INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

West Dunbartonshire Council

Annual audit report to the members and the Controller of Audit

Year ended 31 March 2009

30 October 2009

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

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About this report

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

This report is for the benefit of only West 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 that 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 scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

Financial statements

On 30 September 2009 we issued an unqualified opinion on the financial statements of West Dunbartonshire Council and its group.

Following a series of Council decisions in early 2008-09, the Council imposed the single status agreement on its staff from 1 March 2009. This was as a result of a failure to reach a collective agreement. As a result the Council entered into further equal pay compromise agreements totalling £7.7 million for staff who had previously settled their claims up to 1 April 2006. The Council also made realignment payments to all staff accepting the revised pay and grading structure. These totalled £6.4 million during the year.

Government grants due of £1.3 million were accounted for twice in the unaudited financial statements, which was not identified by the Council until after the unaudited financial statements were submitted to the Controller of Audit on 30 June 2009. The impact of the adjustment was to reduce the general fund balance in the audited accounts by £1.3 million. However, there was no impact on the budget for 2009-10 as the double-counting of income had only happened within the financial statements preparation process.

Use of resources

The Council faces severe financial pressures. The result for the year was to increase the general fund balance by £1.7 million to £5.0 million (2008: £3.3 million). However, £4.8 million of the Council's reserves are earmarked for specific purposes, leaving the Council with free reserves of only £258,000. This remains significantly below the Council's approved prudential level target of £4.9 million.

The result for the year reduced the free reserves available to the Council by £2.0 million. This was as a result of three significant adverse movements which totalled £2.6 million which were not anticipated within the budget. Excluding these items, the budgeted surplus for the year was £436,000 and the Council returned an actual surplus of £554,000. With such a low level of free reserves, however, the Council is exposed to any further unidentified costs and may thus have difficulty in achieving its objectives in 2009-10 and beyond.

The general services revenue budget has been agreed for 2009-10 at £243.9 million. The Council considered the impact of the current economic climate as part of the budget setting process. The financial strategy for 2009-10 to 2018-19 was approved by the corporate and efficient government committee on 30 September 2009, outlining proposals to address the forecast budget deficit of £8.7 million in 2010-11, £21.4 million in 2011-12 and £34.2 million in 2012-13. The Council therefore faces significant pressures in achieving operational sustainability and financial stability in the current economic climate.

Governance and accountability

In July 2009, the Accounts Commission published their findings in respect of the Controller of Audit's second follow-up audit of Best Value and Community Planning. The Commission criticised the lack of progress made by the Council in demonstrating best value and taking action against the key priorities identified in the previous reports. In addition, the lack of corporate leadership by elected members and the relationship between members and senior management were highlighted as issues affecting the operation and delivery of Council services. The Council has recently revised its Best Value improvement plan in order to incorporate these findings. It is essential that the Council starts to deliver significant progress against its improvement plan in the near future.

The statement on internal control discloses the weaknesses in respect of Best Value and Community Planning. The content of the statement is consistent with our understanding of the Council.

Executive summary (continued)

Performance management

The Council was subject to a number of scrutiny inspections during the year. The Social Work Inspection Agency ("SWIA") rated the Council's social work service as `good' in nine out of ten of its categories of service, with the exception of delivery of key processes which was rated adequate. HM Inspectorate of Education ("HMIE") published its report on the education department, which was graded `very good' in three aspects of service and `good' in all others. The Scottish Housing Regulator published its findings from its interim inspection during the year. The Regulator continues to express concern over the challenge facing the Council to improve its housing service.

Performance in statutory performance indicators improved by more than 5% in 25 indicators, and of these, three improved by more than 20%. However, 16 indicators experienced a decline in performance of more than 5%, with four of these declining by more than 20%.

Scope

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

The Accounts Commission appointed KPMG LLP as auditors of West Dunbartonshire Council ("the Council") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2006-07 to 2010-11, inclusive. This document summarises our responsibilities as external auditors for the year ended 31 March 2009 and our approach to issues impacting the Council's activities in that year.

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ("APB") and the wider responsibilities embodied in Audit Scotland's *Code of Audit Practice* ("the *Code*"). Under this *Code* auditors address and comment upon a number of objectives, together with complying with a number of obligations. The *Code* also places a number of obligations on the Council.

Auditors' objectives in relation to the *Code* are to:

- provide an opinion whether the financial statements present a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice ("SORP 2008") and whether the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- review and report on the Council's grant claims and other returns submitted by the Council, to the extent required by other authorities, and in accordance with any guidance issued by Audit Scotland.
- review and report on (as required by relevant legislation, the *Code* and any guidance issued by Audit Scotland):
  - the Council's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; their financial position.
  - other aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.
  - the Council's arrangements for preparing and publishing statutory performance indicators.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview discussed with the audit and performance review committee on 25 March 2009.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and significant accounting matters and decisions;
- **use of resources**, including financial outturn for the year ended 31 March 2009 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management, systems of internal control, partnership working and our consideration of the work of internal audit; and
- **performance management arrangements.**

Scope (continued)

This report is addressed to members and the Controller of Audit. It will be published on the Audit Scotland website after consideration by the Council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and is also presented to the Local Government and Communities Committee of the Scottish Parliament.

Best Value

The Local Government in Scotland Act 2003 introduced statutory duties for local authorities relating to Best Value and community planning. At the request of the Accounts Commission, the Council was the subject of a follow-up audit Best Value review during 2008-09 and we have reflected on its findings in this report.

Responsibilities of the Council and its auditors

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

Action plan

This report includes an action plan containing areas for development or improvement identified during our financial statements audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2008-09 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during the course of our work. In particular we wish to thank the executive director of corporate services, the head of finance and ICT, and the manager of accounting for their assistance during the audit.

Financial Statements

We have issued an unqualified opinion on the financial statements of West Dunbartonshire Council and its group.

Following a series of Council decisions in early 2008-09, the Council imposed the single status agreement on its staff from 1 March 2009. This was as a result of a failure to reach a collective agreement. As a result the Council entered into further equal pay compromise agreements totalling £7.7 million for staff who had previously settled their claims up to 1 April 2006. The Council also made realignment payments to all staff accepting the revised pay and grading structure. These totalled £6.4 million during the year.

Government grants due of £1.3 million were accounted for twice in the unaudited financial statements, which was not identified by the Council until after the unaudited financial statements were submitted to the Controller of Audit on 30 June 2009. The impact of the adjustment was to reduce the general fund balance in the audited accounts by £1.3 million. However, there was no impact on the budget for 2009-10 as the double-counting of income had only happened within the financial statements preparation process.

The council took the decision to re-schedule debt in year, to reduce the cost of borrowing. This resulted in a large proportion of borrowings being reclassified between long-term and short-term on the balance sheet, leading to an overall current liability position. The financial statements acknowledge this position and clarification over the terms of this borrowings have been disclosed in the notes to the financial statements.

