INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

East Dunbartonshire Council

Annual audit report to members and the Controller of Audit

Year ended 31 March 2010

29 October 2010

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 East Dunbartonshire Council and is made available to the Accounts Commission and Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other 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

Accounts

Following approval of the accounts of East Dunbartonshire Council we issued an audit report expressing an unqualified opinion on the accounts for the year ended 31 March 2010.

In respect of compliance with the SORP 2009, the key change to be implemented in 2009-10 was the accounting requirements for private financing initiatives and similar contracts. This resulted in the Council's six new PPP schools, which opened in 2009-10, being included on the balance sheet at a value of £134 million with an associated liability of £108.6 million as at 31 March 2010.

There were significant delays during 2009-10 in realising capital receipts from a number of land sales, with only £17 million received against planned receipts of £38 million. As a result, additional borrowing has been undertaken to meet capital expenditure commitments, primarily in relation to the PPP schools project and the Kirkintilloch Initiative, with net borrowing increasing by £40.6 million during 2009-10.

We considered the implications of the decision to request notes of interest in the voluntary severance scheme against the requirements of Financial Reporting Standard 12; *Provisions, Contingent Liabilities and Contingent Assets,* and concluded that management's decision that no provision in respect of the voluntary severance costs should be included in the accounts at 31 March 2010 was appropriate.

The quality of information provided by the finance team has been good. In our report to those charged with governance, dated 9 September 2010, we have, however, made recommendations to enhance the efficiency of the accounts production process.

Use of resources

The Council's general services expenditure budget for 2009-10 was £235.9 million. This was a balanced budget which assumed no increase or decrease in uncommitted reserves. For the year ended 31 March 2010, the Council's general fund balance increased by £0.3 million from £7.5 million to £7.8 million. Included within this balance, however, were earmarked commitments of £4.6 million (2009: £5.7 million). The Council's uncommitted reserves therefore increased by £1.4 million to £3.2 million, of which the main reason for the increase was a one-off VAT receipt of £1.2 million.

The forecast uncommitted general fund balance reported to the policy and resources committee during 2009-10 showed significant variation from a low of a forecast deficit of £1.1 million early in the financial year. While the first quarter budget report is acknowledged by management to be a `worst-case' early forecast, the result for the year still demonstrates successful management action against the initial position. We have noted that improvements have been made to the format and content of revenue budget monitoring reports during the year, but have also made recommendations for further enhancement.

The Council has achieved the statutory target of generating revenues not less than expenditure over a rolling three year period for its significant trading operation.

The 2010-11 revenue budget is £238.9 million. This budget assumes that the annual savings associated with implementation of the strategic operating model ("SOM") of £3.2 million will be achieved. Additional full year savings of £4.3 million were required in order to achieve the balanced budget. The latest report to the policy and resources committee on 26 August 2010 reported that £1.9 million of SOM savings and £3.2 million of other savings have so far been achieved against the budget targets. Delays in full implementation of the SOM are, however, resulting in a monthly cost of approximately £0.3 million and consequently the current forecast outturn is for a reduction in uncommitted reserves of £1.8 million unless further savings are secured.

Executive summary

Corporate governance arrangements

The Council has been undergoing a period of significant change. In particular the ongoing implementation of the SOM has a number of associated risks, costs and funding arrangements which we highlighted in our organisation-wide controls report presented to the audit and risk management sub-committee on 2 September 2009.

At their meeting on 30 June 2010, Council approved revised financial regulations and revised contract standing orders which take account of recent changes in relevant legislation, developments in service practices and procedures, and structural changes in services arising from the SOM. The remaining elements of the administration scheme will be reviewed and presented to future Council meetings.

Audit Scotland recently published their report "Roles and working relationships: are you getting it right?" as part of the improvement series for councillors and officers. Clarity about governance arrangements, roles and responsibilities and good working relationships are key to the success of the Council and ensuring it delivers best value and achieves the best outcomes for stakeholders. We recommend that members and officers use the checklists within this report to self-assess the effectiveness of their arrangements.

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 work of internal audit, where appropriate.

Our reports presented to the audit and risk sub-committee during 2009-10 to date have made 33 recommendations for improvements in key financial controls, organisation-wide controls, the financial statement production process, IT and performance management arrangements. It is management's responsibility to ensure these are actioned and they have been included in the Covalent performance management system to enable progress to be tracked.

