other performance;
- clearly defined capital expenditure guidelines;
- an effective internal audit service; and
- scrutiny by the audit and performance review committee.

The statement has been prepared in accordance with the requirements of 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 manager of audit has reported in the 2007-08 internal audit annual report to the audit and performance review committee that "*reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's internal control system in the year to 31 March 2008*".

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. As in 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 the following reviews as relevant to our systems and controls work: main accounting systems; council tax and non-domestic rates systems; housing and council tax benefits, treasury management, and tendering and contracting.

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 management. We utilised Audit Scotland's Priorities and Risks Framework in the completion of this work.

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 and performance review committee on 16 April 2008; no grade one (significant) recommendations were reported.

We also presented an information technology controls report to the 11 June 2008 committee. This report followed up on the recommendations of the 2006-07 report on the same matter. Two grade one (significant) recommendations were made:

- the Council has taken some steps towards ensuring that the adequacy of data security over sensitive business data, however there are only limited controls to ensure that end users are aware of their responsibilities over data security; and
- while the Council has implemented an annual disaster recovery test on one selected key system, some key systems including the financial ledger, have therefore not been tested.

The implementation of audit recommendations, from both internal and external audit reports, is being monitored by the internal audit function. The annual internal audit plans include follow-up of all recommendations aiming to follow-up recommendations within a year. In addition, position statements are a standing item on the audit and performance review committee.

In accordance with our plan, and following a specific request by members, we are currently completing our work on the Council's implementation of the single status agreement. This is in accordance with our intention to report further on specific risk areas identified in our plan through consideration of Audit Scotland's Priorities and Risks Framework.

Treasury management

In respect of recent events within the financial world, we note that the Council has not at this time suffered exposure to failure of banking institutions, however, it is recommended that the Council review whither its current formal reporting on its treasury management strategy and investments held remains appropriate in the current economic climate.

Recommendation eight

Risk management

Following the Audit Scotland Best Value reviews the Council created the risk and performance management group of which one objective was to oversee the development and implementation of risk management throughout the Council. The Council aimed to embed risk management into its culture and manage risk at service level as well as ensuring that risk management is practiced at a corporate level via a strategic risk register.

During 2007 and 2008 the Council has embedded various risk management arrangements throughout its operations including the implementation of a risk and performance management tool. A risk management working group has been established and risk registers have been created in each service department. Risk reports are generated for each department covering the assessment of risk, actions identified to mitigate the risks, ownership of risk and a quantification of the cost impact of risks. Appropriate escalation and de-escalation procedures are being developed. Training has been rolled out to the service level "risk champions" and staff involved in the risk management process. All papers to Council include a standing item on risk analysis.

Going forward, the Council needs to continue to ensure that risk management is embedded into the culture of the Council and this will require continued commitment from Council members and senior management. It is recommended that committees receive appropriate risk management reports to ensure that members and management have detailed current knowledge of the Council's risk registers and the status of outstanding actions.

Recommendation nine

Common good and trust funds

Under charity legislation, compliance with which is monitored by the Office of the Scottish Charity 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 is required to be provided. The Council intends to assign an officer with responsibilities ensure that its OSCR obligations are fulfilled. However, we recommend that management ensure appropriate arrangements are in place to fulfil its obligations.

Recommendation ten

Prevention and detection of fraud and irregularity

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 performance review committee, but there have been few matters of significance reported through the hotline. The corporate management team received periodic reports. There were no material frauds reported to the committee during 2007-08.

We have received the Council's fraud returns and forwarded these to Audit Scotland. In September 2008 one case was identified that had been ongoing since 2005-06 where losses are over £20,000. Internal audit and the departments involved are continuing investigations and putting in place actions to recover the monies.

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. 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 commenced this month.

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 early 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 now investigated all of the matches from the 2006-07 NFI exercise, updated the online records and reported progress to their audit and performance review 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 its obligations with respect to NFI.

Standards of conduct

The induction pack received by members following the May 2007 elections includes guidance on standards and code of conduct. The Council also has comprehensive human resources policies and procedures providing additional guidance to staff and these are readily accessible to staff on the Council's intranet. In accordance with the code of conduct there is a formal register of interests for recording board members' interests. The code requires members to disclose any pecuniary or other interests and provides general guidance on the receipt of hospitality and gifts. In line with a number of other local authorities, the Council does not have a standards committee. Employees of the Council are also provided with a code of conduct governing their employment.