The Council includes the results of the Strathclyde Police Joint Board as an associate within its group accounts. The police accounts were qualified in respect of a failure to comply with statutory provisions in respect of removing the FRS 17 based costs from the general fund in respect of the new police pension scheme established with effect from 6 April 2006 by The Police Pensions (Scotland) Regulations 2007. As the associates reserves are consolidated as a single line in the group accounts, however, there was no impact or overstatement in the Council's group accounts as a result of this technical qualification.

CIPFA / LASAAC has now issued the IFRS-based code of practice on local authority accounting update and exposure draft. We have identified some key issues in preparing for IFRS which the Council should consider. Management has appointed advisers and put in place a timetable for the conversion to IFRS.

Recommendations

The action plan includes recommendations to improve the following areas.

Area for development	Action plan reference
Management should consider the implementation of balance sheet monitoring as part of their budgetary control process. In doing so, management will have greater awareness of the position of the Council through regular review. This will also prevent the identification of errors in budgetary reports only being identified at the year end.	One
It is recommended that a plan and timetable is established to ensure the effective implementation of International Financial Reporting Standards. This will allow the consideration of the impact of key accounting judgements on a timely basis. This will ensure that expert advice can be taken as necessary and that deadlines are achieved.	Two

Audit opinion and key issues

Reporting arrangements and timetable

In accordance with management's timetable and the audit plan overview discussed with the audit committee on 25 March 2009, unaudited financial statements were available for audit on 30 June 2009. The financial statements were complete at that time, allowing the financial statements to be made available for public inspection.

Audit opinion

We have given an unqualified opinion that the financial statements of the Council for 2008-09 give a true and fair view of the financial position of the Council and its group as at 31 March 2009 and its income and expenditure and income for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

In 2008-09 the wording in the audit opinion for local authorities in Scotland changed from a `presents fairly' to a `true and fair' basis. There was no impact on our work as a result of this change. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP). No major changes were introduced by the 2008 SORP.

We reported in our ISA 260 `Report to those charged with governance' that the working papers to support the 2008-09 accounts had generally improved since last year. We did, however, identify that it was important that management review the timetable for preparation of the unaudited accounts to ensure there is sufficient time for comprehensive internal review, and for all supporting workpapers to be collated and checked prior to submission of the unaudited financial statements.

We continue to work in partnership with the finance team to improve the efficiency of the process for the preparation and audit of the financial statements. In particular, it would be helpful to advance the timetable for receipt of audited information from group companies so that the consolidation of information in the council's group accounts can be completed earlier. This would also help the council produce their whole of government accounts sooner.

Group accounts

The council has interests in five other entities, all of which are treated as associates and therefore their results have been included in the group accounts. Audit assurances were obtained through unaudited accounts supplemented by confirmation from audited bodies of adjustments to their accounts which had been agreed with their auditors. This provided useful context to enable us to conclude our audit of the group.

We highlight the following issues:

- all bodies within the group received unqualified audit opinion from their external auditors, with the exception of Strathclyde Police Joint Board. The qualification of the police accounts was in respect of a failure to comply with statutory provisions in respect of removing the FRS 17 based costs from the general fund in respect of the new police pension scheme established with effect from 6 April 2006 by The Police Pensions (Scotland) Regulations 2007. As the associates reserves are consolidated as a single line in the group accounts, however, there was no impact or overstatement in the Council's group accounts as a result of this technical qualification; and
- in accordance with recommended accounting practice it has been confirmed that key accounting policies for component bodies such as pension costs and the valuation of fixed assets have been aligned with the council.

Audit opinion and key issues

The overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets of the Council by £193.3 million, mainly because of pension liabilities. However, all group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

Implementation of single status

We reported in our 2007-08 annual audit report that the Council had taken decisions subsequent to the 31 March 2008 year end to impose the single status agreement on its workforce, with effect from 1 March 2009. This was completed during the year.

In the financial year to 31 March 2009, the Council agreed payments of £7.7 million (including tax costs) in respect of additional equal pay compensation payments to staff. These payments arose from the need to reach compromise agreements with those staff whose previous compromise agreements had been made to 1 April 2006, the expected implementation date of the single status agreement.

In addition, as part of the decision to impose settlement, the Council approved realignment payments to all staff accepting the revised terms and conditions as of 1 March 2009. The basis for the payment was that expectations had previously been raised with staff that revised pay and grading structure and terms and conditions would be backdated to 1 April 2006, even if agreement was only reached after this date. However, by moving to impose the single status agreement, the Council had determined that there was no basis to back pay the settlement as it is not possible to terminate and re-employ a member of staff retrospectively.

We have considered the rationale and basis for these payments, taking into consideration the Council's statutory obligations in respect of Best Value. Discussions with the head of legal services confirmed that the Council had undertaken consideration of its obligations in approving realignment payments to its staff. The Local Government Employers E Guide No 3 on Variation of Contracts provides advice that `*consideration should be given to providing incentives, e.g. a one-off cash payment to employees to agree to the changes. The case of Newbold V Leicester City Council 1991 confirms that this is competent providing it is not irrationally generous, and confirms that factors to be considered are long and short term savings as well as the preservation of good industrial relations*.' We are therefore satisfied that the Council had established a reasonable basis for the one-off realignment payments, and that at a level £1,500 pro-rata per full time equivalent employee, these were not irrationally generous.

Realignment payments totalling £6.4 million were therefore paid in the year. Including the additional compromise agreements entered into, the total cost to the Council of imposing the single status agreement was not in excess of the costs forecast if single status had been implemented through joint agreement.

The Council has an outstanding provision at the balance sheet date of £3.4 million for amounts relating to equal pay and related appeals and single status implementation.

Ongoing costs in respect of the revised pay and grading structure continue to represent a significant financial pressure for the Council. As part of the decision-making process for implementation of the single status agreement during 2008-09, we note that the Council took a decision to designate £1.0 million of its reserves to meet ongoing costs in respect of single status. The designation of reserves does not meet the requirements of Financial Reporting Standard 12 for recognition in the financial statements as this represents a budgetary decision of the Council, and not a decision where there is a legal or statutory obligation as a result of past events.

Audit opinion and key issues

Accounting for ring-fenced funding

The Scottish Government reduced the number of ring-fenced grants for 2008-09, with former ring-fenced governments grants rolled up in to the overall government grant settlement for the Council. Government grants due of £1.319 million were accounted for twice in the unaudited financial statements, which was not identified by the Council until after the unaudited financial statements were submitted to the Controller of Audit on the 30 June 2009. Following identification, the matter was reported internally by finance in early July.

The impact of the adjustment was to reduce the general fund balance in the audited accounts by £1.319 million. However, there was no impact on the budget for 2009-10 as the double-counting of income had only happened within the financial statements preparation process. There is, however, a risk that without regular monitoring of the balance sheet position, particularly in respect of debtor balances due, that the Council's financial position could be masked by future similar errors. We understand that an action plan which addresses this recommendation was initiated by finance during the audit process.