Performance management

During 2009-10, a fundamental review of performance reporting arrangements was completed. As a result of this review, there was limited performance reporting. The Council's strategic planning and improvement framework was developed during 2009-10 and replaces the corporate planning and improvement framework. Our report to the audit and risk management sub-committee on 16 September 2010 detailed the results of our review of the revised performance management arrangements and made four recommendations to enhance the effectiveness of these arrangements.

The direction of SPIs for 2009-10 represented a significant shift in the approach, reflective of the changing environment in which local authorities operate. This change in direction has significantly reduced the number of specific indicators that councils are required to use, and placed the emphasis for ensuring their accuracy with the Council. We have reviewed management's arrangements for the preparation of the statutory performance indicators and made recommendations to ensure the accuracy of reported information.

The Accounts Commission has also approved a new approach to the audit of Best Value. As part of this, audit and inspection bodies have published a joint assurance and improvement plan which sets out the planned scrutiny activity for the period April 2010 to March 2013. No significant risks were identified requiring specific scrutiny work, although implementation of the SOM and the strategic planning and improvement framework, and addressing the significant financial pressures being faced, were all highlighted as key issues.

The Council was graded as 'non conformant' by the procurement capability assessment exercise undertaken in 2009. The outcomes of the Council's participation in the 2009 PCA were reported to the corporate management team and management intend to report the outcomes of the 2010 PCA to the audit and risk management sub-committee together with comparative information in respect of the 2009 results.

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.

Audit framework

This year was the fourth of our five-year appointment by the Accounts Commission as external auditors of East Dunbartonshire Council ("the Council"). This report to the members and Controller of Audit provides our opinions and conclusions and highlights significant issues arising from our work. We outlined the framework under which we operate, under appointment by the Accounts Commission, in the audit plan overview discussed with the audit and risk management sub-committee on 24 March 2010.

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

- the **accounts** and significant accounting matters and decisions;
- **use of resources**, including financial outturn for the year ended 31 March 2010 and financial plans for 2010-11 and beyond;
- arrangements around corporate **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.**

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 full Best Value and Community Planning review during 2008-09. We have reviewed the continued response of the Council to the findings of the Best Value report as part of our work.

The timing, nature and extent of further Best Value audit work is determined following the assessment of risk, undertaken in partnership with other scrutiny bodies as part of the new shared risk assessment process. A key component of the shared risk assessment is the extent to which implementation of an existing Best Value Improvement Plan has had the anticipated impact.

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 to make arrangements to secure Best Value.

Action plan

This report includes an action plan containing areas for development or improvement identified during our accounts audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2009-10 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 all Council staff during our work. In particular, we wish to thank the head of finance and IT, the corporate finance manager and the principal accountant for their assistance during the audit.

Accounts – summary of key findings

On 29 September 2010 we issued an unqualified opinion on the accounts of East Dunbartonshire Council and its group. The quality of information provided, on request, by the finance team was good. In our report to those charged with governance, dated 9 September 2010, we did, however, make recommendations to enhance the efficiency of the accounts production process further.

Key issues arising from our audit of the accounts were:

- In respect of compliance with the SORP 2009, the key change to be implemented in 2009-10 was the accounting requirements for private financing initiatives and similar contracts. This resulted in the Council's six new PPP schools, which opened in 2009-10, being included on the balance sheet at a value of £134 million with an associated liability of £108.6 million as at 31 March 2010.
- Implementation of the SORP 2009 required a further change to the accounts in respect of non-domestic rates. Local authorities now recognise a creditor or debtor for cash collected from NDRI debtors as agent of the Scottish Government but not paid, or overpaid, at the balance sheet date.
- There were significant delays during 2009-10 in realising capital receipts from a number of land sales, with only £17 million received against planned receipts of £38 million. As a result, additional borrowing was undertaken to meet capital expenditure commitments, primarily in relation to the PPP schools project and the Kirkintilloch Initiative, with net borrowing increasing by £40.6 million during 2009-10.
- As part of the PPP schools project, the Council had a debtor balance for a capital receipt of £16.9 million which was due in May 2009, but not received. While this continues to be pursued, a provision for bad debts of £8.2 million has been created as it is expected that the land over which the Council has security may be sold and the sum achieved, passed to the Council in part settlement of the debt.
- We considered the implications of the decision to request notes of interest in the voluntary severance scheme against the requirements of Financial Reporting Standard 12; *Provisions, Contingent Liabilities and Contingent Assets,* and concluded that management's decision that no provision in respect of the voluntary severance costs should be included in the accounts at 31 March 2010 was appropriate.
- We have discussed with management their progress to date in preparing for transition to IFRS and it is recommended that a detailed timetable is established and agreed to ensure that the opening balance sheet, re-stated 2009-10 balance sheet, template accounts and accounting policies are prepared, subject to internal review and approval and submitted for audit in a timely manner.