Impact of May 2007 elections

Members training

The Council provided various induction training initiatives to Council members following the May 2007 elections including an induction pack detailing roles and responsibilities, standards and ethics and learning and development. This induction training also included information detailing the operation of the Council and committees to newly elected members. In order to ensure that there was minimal disruption to the scrutiny role, the Council met soon after the elections in order to approve the leadership roles and committee memberships.

In addition all councillors participated in a training needs assessment in May 2007 and a further consultation exercise on elected member skills and competencies was undertaken in January 2008. Individual personal development plans have not been agreed but a collective development plan has been agreed in response to the training needs assessment. The continuing professional development project will facilitate further assessment and personal development plans aim to be completed before December 2008.

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 and we recommend steps be taken to advise them.

Recommendation eleven

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 elected members are now remunerated. The Regulations provide that all councillors receive a remuneration of £15,500 per annum. In addition, councils may pay remuneration to councillors designated to hold positions of responsibility. The Regulations group councils into bands with regard to their size and remuneration is payable according to the provisions which apply to each band. The Council is grouped in Band B. The amounts payable to the leader and provost are set out by the Regulations with the remaining senior councillor remuneration determined by the Council. In addition to the leader and provost, the total payable for senior councillors shall not exceed £193,600 and the number of senior councillors should not exceed ten. The remuneration arrangements agreed by the Council are in line with the Regulations.

Clydebank Leisure Centre Development

In 2007 members were informed of the ongoing Clydebank Leisure Centre Development and potential issues over the property transactions and spend to date on the project. The nature of the project is complex due to the nature of the property transactions and the funding requirements for the development. Internal audit were then requested to complete a review of the development and their report was submitted to members at the April 2008 Council meeting. At this meeting, members requested that the internal audit report be submitted to Audit Scotland.

Audit Scotland subsequently requested that we consider internal audit's report on the findings of the investigation into the Clydebank Leisure Centre Development. The identified issues were in respect of proposals to purchase a new site for a Clydebank Leisure Centre to replace the current Playdrome centre. This included also the sale of the current site, the ongoing purchase of the new site, spend to date by Clydebank Rebuilt Ltd on the new site and design and planning fees for the new leisure development and the level and quality of reporting to the relevant committees and Council.

Specifically, we were asked to consider the report and its findings, assess the work of internal audit and the significance of the matters arising and identify specific actions taken by the Council in response to the internal audit report, including an update on the land developments.

In August 2008 we completed our review and reported our findings to Audit Scotland on 4 September 2008. While a comprehensive investigation was undertaken by internal audit, the delay encountered in being able to finalise the report resulted in a significant time period between the instruction of the internal audit investigation and action being taken on its findings. The report did highlight a lack of clarity in reporting to the Council and its committees in earlier years, although the report only recommended that a detailed update report for members should be prepared by the chief executive. The Council has actioned this with a detailed options appraisal paper being put to members in May 2008.

Due to the nature of the development, there does remain the potential for significant ongoing financial risk to the Council and it is recommended that regular updates to members are made on the progress of the development.

Recommendation twelve

We understand that Audit Scotland's Best Value progress report will continue to look at the decision making process for key issues. We understand also that Audit Scotland will have an ongoing interest in the specific progress made in this project.

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Performance management

- The Council received Audit Scotland's Best Value follow-up report in January 2008 and since then has approved its revised Best Value implementation plan. Update reports are presented on a regular basis to members through Council.
- 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 £4.4 million, and non-cash savings in six department areas.
- Overall, when comparing performance in 2007-08 with that of the previous year, the Council's performance improved by 5% or more in 14 statutory performance indicators and performance declined by 5% or more in 14 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.

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 audit and performance review 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.

A Best Value and community planning audit of the Council was carried out by Audit Scotland during 2006, and reported significant matters for immediate attention by the Council. The Best Value follow up report published by the Accounts Commission in January 2008 noted the Council's increased commitment to continuous improvement and the progress made by the Council within a fairly short timescale. The report, however, recommended that priority was given to the following areas:

- continuing to develop member / officer relationships;

- establishing arrangements to demonstrate the competitiveness of its services;
- developing robust financial planning; and
- improving community engagement.