Recommendation one

Valuation of fixed assets and capital accounting

In response to the current economic climate, we reviewed the year end valuations of operational fixed assets, as well as surplus assets held for sale and investment properties. Impairment charges totalling £8.929 million were processed against investment properties and assets held for sale.

Council house dwellings were revalued in 2008-09 as part of the five year rolling programme of valuations. This resulted in a significant increase in the carrying value of council houses. Combined with capital additions in the year, £90.198 million was added to the value of housing stock. The method of fixed asset valuation under IFRS is likely to have a large impact on the revaluation going forward, specifically the valuation of council housing, and the Council should consider this impact at an early stage.

Recommendation two

Trust funds and common good funds

Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010-11. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.

In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners on the common good fund. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009. A separate account for the common good fund is disclosed in the Council's financial statements and a separate fixed asset register is also maintained.

Legality

Through our planned audit work we consider the legality of the council's financial transactions. We have considered the processes in place at the council, through its scheme of delegation and the role of the monitoring officer, to ensure that all decisions taken in committee are in accordance with the standing orders of the council and its wider statutory powers. In addition the executive director of corporate services confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no issues arising from our audit surrounding the council's compliance with laws and regulations which require to be brought to members' attention.

Implementation of International Financial Reporting Standards

In our audit plan overview presented to the audit committee on 25 March 2009 we explained that in October 2008 CIPFA/LASAAC announced a new governance framework for the Code of Practice on Local Authority Accounting which will require financial statements to be prepared under International Financial Reporting Standards ("IFRS") for the first time in 2010-11.

CIPFA/LASAAC has now also issued the IFRS-based code of practice on local authority accounting – update 3 and an exposure draft for comment. On 23 April 2009, CIPFA/LAAP issued a bulletin which set out some key issues in respect of preparing for IFRS which advised that bodies reporting under the local government framework:

- reassess their PFI schemes in time for the revised accounting treatment to be adopted in their 2009-10 financial statements. This will involve restating the 2008-09 financial statements, and authorities may find that collecting the required information in parallel with that required to close the 2008-09 financial statements simplifies the process.
- collect information on untaken annual leave and other short-term employee benefits at 31 March 2009 as part of their 2008-09 close-down arrangements.
- collect the necessary information to allow leases to be split between land and buildings as soon as possible, bearing in mind that non-finance staff (e.g. valuers and legal staff) are likely to have an essential role in this process.
- discuss with their valuers which assets are likely to have a material difference between their current carrying value and their fair value, and ensure a programme to identify those assets is in place. It should be noted that the draft Code of Practice on Local Authority Accounting does not require separate components to be identified in the opening IFRS balance sheet and comparative figures (except where authorities have already separately identified components under the SORP). Separate components will need to be identified, where these are significant and have a different asset life to the rest of the asset, as assets and components are acquired, enhanced and revalued from 1 April 2010 onwards.

Date	Publications
3 March 2009	CIPFA/LAAP bulletin 80 sets out a detailed project plan and timetable for the implementation of IFRS.
23 April 2009	CIPFA/LAAP bulletin 81 on closure of 2008-09 accounts includes advice on preparing for implementation of IFRS
11 May 2009	CIPFA/LASAAC issued IFRS-based code of practice on local authority accounting update 3 together with draft code in respect of a number of accounting areas.
16 July 2009	CIPFA/LASAAC issued IFRS-based code of practice on local authority accounting – exposure draft

Management have put in place a plan and timetable to ensure the Council is ready for the conversion to IFRS and that key accounting judgements are considered early. Management should continue to strive to achieve this timetable to ensure that expert advice can be taken as necessary and that any deadlines are achieved.

Recommendation two

Use of resources

The Council faces severe financial pressures. The result for the year was to increase the general fund balance by £1.7 million to £5.0 million (2008: £3.3 million). However, £4.8 million of the Council's reserves are earmarked for specific purposes, leaving the Council with free reserves of only £258,000. This remains significantly below the Council's approved prudential level target of £4.9 million.

The result for the year reduced the free reserves available to the Council by £2.0 million. This was as a result of three significant adverse movements which totalled £2.6 million which were not anticipated within the budget. Excluding these items, the budgeted surplus for the year was £436,000 and the Council returned an actual surplus of £554,000. With such a low level of free reserves, however, the Council is exposed to any further unidentified costs and may thus have difficulty in achieving its objectives in 2009-10 and beyond.

The general services revenue budget has been agreed for 2009-10 at £243.9 million. The Council considered the impact of the current economic climate as part of the budget setting process. The financial strategy for 2009-10 to 2018-19 was approved by the corporate and efficient government committee on 30 September 2009, outlining proposals to address the forecast budget deficit of £8.7 million in 2010-11, £21.4 million in 2011-12 and £34.2 million in 2012-13. The Council therefore faces significant pressures in achieving operational sustainability and financial stability in the current economic climate.

Total expenditure in respect of the capital programme was £31.9 million, which was funded through capital receipts, government grants and contributions from revenue.

The Housing revenue account of the Council returned a surplus of £301,000 in 2008-09. The prudential reserves policy sets the target level of reserves for 2009-10 at £627,000, and the Council is in line with this target as the un-earmarked balance available for future use is £1.5million.

Significant trading operations, housing maintenance and grounds maintenance and street cleaning returned a surplus for the year of £1.6 million. Thereby the Council has met the requirement for significant trading operations revenue to be not less than expenditure over a three year rolling period.

The Council was in breach of its self imposed prudential indicators during 2008-09. The upper limit of fixed rate debt falling due within two years was set at 10%, however as a result of a debt rescheduling exercise the indicator peaked at 11.6%. This was reported to Council at the earliest opportunity after the breach and a revised indicator level of 15% set in line with other local authority practice.

Use of resources

Recommendations

The action plan includes recommendations to improve the following areas.

Area for development	Action plan reference
The Council needs to make significant savings and recurring efficiencies in the current and coming years in order to achieve a balanced budget. While the approval of a financial strategy is a positive step in achieving this, it will be essential for prompt decisions and action to be taken to address the major financial challenges facing the Council.	Three
Given the current economic climate there is an increased risk that debtors will not be able to honour their debt reschedule payments. A review of bad debt collection methods should be undertaken by the Council to identify different ways that the Council can collect sums owed by sundry debtors. The Council should consider ways it can collect this debt through payment terms, discounts or the implementation of direct debts.	Four
Given the very low level of free reserves, and the impact of the revised funding model on the Council's previously approved target level of prudential reserves, a needs assessment of target free reserves should be undertaken and a strategy approved by members to achieve this.	Five
It is recommended that where a treasury management decision will be made which has the potential to breach the Council's approved prudential indicators, that wherever possible, approval of this is obtained in advance through reporting to the relevant committee or Council.	Six

Financial management

Financial position

The Council's general services budget was approved by elected members on 14 February 2008 as £358.3 million of which £132.9 million was financed by income from council services, £222.460 million by revenue support grant, non-domestic rates and council tax, and the remaining £1.03 million by trading operations surplus. The actual general services position is monitored throughout the year in order to manage any significant under / over spends by departmental committees and consolidated in reporting to the Council.