Audit opinion and key issues

Reporting arrangements and timetable

In accordance with statutory requirements, unaudited accounts were submitted to the Accounts Commission by 30 June 2009. These were complete, allowing the accounts to be made available for public inspection. The unaudited accounts were signed on 24 June 2010 and, in accordance with good practice, were presented to committee at this time.

The quality of information provided, on request, by the finance team has been good. In our report to those charged with governance, dated 9 September 2010, we did, however, make recommendations to enhance the efficiency of the accounts production process further. We continue to work in partnership with the finance team to improve the efficiency of the process for the preparation and audit of the accounts.

Audit opinion

We have given an unqualified opinion that the accounts of the Council for 2009-10 give a true and fair view of the financial position of the Council and its group as at 31 March 2010 and the income and expenditure of the Council and its group for the year then ended. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Group accounts

The Council has interests in seven other entities, one of these being Mugdock Country Park which is accounted for as a subsidiary, with the remaining entities all treated as associates and therefore their results have also 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 note that all bodies received unqualified audit opinions 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.

The overall effect of inclusion of all of the Council's associates on the group balance sheet is to reduce net assets by £184.7 million, mainly because of pension liabilities. All group bodies' accounts have, however, 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. The Council has included appropriate disclosure of this position within the group accounts.

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 accounts 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 accounts, supplemented by appropriate working papers.

In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners on common good funds. The guidance requires the common good fund to be disclosed within the accounts and a separate common good asset register to be in place by March 2009. The Council has complied with this guidance.

Key issues (continued)

Key issues arising during our audit of the accounts

Our audit plan overview and interim management report highlighted potential key risk areas. We have considered these areas and set out our findings on these areas and any other areas identified during completion of the audit below.

Accounting for PFI / PPP

The key change in the Statement of Recommended Practice for 2009 ("SORP 2009") was the accounting requirements for private financing initiatives and similar contracts. These are no longer based on Financial Reporting Standard 5, but on an interpretation of International Financial Reporting Interpretation Council 12: *Service concession arrangements* contained in the Government's Financial Reporting Manual. The change required that PFI / PPP properties used to deliver services would generally be recognized on the local authority's balance sheet along with a liability for the financing provided by the operator.

The Council opened six new PPP schools during 2009-10, all of which fall under the above accounting requirements. We note that management's process to determine the correct accounting treatment followed a number of best practice steps:

- ✓ compilation of relevant guidance from the Scottish Government, SORP and Audit Scotland;
- ✓ appointment of advisers to assist in calculation of the PPP asset and liability through a standard model;
- ✓ liaison between finance, the Council's valuer, external advisers and KPMG; and
- ✓ preparation of detailed workpapers to support the calculation of accounting entries.

We reviewed the model used by management together with the various inputs entered into the model which calculated the accounting entries required under IFRIC 12. The information entered into the model was consistent with our understanding of the PPP scheme which the Council has entered into with operator InspirED.

We also concluded that the lump sum contributions made to InspirED on completion of the assets were correctly treated as capital contributions to the PPP scheme and led to a reduction in the underlying liability.

As at 31 March 2010, following implementation of IFRIC 12, assets of £134 million and an associated liability to pay for those assets of £108.6 million were reflected in the Council's balance sheet. The assets recognised was supported by a valuation prepared by the Council's internal valuer. There was no requirement to restate comparative figures as the PPP schools were only completed during 2009-10.