In 2007-08 we have reviewed and updated our understanding of management's approach to progressing Best Value, implementation of its Best Value improvement plan and have reviewed its actions following the latest Accounts Commission report. Five work streams have been set to address the eleven immediate and three medium term priorities identified by Audit Scotland: the resources group; the continuous improvement team; the risk and performance management group; the efficient government group and the organisational development group. Each work stream is lead by an executive director with head of service nominated support and trade union representation.

The Council completed a review of its scrutiny arrangements as part of its Best Value Improvement Plan. The audit and performance review committee considered its remit within the revised Council decision-making structures at its meeting in September 2007. This review concluded that the role of the committee was to challenge the financial audit functions and the performance of the organisation through quality control and continuous improvement. The Council's thematic committees, however, retain responsibility for performance and Best Value review of their own areas.

The Council established in April 2008 an "Improvement and Efficiency Executive", to oversee the work streams and report on progress to Council. This is a member-led group with eight Council members supported by the chief executive and other members of the corporate management team, recognising the importance of the improvement plan to the Council.

The most recent progress report to Council highlights progress against the identified immediate and medium term priorities, but, the majority of identified actions are still "in progress". The progress report highlighted that in some cases milestones had not yet been achieved, therefore some actions remain at 0% status. Achievement of the objectives within the Improvement Plan therefore remains a significant challenge to the Council, and will require continued focus and resources over the coming months to ensure continued progress against some challenging timescales.

A further follow-up report on progress to June 2009 has been requested by the Accounts Commission from the Controller of Audit. We recommend that progress reports to the Council should continue to highlight the action being taken to demonstrate achievements expected to be in place by that date, and that appropriate focus if given to continuing the improvement agenda.

Recommendation thirteen

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 identified the need to roll-out a fully-embedded benefits tracking system across all services during 2007-08. This was not completed during 2007-08 and so management have continued to use their database system while they continue to investigate and evaluate products to replace it.

In August the Council published its annual efficiency statement for 2007-08. This statement is not subject to audit in this financial year. The Council will report cashable efficiency gains delivered in the year of £4.4 million, and non-cash savings of £0.2 million.

Shared services

The Council is involved in the National Shared Service Board co-ordinate initiative *"Scotland eXcel – Establishment of a Centre for Procurement Excellence"*, and agreement was reached with the Scottish Procurement Directorate in March 2008. In addition the Council is also involved in the *"e-planning – integrated e-planning solution for Scotland, streamlining the applications, casework management, appeals and consultation processes"*. A shared services strategy is being developed and is expected to be signed off in November 2008.

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

Following the May 2007 elections the Council finalised its 2008-12 Corporate Plan which links to the 2007-17 Community Plan finalised in August 2007. The draft community plan was the subject of an extensive public consultation exercise. The key challenge for the Council going forward in relation to community planning will be to manage effectively service outcome agreements and the changes to funding arrangements. A working group is in place to plan for service outcome agreements and to create a suite of local objectives and priorities that will require to be addressed. Another challenge for the Community Partnership Board going forward will be to take on a more strategic role. To date, the Board has spent considerable time driving forward operational matters, which in future should be delegated to community partners. The Council is also in the process of developing a single community engagement strategy. At present, community engagement is achieved through a number of committees and forums but these arrangements will be enhanced through a single overarching strategy.

Individual service plans have been finalised and to support the strategic priorities in the corporate plan, once these are finalised the budget processes will be incorporated into this planning process for the 2009-10 financial year to ensure that budgets are aligned to strategic and operational priorities.

Procurement

The corporate procurement team continues to work towards improving procurement processes across the Council. In late 2007-08 the Council appointed an e-procurement project leader to oversee the implementation the e-procurement system *Pecos* and in September phase one of the system went live.

Performance management

Following a number of recommendations in the 2007 Best Value report and the follow-up report in January 2008 management have implemented a new performance management system. We understand that the new system will improve monitoring and reporting arrangements and will also promote ownership of performance indicators and corporate and service level targets. There is a longer-term aim to embed a new staff appraisal system and personal development plans within the performance management system to create a fully transparent performance management system. The new performance management system will be linked directly into the Council's corporate plan and the community plan. In this way, personal performance will be driven by the Council's strategic priorities as set out in these plans.

All major plans and strategies, including the community plan, single outcome agreement and the corporate department plans have now been entered in the system including relevant performance indicators and action plans. The training programme is ongoing and two courses per month are being delivered in-house. We understand that to date nearly 100 staff members have attended the introductory training, 15 of whom have also completed intermediate level training.