Income and Expenditure account	£'000
Net operating expenditure	**230,660**
Income: funding from revenue support grant, council tax and non-domestic rates	(223,168)
(Surplus) / deficit to be met from balance brought forward	**7,492**
Net additional amount required by statute to be debited or credited to the general fund balance for the year	(9,220)
Result for the year: decrease in general fund balance for the year	**(1,728)**
General fund balance brought forward	(3,308)
General fund balance carried forward	**(5,036)**

Updated financial position	£000'	£'000
Un-earmarked balance at 31 March 2008		2,277
Plus:		
Budget surplus for the year	436	
In year surplus against budget	118	
Less:		
Clydebank re-banding (previous years)	(980)	
Pay modernisation	(1,000)	
Revision of bad debt provision	(593)	
Overall deficit against budget		(2,019)
Un-earmarked balance at 31 March 2009		**258**

While the in-year surplus against the budget was achieved through strict expenditure control and close budget monitoring, three significant and un-budgeted additional cost pressures resulted in the decrease in the Council's un-earmarked balances. As a result of a significant number of successful appeals against council tax banding within Clydebank, the Council was required to refund council tax payments back to 1993 in appropriate cases. This resulted in an additional cost to the Council of £0.980 million.

As part of the Council decisions to impose the single status agreement during the year, Council approved the ear-marking of £1.0 million to be used to meet future and unforeseen costs. This was not originally budgeted for and has therefore reduced the uncommitted reserves available. This sum is independent of the provision in the balance sheet for costs to which the Council is already committed.

Review of bad debt collection levels during the year also resulted in a significant increase in the overall level of provision against all Council debtors. Given the current economic climate, it is essential that a review of debt collection methods is conducted to ensure that the Council maximises the cash due to it.

Recommendation four

The latest budget monitoring reports to period five for 2009-10 indicate an adverse variance of £404,000. Corrective action has been approved in terms of a freeze on non-essential spending and recruitment, however, without delivery of effective and prompt action, there is a risk that the Council will be in a negative un-earmarked reserves position at 31 March 2010.

Recommendation three

Financial management

Reserves

The total level of reserves held by Council is £5.0 million, however, this includes earmarked reserves of £4.8 million in relation to single status implementation and other ring-fenced grant purposes as outlined in the table below. The level of free reserves at £258,000 is significantly less than the Council's target prudential level of £4.9 million. Given that free reserves exist to protect the Council against the type of significant un-budgeted expenditure experienced during 2008-09, the very low level of free reserves exposes the Council to risk against any future unforeseen costs. It is therefore essential that the Council take action to restore its free reserves position.

Earmarked reserves	£000's
Single status costs in 2009-10	3,000
Council approved additional earmarking for single status	1,000
Schools PPP project through revenue support grant	495
Other	283
Total earmarked reserves at 31 March 2009	**4,778**

A briefing paper was presented to the corporate management team in August 2009. This paper advises members that the Council has established a contingency fund of £550,000 through debt rescheduling which could be released to free reserves. In addition, the requirement to hold the £1.0 million earmarked for additional pay modernisation costs separately from the main budget process may be subject to further Council review. In addition, the paper notes that the 2009-10 budget was set to include a £400,000 transfer to reserves to help restore the level of balances held.

Discussion at the audit and performance review committee highlighted that with the removal of ring-fenced funding, the Council's approved level of prudential reserves, at 2% of net expenditure, has increased as a result of funding being included within revenue support grant. Taken together, it is essential that an early review of the required target level of free balances is undertaken, and a strategy approved to achieve this.

Recommendation five

The Council carries a number of other reserves, including a capital fund and capital repairs and renewals fund, plus the usable capital receipts account. A total of £6.4 million is held within the capital funds, and earmarked for specific purposes within the schools regeneration project. £8.5 million of usable capital receipts have been carried forward to apply to future capital expenditure, with £2.5 million applied to fund expenditure during 2008-09.

Housing revenue account

The Council's HRA returned a surplus of £301,000. The 2008-09 budget in November 2007 the estimated surplus was £400,000 including utilisation of £600,000 of HRA funds of 2007-08. The un-earmarked balance on the housing revenue account fund at 31 March 2009 was £1.5 million, significantly in excess of its prudential target level of £627,000.

Rent arrears as at 31 March 2009 totalled £2.4 million and represent 8.4% of gross rental income for the year. A bad debt provision of £1.6 million has been set, with former tenant arrears provided against at 80% regardless of age.

Financial management

Significant trading operations

Local authorities 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 2009 are shown below. This demonstrates that the Council has achieved its statutory objective for both of its significant trading operations.

Significant trading operations surpluses	2006-07 £000	2007-08 £000	2008-09 £000	3-year cumulative £000
Housing maintenance	1,235	566	1,211	3,012
Grounds maintenance and street cleaning	478	799	358	1,635

Capital plan

Total expenditure in support of the capital programme amounted to £31.9 million. The programme was funded by capital receipts, government grants and contributions from revenue. Major capital works undertaken in year included work on the schools refurbishment programme, major adaptations to Dumbarton Academy, road works, investment in Clydebank rebuilt and adaption of Council buildings to ensure compliance with fire safety regulations.

General fund services capital expenditure	2008-09 Budget £000	2008-09 Actual £000	2009-10 Estimate £000
Expenditure	26,767	14,092	25,732
Financed by:			
Borrowing	10,339	7,448	9,787
Capital grants	6,246	6,644	7,276
Capital receipts	10,182	-	8,669
Contributions to Capital Fund	-	-	-
	–	–	–

Housing revenue account capital expenditure	2008-09 Budget £000	2008-09 Actual £000	2009-10 Estimate £000
Expenditure	16,902	17,805	17,897
Financed by:			
Borrowing	11,687	12,413	15,060
Capital grants	-	140	-
Capital receipts	5,215	5,252	2,837
Contributions to Capital Fund	-	-	-
	–	–	–

The 2008-09 general fund services capital plan therefore saw considerable underspend from the time the original budget was set. This was due in the main to slippage and delays in realisation of capital receipts. The Council is expecting that these receipts will be received during 2009-10 and the capital budget has been approved accordingly. The budget monitoring report for the first quarter shows a revised budget of £29.6 million, following the completion of the 2008-09 outturn analysis.

Financial management

Treasury management

The Council approved its prudential indicators and treasury management strategy for 2009-10 on 25 February 2009. The report noted an increase in net financing required over the 2008-09 level, mainly in respect of the housing revenue account financing. This is due to the increased expenditure required to bring stock up to the Scottish Housing Quality Standard by 2015, and the anticipated lower level of capital receipts forecast as a result of right to buy sales.

Increased limits for both the authorised limit and operational boundary for borrowing were approved to take account of the Council's anticipated borrowing levels over the period to 2011-12.

In addition to monitoring compliance with the Prudential Code, the Council approved a set of treasury management indicators at the Council meeting on 1 April 2004. These set limits on:

- fixed and variable rate exposures;
- the maturity of fixed rate borrowing; and
- total principal sums invested for periods longer than 364 days.