Non-domestic rates

Implementation of SORP 2009 required a change to the accounts in respect of non-domestic rates. The previous practice was to carry national non-domestic rate income ("NDRI") debtors on the local authority's balance sheet. However, the revised CIPFA / LASAAC interpretation is that the local authority is only acting as an agent for the Scottish Government in respect of NDRI and should not therefore recognise the NDRI debt from taxpayers in their balance sheet. Local authorities now recognise a creditor or debtor for cash collected from NDRI debtors as agent of the Scottish Government but not paid, or overpaid, at the balance sheet date.

The accounts have been prepared to reflect this change, including disclosure of the prior period adjustment required to reflect this change in accounting policy.

Key issues (continued)

Capital receipts

The Council has experienced significant delays during 2009-10 in realising capital receipts from a number of land sales. As a result, additional borrowing has been undertaken to meet capital expenditure commitments, primarily in relation to either capital contributions to the PPP schools project and the Kirkintilloch Initiative.

The following is a summary of the current position in respect of capital receipts and associated borrowing relating to the PPP scheme:

Area	Planned receipt £'000	Receipt to date £'000	Expected receipt £'000	Status
Former Bishopbriggs High School	11,520	0	7,750	Borrowing incurred
New Bearsden Academy (surplus land)	3,000	3,000	n/a	Borrowing incurred, receipt achieved and directed to capital fund
Old Bearsden Academy (phase 1 & 2)	11,000	11,000	n/a	Receipt achieved
Old Bearsden Academy (phase 3)	16,900	0	Uncertain	Borrowing incurred, legal proceedings underway, reduced receipt possible in interim
Douglas Academy	3,400	3,400	n/a	Borrowing incurred, receipt achieved and directed to capital fund
New Bishopbriggs Academy (former Thomas Muir High School site)	2,000	0	Uncertain	No borrowing to date
Turnbull High	340	0	0	No borrowing to date
Total	**38,160**	**17,400**		

Source: East Dunbartonshire Council

Capital debtors

As part of the PPP schools project, the Council had a debtor balance for a capital receipt of £16.9 million which was due in May 2009, but not received. This resulted in a contingent liability disclosure in the 2008-09 accounts due to the risk posed to the Council in respect of full recovery of the £16.9 million.

The Council continues to progress legal proceedings in respect of recovery of this amount, however an independent valuation of the land the Council held as security was obtained at £8.6 million and on 17 June 2010, the policy and resources committee gave management approval to enter mediation with the developer and to release the security over land and allow them to sell it if a price of at least £8.75m could be obtained.

While the full debt due continues to be pursued, the Council has taken a prudent approach and recognised a provision for bad debts of £8.2 million. There is a corresponding reduction in useable capital receipts.

Key issues (continued)

Treasury management

Our organisation-wide controls report, which was presented to the audit and risk management sub-committee on 2 September included a recommendation that members receive a clear summary outlining the impact of additional borrowing on the Council as well as the progress being made in respect of individual land sales. We also recommended that the calculation of prudential indicators in the treasury management report should be revised to take account of additional liabilities associated with the PPP schools.

Management provided the annual report on the loans fund to the audit and risk management sub-committee on 16 September and it incorporated the following information:

- ✓ analysis of movement in the Council's net indebtedness (increase £36.7 million 2008-09 to 2009-10);
- ✓ details of expected land receipts and the associated impact on borrowing to date, and expected;
- ✓ quantification of the increased revenue debt charges associated with increased borrowing (£240,000 per annum);
- ✓ commentary on the interest rate risk associated with the additional borrowing; and
- ✓ revised prudential indicator disclosure.

One of the revised prudential indicators is the comparison of net borrowing to the capital financing requirement. While management has included the liability of £108.6 million associated with the PPP schools in net borrowing in the revised report, the bank overdraft as at 31 March 2010 was not included.

Recommendation one

Due to the slippage in land receipts, the Council has significantly increased net borrowing. The following is a summary of the increase and details of the main reasons.