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. The Council provide responsible officers with appropriate guidance and a completion timetable in advance of the year end. We received the draft performance indicators within the timetabled deadlines. We audited the Council's 2007-08 statutory performance indicators submission against this Direction during August 2008. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return.

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 statutory performance indicators ("SPIs") 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".

The majority of performance indicators were categorised as **A** with the exception of:

- education and children's services: children's hearing system reports – **FTR**; and
- housing: first priority response repairs – **X,** as internal audit concluded that it was questionable how much reliance could be placed on the system for recording this data.

Overall when comparing performance in 2007/8 with that of the previous year the Council's performance improved by 5% or more in 14 SPIs with performance declining by 5% or more in 14 indicators. SPIs where performance changed by over 20% in 2007-08 are summarised below:

Change	SPI
Increased by over 20%	ASW 7b; CM 5a; CM 8b; ECS 8; HS 4d (iv); RL 1(iii); and RL 1(iv).
Decreased by over 20%	ASW 3b (ii); BA 2a; BA 2b; HS 3a; and HS 3b.

National reports

Audit Scotland carries out a national study programme on behalf of the Audit 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 report 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 that 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 Environment 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 identify 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 Executive 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; and
- councils should seek to transfer learning from experiences on school estate management to improve general asset management across their organisations as appropriate.

The impact of race equality duty on council services

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 improve their performance; and
- 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 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 team 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.

We will liaise with management during 2008-09 in relation to the impact and requirements of the new HB audit process.

Appendix 1 – 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 2007-08 capital programme included enhancements on the basis of increasing substantially the extent of use or useful economic life. In some instances management identified that works did not increase the value and that these works should be impaired. We recommend that management review the 2008-09 capital programme to identify where enhancements may indicate impairment to the carrying value of an existing asset. Additionally, we identified insignificant capital enhancements where they did not appear to meet the requirements of FRS 15 'tangible fixed assets' for capitalisation. Management should improve on the 2007-08 capital expenditure review process to ensure that only valid capital expenditure is capitalised. *(Grade two)*	Management will review the Council's capital policy to ensure that all areas of potential impairment are identified and that all expenditure charged to the capital account falls within appropriate definition.	Head of Finance & ICT 31 March 2009

No.	Issue and performance improvement observation	Management response	Officer and due date
2	In 2008-09 the five year rolling programme of valuations will include schools and social work homes. The Public Private Partnership scheme to construct new schools will impact the valuation methodology which will now need to consider the future plans for these schools sites. The move towards fixed asset component accounting, in accordance with the SORP, indicates that the approach to valuing affected assets may need to be reconsidered. In addition, the open market value basis for council dwellings valuation may no longer be the most appropriate valuation methodology. We recommend that management liaise with the valuer to determine the most appropriate valuation methodology prior to the 2008-09 valuation process and where appropriate, approve revised accounting polices. *(Grade two)*	A full review of the appropriate methodology will be carried out prior to the commencement of the 2008/09 valuation process	Manager of Accounting Manager of Estates & Technical Services 31 March 2009
3	The implementation of the single status agreement represents a significant risk area for the Council and the Council remains exposed to risk of additional claims in respect to inequality in terms of working practices. Imposition of the single status agreement also constitutes a significant exercise for the Council, both in terms of the logistical exercise as well as the need to consult and inform staff accordingly throughout the process. The Council should ensure that appropriate resources continue to be allocated to the ongoing single status agreement implementation and that risks in the process are identified and mitigated appropriately. *(Grade one)*	Current provisions will be considered during the 2009/10 budget process and thereafter the position will be kept under review at regular intervals by the Single Status Project Implementation Board	Executive Director of Corporate Services 31 January 2009 & ongoing