On 19 January 2009, following advice from the Council's Treasury Advisers, five Public Works Loan Board loans - totalling £24.962m, with an average interest of 4.00% - were replaced with a one year PWLB loan at 1.17%. Estimated savings of £1.075m, including a discount of £0.373m, are anticipated over the next year. This rescheduling exercise resulted in a breach in the prudential indicator for maturity structure of fixed interest rate borrowing. The Council is responsible for setting its own indicators taking account of risk and the upper limit of fixed rate debt falling due for refinancing within two years as reported to Council in the Treasury Management Strategy for 2008/09 was 10%. The actual indicator following the rescheduling is currently 11.6%. The breach was reported to Council at the earliest opportunity afterwards and Council approved a revision to this indicator from 2009-10 to 15%. This was based on a comparison with other local authority practice which indicated that 15% was a commonly applied indicator.

Recommendation six

The Council approved a proposal, on 6 August 2009, to submit a bid to the Scottish Government for 66.66% of the funding towards the new Dumbarton Academy. The estimated total cost of the project is £31 million. The remaining funding required, of approximately £10 million, will be financed by the Council. The Council is exploring possible payment strategies which include funding through capital receipts, Public Works Loan Board, market loans or internal/temporary borrowing. This bid has recently been approved.

Financial planning

A general fund revenue budget of £243.9 million has been agreed for 2009-10 and performance is monitored bi-monthly by the committees across the Council, following which they are consolidated and reported to full Council. The strategic finance working group, which includes elected members and officers, has already met to consider the pressures facing the Council for 2010-11 budget setting and beyond.

Current economic climate

The Council has considered the impact of the current economic climate and, for the first time, the Council has prepared a ten year financial strategy which was approved by the corporate and efficient government committee on 30 September 2009. The financial strategy for 2009-10 to 2018-19 aims to underpin the delivery of the vision, priorities and objectives identified in the corporate plan. The plan highlights the challenging financial pressures that are expected in future years as a growing budget gap exists.

Financial management (continued)

The updated forecast position reported to the strategic finance working group on 25 August 2009 identified budget gaps of £8.7 million for 2010-11, £21.4 million for 2011-12, and £34.2 million for 2012-13. Cumulatively this represents a significant level of recurring savings and efficiencies which the Council requires to make.

The forecast position arises from a number of assumptions as well as identified financial and operational pressures including:

- an anticipated reduction in the future funding settlements;
- budget pressures from residential school placement numbers;
- increased energy costs, as well as increases in waste management costs;
- reductions in commercial rental income as a result of the economic downturn; and
- increased borrowing costs to fund the Council's share of the new Dumbarton Academy.

To address each of these pressures, a number of actions were proposed to ensure the longer term financial and operational capability of the organisation in the current economic environment. These included:

- current review of the schools estate requirement;
- consideration of care provisions needs;
- active engagement with eight other local authorities on the shared service agenda, and other partnership working initiatives;
- investigating and developing charges policy for services provided by the Council; and
- structure review of Council operations to be considered to identify further efficiency savings across the Council.

Recommendation three

Annual efficiency statement

The statement for 2008-09 was presented to the corporate and efficient governance committee on 30 September 2009. It reported £2.5m of cashable savings and £653,000 of non cashable savings. Many of these savings were planned within the corporate budget process and made a major contribution towards allowing the Council to absorb a number of budget pressures.

Governance and accountability

In July 2009, the Accounts Commission published their findings in respect of the Controller of Audit's second follow-up audit of Best Value and Community Planning. The Commission criticised the lack of progress made by the Council in demonstrating best value and taking action against the key priorities identified in the previous reports. In addition, the lack of corporate leadership by elected members and the relationship between members and senior management were highlighted as issues affecting the operation and delivery of Council services. The Council has recently revised its Best Value improvement plan in order to incorporate these findings. It is essential that the Council starts to deliver significant progress against its improvement plan in the near future.

The statement on internal control discloses the weaknesses in respect of Best Value and Community Planning. The content of the statement is consistent with our understanding of the Council.

Internal audit completed their agreed plan for the year and concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year to 31 March 2009.

Our testing, combined with that of internal audit, over the design and operation of controls over significant risk points confirms that, with the exception of some minor weaknesses, controls are designed appropriately and operating effectively.

The Council has a fraud confidentiality policy which sets out what to do if fraud or any other irregularity is suspected. There were 31 whistle blowing allegations which were investigated by internal audit and satisfactorily resolved. There was no material instances of fraud reported during 2008-09.

Internal audit reported on their investigation into a number of National Fraud Initiative matches in the year and concluded that there were no instances of fraud or error.

Recommendations

The action plan includes a recommendation to improve the following areas.

Area for development	Action plan reference
Following the publication of the Best Value follow-up report, and the findings of the Accounts Commission, it is essential that the Council take action to ensure that the findings are addressed with great urgency. Without this, the Council will continue to be unable to demonstrate Best Value in accordance with its statutory requirements.	Seven

Corporate governance arrangements

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 its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on corporate governance arrangements as they relate to:

- the Council's review 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.

Governance framework

The Council is currently lead by a minority Scottish National Party (SNP) administration. The Council has 22 elected members, political action during 2008-09 resulted in two Labour members becoming independent, altering the political balance of the Council and ensuring the SNP administration remained in power.

The elected members are supported by the Chief executive and his corporate management team, which includes executive directors of the four departments within the Council (housing, environment & economic development; corporate services; education & life long learning and social work & health). The Best Value and Community Planning report, published by Audit Scotland in July 2009, reported that the Council has enhanced its strategic capacity by revising structures and appointing new senior managers. The improvement and efficiency executive, a scrutiny panel which includes eight elected members is responsible for monitoring progress against Best Value.

The financial regulations include guidance on how to contribute to a positive control environment, procedures for identifying risks and responsibilities for establishing adequate controls and procedures to mitigate those risks.

The council also has the following committees:

- audit performance and review committee;
- corporate services committee;
- children's services committee;
- social justice committee;
- tendering committee; and
- community safety and environment committee.

The Best Value Improvement Plan prepared by the Council highlights the need to review the structure of the Council and working groups reporting directly to the improvement and efficiency executive to ensure the objectives of the Council are achieved.

Corporate governance arrangements

Best Value follow-up report

The Local Government in Scotland Act (2003) introduced statutory duties relating to Best Value and Community Planning. The first audit of Best Value and Community Planning for the Council was carried out in 2006. The Accounts Commission found at that time that the Council was not in a position to deliver best value. The Controller of Audit made a further report on the Council's progress in implementing its statutory duties as at 31 July 2007. The Commission at that time urged the Council to move forward as quickly as possible on areas where limited progress had been made. The Commission also requested a further follow-up report from the Controller of Audit 18 months from the publication of its findings in January 2008.

The second follow-up audit was undertaken in March 2009, jointly between ourselves and Audit Scotland. Based on the Controller of Audit report, the Commission published their findings in July 2009. Their findings recognised that:

- a number of services, including education, social work and benefits administration continued to demonstrate good levels of performance; and
- some progress had been made in improved corporate working and increased capacity at senior officer level, demonstrating the positive commitment of Council staff.

However, it was found that the Council had not made sufficient progress against the key improvement priorities identified in the 2008 follow-up report. The Commission also found that

"the relationship between elected members and the nature of political conflict among elected members are having a negative effect on the operation and development of the Council. Elected members across the political spectrum have not demonstrated the corporate leadership required. There has also been limited progress in developing working relationships between elected members and senior officers."

The Commission recommended as a matter of urgency that the Council seeks appropriate external support from the local government community and elsewhere to address these significant problems. Without this, the Council will not achieve the required shift in attitude and focus to deliver best value.

As part of the stream-lining of scrutiny that is being undertaken, we have been working with Audit Scotland and other scrutiny bodies to perform a shared risk assessment of the Council. Based on elements of joint working identified as a result of the risk assessment, a further progress report to be made from the Controller of Audit will be required in due course.

The Council has responded to the Accounts Commission's July 2009 findings through a report to Council on 30 September 2009. This report recognises that the existing structure for improvement, through the Improvement and Efficiency Executive ("I&EE") was not operating as intended, with the I&EE acting more as a formal committee than a working group providing strategic direction and undertaking self-assessment.

The report to Council approved a further stream-lining of the improvement arrangements. Four new workstreams, namely strategic leadership, organisational culture, competitiveness, and community engagement, will be aligned with the key findings and priorities of the Accounts Commission reports. These will replace the previous structures, with the aim of reducing the number of sub-groups operating on improvement activity across the Council, and bringing much of the improvement activity into existing departmental structures.

Corporate governance arrangements (continued)

In addition, the I&EE will comprise elected members plus the corporate management team to allow for improved dialogue between them. Meetings are to be held monthly instead of quarterly to emphasise the role of the I&EE in driving forward improvement than simple reviewing reports on progress. It is intended that some meetings of the I&EE will be facilitated by either COSLA or the Improvement Service in order enhance the strategic challenge and scrutiny roles of the I&EE. The report notes that it is essential that elected members attend the I&EE meetings on a regular basis.

While we are not in a position to comment on the operation of these revised structures, we believe that the approved revisions should provide the Council with a more-focussed mechanism to take forward change and improvement.

It is essential, however, that the Council starts to deliver significant progress against its improvement plan in the near future.

Recommendation seven

Standards of conduct

The Best Value follow-up report highlighted that the elected members had not always displayed high standard of conduct. During the year, the Standards Commission suspended one elected member for nine months. This is the second suspension from the Council for this member. The basis for suspension was on contravention of the Councillor's Code of Conduct in a number of areas, the key one being the principle of respect.

The Council did approve a report on February 2009 based on revised ways of working to improve member / officer relationships. This was the culmination of a slow process to get the principles of the report agreed, from its initial draft in November 2007. It will take time before the impact of this report can be assessed on the culture and general conduct of member / officer relations.

Systems of internal control

Statement of systems of internal financial control

The statement for 2008-09 provides details of the internal control environment and risk management and control framework. Management highlights that the system of internal control is based on a framework of guidance and regular management information, financial regulations, administrative and authorisation procedures, management supervision and a system of delegation and accountability. The statement identifies that it is informed by officers throughout the Council, the audit performance and review as the scrutiny committee and by the work of internal and external audit. The statement of the system of internal financial control highlights that specific weaknesses have been identified through the audit of Best Value and Community Planning.

Internal audit

Our planned audit approach seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. In accordance with our audit plan overview we placed reliance on the following areas of work audited internally;

- Housing benefits;
- National non-domestic rates;
- Housing benefits and council tax subsidy claim audit;
- Council tax; and
- National fraud initiative.

Corporate governance arrangements (continued)

Internal audit's annual report was submitted to the audit and performance and review committee on 23 September 2009. In respect of the Council's control environment, the 2008-09 annual assurance statement stated that "*reasonable assurance can be placed on the system of internal financial control*".

Internal controls

Our interim management report submitted to the audit and standards committee on 26 May 2009 reported that:

- in respect of organisation-wide controls:
  - nine previously made IT recommendations were either partially implemented or had yet to be implemented; and
  - five new recommendations were made.
- in respect of key financial controls:
  - we made 11 recommendations – the key theme of our recommendations focused on the need for management to make improvements in the evidencing of management review of controls, none of which were classified as significant.

Our testing, combined with that of internal audit, over the design and operation of controls over significant risk points confirms that, with the exception of some minor weaknesses, controls are designed appropriately and operating effectively.

Corporate risk register

The corporate risk register was updated in October 2008 and is regularly updated by responsible officers forming part of the risk management group. Updates are presented to the corporate management team and audit and performance review committee. The risk management strategy aims to ensure that risks are considered at all levels across the Council with service and operational risk registers feeding into the corporate risk register. Risks and actions are recorded on the Covalent performance management system to allow section heads and managers with access to performance indicators, action plans and associated risks in one system.

Senior officer retirement

Two members of the corporate management team, the chief executive and the executive director of social work and health, sought early retirement during the summer of 2009. Early retirement and severance packages were approved by the remuneration committee and offered to both officers. The chief executive declined the severance package, opting instead to continue in his role of lead officer in the Council. The executive director of social work and health accepted the severance package and will leave his post in 2009-10.

We will consider the decision making process in respect of the proposed packages offered to both officers as part of our 2009-10 audit.

Prevention and detection of fraud and irregularity

The Council has a whistle blowing hotline, with calls received by internal audit. Any significant frauds arising are reported to the audit and performance review committee, as well as reporting to the corporate management team. During 2008-09 there were 31 whistle blowing allegations which were investigated by internal audit and / or departments. One allegation investigated identified that an employee was working for another employer whilst on sick leave from the Council, the case has been reported to Strathclyde Police and the Department for Work and Pensions. All other whistle blowing allegations have been satisfactorily resolved.

Corporate governance arrangements (continued)

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.

We monitored the Council's involvement in NFI during the course of the 2008-09 audit, and updated our understanding of the status of investigations into data matches as part of our interim audit visit in early 2009. Our responsibilities in relation to the NFI exercise include monitoring the Council's progress during the year and sample testing of cleared matches. 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.

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. 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, including comment also in our 2007-08 annual audit report. We noted at that time that due to the nature of the development, there remained the potential for significant ongoing financial risk to the Council and we recommended that regular updates to members were made on the progress of the development.

We note that the housing, environment and economic development committee have continued to be presented with update reports during 2008-09. On 29 April 2009, the committee approved release of a development brief for the existing Play Drome site, with a closing date for bid proposals of July 2009. The Council has received bids and a formal appraisal process has been developed to allow a clear, transparent and objective appraisal process is in place to assess bids. The review and assessment of bids is ongoing with a decision yet to be taken by the Council on the preferred bidder.