No.	Issue and performance improvement observation	Management response	Officer and due date
4	In 2006-07 we recommended that there was scope for formalised reporting of progress the Council is making in reducing employee debt in order to demonstrate effective management of this specific debt profile. We understand that an action plan was reported to the audit and performance review committee, but there has not been any formal reporting on progress. We recommend that the committee receives periodic reporting to monitor progress against the action plan. *(Grade two)*	Monitoring reports will be considered at regular intervals by the Corporate Management Team and annual progress will be reported to the Corporate & Efficient Governance Committee.	Head of Finance & ICT Ongoing
5	The Council receives significant income in the form of 'capital' grants from the Scottish Government and its agencies. The audit identified an audit adjustment where a 'capital' grant was capitalised but it did not meet the FRS 15 'tangible fixed assets' requirements to be an asset. We recommend that prior to accounting for such transactions, management review the nature of the expenditure to determine its nature and the correct accounting treatment. *(Grade two)*	Management will review the capital accounting practices around capital grants to determine the appropriate treatment on an ongoing basis.	Manager of Accounting Ongoing
6	Review of deferred income balances identified two instances where the Council had rolled forward 2007-08 income to 2008-09 but exceeded the amount allowable under the terms of the grants. In one instance additional grant income was offered and accepted by management close to the year end. There is a risk that in addition to potential subsequent clawbacks, spend may have been committed in 2008-09. We recommend that management ensure that each directorate is aware of such risks and that for 31 March 2009 procedures in place are reminded to staff to ensure that there is no risk of clawback of income. *(Grade two)*	Procedures will be put in place and communicated to staff in all departments through the Finance Forum to eliminate the risk of clawback in future years.	Manager of Accounting 31 March 2009

No.	Issue and performance improvement observation	Management response	Officer and due date
7	While the Council has increased its free reserve in the year, at £2.3 million at 31 March 2008 they remain below the prudential reserve target of £4.8 million and in the lower quartile of all Scottish Councils in actual terms. The prudential reserves target is based on 2% of net expenditure, but following the removal of ring-fenced funding this basis may no longer be appropriate as the level of net expenditure is significantly greater. The Council has identified significant financial pressures and the current economic climate may adversely affect the planned outturn in the current and future years. The Council should ensure that the current prudential reserves policy remains appropriate and continue to work towards achieving this over the next three years. *(Grade one)*	The Council intends to review its prudential reserve target to take account of the changes arising out of the withdrawal of ring-fenced funding. Thereafter, the Council will work towards aligning its free reserves with this revised target.	Head of Finance & ICT Ongoing
8	In respect of recent events adversely impacting financial institutions, we note that the Council has not at this time suffered exposure to failure of banking institutions. It is recommended that the Council review whether its current formal reporting on its overall treasury management strategy and investments held remains appropriate in the current economic climate. *(Grade two)*	The Council will review its treasury management strategy to take account of recent events impacting on financial institutions.	Head of Finance & ICT 31 March 2009
9	The Council needs to ensure that risk management continues to become embedded into the culture of the Council. This will require ongoing commitment from Council members and senior management. It is recommended that committees receive appropriate risk management reports to ensure that members and management have detailed current knowledge of the Council's risk registers and the status of outstanding actions. *(Grade two)*	Regular reports with regard to risk management will continue to be presented to the Audit & Performance Review Committee.	Head of Legal & Regulatory Services Ongoing

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10	Under the charity legislation, compliance with which is monitored by the Office of the Scottish Charity 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. We recommend that management put in place appropriate responsibilities and deadlines to ensure that its obligations are fulfilled. *(Grade two)*	A review of current arrangements is planned to update responsibilities and obligations in line with the OSCR / Charity legislation.	Head of Finance & ICT Head of Legal & Regulatory Services 31 March 2009
11	The Companies Act 2006 introduced a wide range of changes including new provisions for company directors. We recommend that the Council ensures that appropriate steps are taken to advise members and officers of their legal duties and responsibilities when undertaking their roles in what are separate legal entities. *(Grade two)*	The relevant provisions of the Companies Act 2006 will be outlined to members at an appropriate briefing session.	Head of Legal & Regulatory Services 31 March 2009
12	Members have been notified on the ongoing Clydebank leisure centre development and potential issues over the property transactions and spend to date on the project. There remains the potential for significant ongoing financial risk over to the Council in the development and it is recommended that regular updates to members on its progress are made. *(Grade two)*	Regular updates will be provided at appropriate stages to Council on the progress of this project.	Head of Housing & Regeneration Services As appropriate
13	The Accounts Commission has requested a further Best Value follow-up report on progress to June 2009. We recommend that progress reports to Council should continue to highlight the action being taken to demonstrate achievements expected to be in place by that date, and that appropriate focus is given to continuing the improvement agenda. *(Grade one)*	The Council will continue to provide progress reports on the Best Value Improvement Plan to each meeting of the improvement and Efficiency Executive with regular updates also provided to full Council.	Section Head Performance Management. Ongoing

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