It is important to note, however, that the intended site available to the Council at Queens Quay for a replacement leisure facility is no longer available. This is because the Clydeside Regeneration, the owners of that site, have entered into an alternative binding agreement. While a replacement site at Queens Quay has been identified should appropriate bids be received for the existing Play Drome site, there is a continuing risk of reputational damage to the Council arising from possibly being obliged to withdraw from this project, despite substantial funds already having been invested.

We will continue to monitor the progress of this project during our 2009-10 audit.

Audit Scotland national reports

Audit Scotland National Reports

Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at Council level, as appropriate.

We have provided information to Audit Scotland based on a standard questionnaire which considers how the Council has acted on the findings of the national reports. During 2008-09 we have provided an update in respect of the following national reports:

- impact of the race equality duty;
- impact of the local authority overview report;
- energy efficiency in the public sector; and
- asset management in councils;

Two further reports have now been issued by Audit Scotland which have not been considered by the Council to date. These are:

- drug and alcohol services in Scotland; and
- improving civil contingencies planning.

Asset Management

In 2009, Audit Scotland published *Asset Management in Councils.* The study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them, the Council assets were reported to be in better condition that average with 5% of buildings reported as being in poor condition and with poor suitability. The asset management report also criticises the expenditure on property maintenance, over £136 million, as being reactive rather than planned, it should be noted that the Council are in the top quartile in meeting their target of reactive expenditure against planned. The Council plans to introduce an annual asset management plan, it is intended that the 2010 asset management plan will include actions to achieve the recommendations raised with this report.

Procurement

In conjunction with Council officers, we completed a procurement information return for Audit Scotland as at 30 June 2009. The Council's current corporate procurement strategy was approved in 2005 and pre-dates the McLelland report. Internal audit conducted a review in 2008 of the Council's procurement function. This found that the Council's compliance against the recommendations and practice of the McLelland report were just below national average. The main area for development was against objective seven – performance management.

The Council is looking to refresh and updates its procurement strategy against current practice. The Council is using the Scottish Government's e-Procurement Scotland, as well as other local forms of e-procurement where these are appropriate to the service.

The Council has recently participated in a Scottish Government benchmarking exercise for which it is currently awaiting the results.

Performance

The Council was subject to a number of scrutiny inspections during the year. The Social Work Inspection Agency ("SWIA") rated the Council's social work service as `good' in nine out of ten of its categories of service, with the exception of delivery of key processes which was rated adequate. HM Inspectorate of Education ("HMIE") published its report on the education department, which was graded `very good' in three aspects of service and `good' in all others. The Scottish Housing Regulator published its findings from its interim inspection during the year. The Regulator continues to express concern over the challenge facing the Council to improve its housing service.

We audited the Council's 2008-09 statutory performance indicators submission against the Direction during August 2009. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return. The Accounts Commission Performance Indicator Direction for 2009-10 was issued in December 2008. This has significantly reduced the range of information which it requires councils to report, but with greater emphasis on councils developing further their own performance management indicators. The Council already has in place a number indicators across the Council however the level of reporting on these currently varies.

Performance in statutory performance indicators improved by more than 5% in 25 indicators, and of these, 3 improved by more than 20%. However, 16 indicators experienced a decline in performance of more than 5% , and of these, 4 declined by more than 20%.

Recommendations

The action plan includes a recommendation to improve the following areas.

Area for development	Action plan reference
In response to the Scottish Government announcements in respect of prompt payment of suppliers, it is recommended that the Council review its current practice for payment of supplier invoices to identify areas where improvement can be made.	Eight
It is recommended that the Council develop a consolidated range of performance indicators which will be reported under the revised direction issued by the Accounts Commission, based on the indicators identified within the corporate development plan and at service level.	Nine

Performance management

Performance management

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. During 2008-09, the Council introduced a new performance management tool, which captures all statutory and local performance indicators.

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 2008-09 statutory performance indicators submission against this Direction during August 2009. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return.

Overall ,when comparing performance in 2008-09 with that of the previous year, the Council's performance improved by 5% or more in 25 SPIs with performance declining by 5% or more in 16 indicators. SPIs where performance changed by over 20% in 2008-09 are summarised below:

SPIs where performance has improved by over 20% in 2008-09	2008-09	2007-08	Variance
ASW3: Residential Accommodation Privacy: Rooms with En-suite Facilities – Older People - Voluntary Sector	91.3%	70.8%	20.5%
ASW3: Residential Accommodation Privacy: Rooms with En-suite Facilities – Other People - Voluntary Sector	58.3%	33.3%	25%
PS2: Domestic noise complaints	0.5	0.6	20%
SPIs where performance has declined by over 20% in 2008-09	**2008-09**	**2007-08**	**Variance**
BA1: Gross administration cost per case	£45.81	£37.41	-22.5%
EC7: Residential Accommodation: Staff qualified	51.9%	75%	-23.1%
WM1: Refuse collection: net cost of refuse disposal per premise	£84.38	£56.56	-49.2%
WM2: Refuse collection complaints	44.9	27.0	-66.3%

Performance management

The Statutory performance indicator, regarding the payment of invoices, requires that invoices are paid within 30 days of receipt. The Council currently pays 83.1% of invoices within this time period.

The Scottish Government has set out a target in the Scottish Public Finance Manual to pay supplier invoices within 10 days. Whilst this does not apply directly to the Council, the Scottish Government has encouraged public sector bodies including local authorities to adopt this target. On 10 September, in response to parliamentary questions, the Scottish Secretary of Finance confirmed that all public bodies are being encouraged to adopt this target in as short a timescale as possible.

It is therefore recommended that the Council review its current practice for payment of supplier invoices and that monitoring reports continue to be produced at a departmental level to identify areas where improvements can be made to the Council's performance.

Recommendation eight

Sickness and absence monitoring is also reported as a statutory performance indicator, the average number of working days per employee lost through sickness and absence was 13.6 days, considerably higher than the national average of 9.8 days. The culture of the Council is noted as being a barrier to improving the sickness culture and actions to address this problem are being identified by management of the Council.

The Accounts Commission Performance Indicator Direction for 2009-10, ("the Direction) was issued in December 2008. This has significantly reduced the range of information which it requires councils to report. Instead it seeks to align SPI arrangements with the responsibility authorities have under Best Value for selecting and using performance information to drive continuous improvement in services, and for reporting on those aspects of performance that are of most importance to local communities, to service users and to citizens.

For the period ending 31 March 2010, the Council is required to publish a greater range of information on:

- corporate issues, such as equalities and asset management, and how these impact on

  overall service delivery;
- service cost and overhead management and how this drives more efficient performance; and
- the impact made by front line services and how this relates to the service user and local

  Communities.

In particular, the Commission wants to see a greater understanding of cost information by councils and this being used in performance management and reporting to improve services.

It is recommended that the Council develop a consolidated range of indicators which will be monitored and reported under this Direction. These indicators should be aligned with the Council's internal operational targets and achievement of the aims of the single outcome agreement rather than being compiled as a stand alone exercise at the year end. Whilst we are aware a single performance management and reporting framework is already being developed it is important that publically reportable indicators are identified.

Recommendation nine

Performance management

Housing Benefits

Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Their specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period. The risks to the Council's benefits service were assessed in January 2009 and a detailed report was issued. The council has responded to the risks identified with an action plan. These actions should make a positive contribution to improving the benefits service. Progress against the action plan will be monitored in the next inspection cycle, which starts in 2010.

Education

The HM Inspectorate of Education ("HMIE") performed a review of education functions during 2008-09, and published their report on 23 June 2009. This graded the education department as `very good' in three aspects of service and `good' in all others. The report noted that one of the major issues facing the Council is the decline of school rolls, particularly the low occupancy of primary schools, with the potential to fall further. The Council has been undertaking a detailed consultation exercise in relation to the primary schools estate. Proposals were presented to Council on 30 September 2009 for consideration.

The Council was praised for tackling low literacy levels, the recording and tracing of pupils and increasing poor attainment levels in its most deprived areas. However, more has to be done to increase the attainment of middle and high achievers in all areas and increasing the number of school leavers who go on to positive destinations. A main area of suggested improvement is on the ability to develop partnerships with the local community in order to maximise the resources available. Overall, the HMIE felt that the Council tackled issues imaginatively and successfully.

HMIE also published a follow-through inspection of services to protect children and young people in the Council area. The report noted that the Council had made significant progress against the main points for action in the original 2007 inspection report.

A further report was published on a summary of evaluation of the educational psychology service. The report noted that as a result of the "*very high performance, and the effective leadership of the service*", that no further reports in respect of this inspection would be required.

Social Work

An inspection by the Social Work Inspection Agency ("SWIA") was carried out in 2008-09. Their Performance Inspection Summary, published on 29 April 2009, found the Council enjoyed a very positive response to their service from users, however some carers were less positive. Despite this, the partnership with carers' services was good and the carers' centres were highly regarded. The Council was praised for its high levels of community involvement and for actively trying to engage the community to use services. The strength of multi-agency working was also commented on, although areas for improvement were noted. The Council social work service was found to have strong financial management and budgetholders benefit from good financial support. Overall the social work service was graded as `good' in nine out of ten of its categories of service, with the exception of delivery of key processes which was rated adequate.

Housing

The Scottish Housing Regulator published its findings from its interim inspection during the year. The Regulator continues to express concern over the challenge facing the Council to improve its housing service. The Council remains in the bottom two quartiles for statutory performance indicator performance for eight out of 11 housing performance indicators, although performance has increased by more than ten percent since 2005-06 in four of these indicators.

Appendix one – action plan

Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weakness may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	Management should consider the implementation of balance sheet monitoring as part of their budgetary control process. In doing so, management will have greater awareness of the position of the Council through regular review. This will also prevent the identification of errors in budgetary reports only being identified at the year end. (*Grade one*)	The Council is currently putting in place procedures for quarterly Balance Sheet monitoring and additional review during the year end process.	Manager of Accounting 31 December 2009
2	It is recommended that a plan and timetable is established to ensure the effective implementation of International Financial Reporting Standards. This will allow the consideration of the impact of key accounting judgements on a timely basis. This will ensure that expert advice can be taken as necessary and that deadlines are achieved. (*Grade one*)	The Council has an implementation action plan and is progressing through this with their inter-departmental Working Group, which reports regularly to the corporate management team (CMT), as well as through national partnerships.	Manager of Accounting Ongoing
3	The Council needs to make significant savings and recurring efficiencies over the coming years in order to achieve a balanced budget. While the approval of a financial strategy is a positive step in achieving this, it will be essential for prompt decisions and action to be taken to address the major financial challenges facing the Council. *(Grade one)*	The CMT and the strategic finance working group (SFWG) are working towards identifying savings and efficiencies to service delivery and working practices. Recommendations will thereafter be presented to Council to deliver a balanced budget in the short, medium and longer term.	Executive Director of Corporate Services and Head of Finance and ICT Ongoing
4	Given the current economic climate there is an increased risk that debtors will not be able to honour their debt reschedule payments. A review of bad debt collection methods should be undertaken by the Council to identify different ways that the Council can collect sums owed by sundry debtors. The Council should consider ways it can collect this debt through payment terms, discounts or the implementation of direct debts. (*Grade two*)	A monthly monitoring process has been put in place. Procedures for payment arrangements have been established and a review of payment options undertaken to identify areas where cash in advance of service delivery can be introduced. The introduction of direct debits in on the Council's Agresso action plan.	Manager of Exchequer 31 October 2009 / ongoing

Appendix one – action plan

No.	Issue and recommendation	Management response	Officer and due date
5	Given the very low level of free reserves, and the impact of the revised funding model on the Council's previously approved target level of prudential reserves, a needs assessment of target free reserves should be undertaken and a strategy approved by members to achieve this. *(Grade one)*	The CMT and the SFWG are updated on high risk areas on an ongoing areas. This allows action to be taken as necessary. In addition, a review is currently underway to the calculation and level of prudential reserves.	Executive Director of Corporate Services and Head of Finance and ICT Ongoing Manager of Accounting 31 December 2009
6	The Council was in breach of its self imposed prudential limits during 2008-09. It is recommended that where a treasury management decision will be made which has the potential to breach the Council's approved prudential indicators, that wherever possible, approval of this is obtained in advance through reporting to the relevant committee or Council. *(Grade two)*	Agreed. This was reported at the earliest opportunity after the breach occurred in January 2009, however, it is acknowledged that ideally Council would be informed first.	Manager of Accounting Actioned
7	Following the publication of the Best Value follow-up report, and the findings of the Accounts Commission, it is essential that the Council take action to ensure that the findings are addressed with great urgency. Without this, the Council will continue to be unable to demonstrate Best Value in accordance with its statutory requirements. *(Grade one)*	The Improvement and Efficiency Executive has been refreshed and now meets monthly. Progress in developing the new Best Value Improvement Plan has been reported to the Council in September and October 2009 and a report detailing the Improvement Plan is due with the Council in November 2009.	Manager of Improvement and Performance 30 November 2009
8	In response to the Scottish Government announcements in respect of prompt payment of suppliers, it is recommended that the Council review its current practice for payment of supplier invoices to identify areas where improvement can be made. *(Grade three)*	The Council is currently reviewing its current practices to identify areas of improvement corporately to achieve quicker payment of suppliers.	Manager of Accounting 31 March 2010, and ongoing
9	It is recommended that the Council develop a consolidated range of performance indicators which will be reported under the revised direction issued by the Accounts Commission, based on the indicators identified within the corporate development plan and at service level. *(Grade two)*	A draft set of consolidated performance indicators to be included under SP1 and SP2 of the new Direction has been developed and will be reported to the CMT and Audit and Performance Review Committee. These are drawn from the Corporate Plan and Departmental Plans. Some of these will be new indactors.	Manager of Improvement and Performance 28 February 2010