Movement in net borrowing	2008-09 £m	2009-10 £m	Variance £m
Long-term borrowing	115.8	122.3	6.5
Short-term borrowing	4.5	26.3	21.8
(Investments)	(10.5)	(2.1)	8.4
(Cash) / overdraft	0.8	4.7	3.9
	110.6	**151.2**	**40.6**

Source: East Dunbartonshire Council minutes

Main reasons for increase in net borrowing	Variance £m
PPP contributions (unrealised land receipts)	23.9
PPP land purchases (St Andrew's campus)	5.9
Kirkintilloch Initiative cash flow support	3.5
Working balance at year end (e.g. receipts pending)	3.4
Movement in cash balances	3.9
	40.6

Source: East Dunbartonshire Council minutes

As a result of the additional borrowing, the Council's working capital ratio at 31 March 2010 is 0.62 (2009: 1.19) which demonstrates the weakened position. The Council's long-term borrowing is now 2.3 times its council tax income with total borrowing at 2.8 times council tax income, compared to multiples of 2.2 and 2.3 respectively at 31 March 2009. These figures exclude the long-term liabilities £108.6 million in respect of the PPP contracts which were also added in 2009-10.

Key issues (continued)

Strategic Operating Model ("SOM")

Following approval of SOM phase two, the Council issued regular email updates to all staff, with the most recent on 8 September 2010. On 2 March 2010, the Council announced a voluntary severance trawl by email to all staff. This would facilitate early departure of staff in service areas where it was identified that there was excess staff compared with the number of establishment posts included in the identified `post-SOM' service structure. Approval of any voluntary severance would, however, only proceed should the Council have available budget headroom to incur the costs.

We considered the implications of the decision to request notes of interest in voluntary severance against the requirements of Financial Reporting Standard 12; *Provisions, Contingent Liabilities and Contingent Assets,* and concluded that management's decision that no provision in respect of the voluntary severance costs should be included in the accounts at 31 March 2010 was appropriate.

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 head of finance and ICT confirmed that, to the best of his 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 additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

Financial reporting outlook

International Financial Reporting Standards ("IFRS")

The Council will prepare it's accounts for the year ending 31 March 2011, in accordance with the IFRS-based Code of Practice on Local Authority Accounting. This will necessitate development of revised accounting policies and significant changes in the presentation of the accounts.

In the rest of the public sector, shadow IFRS-based accounts were required to be subject to a 'dry-run' audit, however there is no such requirement for local authorities.

We have discussed with management their progress to date in preparing for transition to IFRS and it is recommended that a detailed timetable is established and agreed to ensure that the opening balance sheet, re-stated 2009-10 balance sheet, template accounts and accounting policies are prepared, subject to internal review and approval and submitted for audit in a timely manner.

Recommendation two

Carbon trading

From April 2010 the Carbon Reduction Commitment ("CRC") has been introduced by the European Union with full adoption deferred until 2011-12. The Council may be subject to charges in respect of its carbon output.

Financial management

- The Council's general services budget was £235.9 million which was a balanced budget and assumed no increase or decrease in uncommitted reserves. For the year ended 31 March 2010 the outturn on the general fund balance was an increase of £276,000. The closing balance of £7.8 million includes £4.6 million of earmarked commitments to be applied in future years.
- The Council's target uncommitted reserves are £2.5 million, which represents approximately 1% of the general services budget. While uncommitted reserves increased from £1.8 million to £3.1 million, the main reason for the increase was a one-off VAT receipt of £1.2 million.
- The forecast uncommitted general fund balance reported to the policy and resources committee during 2009-10 showed significant variation from a low of a deficit forecast of £1.1 million early in the financial year. While the first quarter budget report is acknowledged by management to be a `worst-case' early forecast, the result for the year still demonstrates successful management action against the initial position. We have noted that improvements have been made to the format and content of revenue budget monitoring reports during the year, but have also made recommendations for further enhancement .
- After statutory adjustments, the Council's HRA returned a surplus of £56,000 on the housing revenue account fund balance, which increased to £579,000. The Council has achieved the statutory target of generating revenues not less than expenditure over a rolling three year period for its significant trading operation.
- Total expenditure in support of the capital programme amounted to £13.6 million against a budget of £15.4 million. At year end, a shortfall of £3.6 million in contributions due to the Council from partners in respect of the Kirkintilloch Initiative was borne as a cost by the Council. The Council opened six new secondary schools during the year as part of a public private partnership contract.
- A revenue budget of £238.9 million has been set for 2010-11. This budget assumes that the savings associated with implementation of the SOM of £3.2 million will be achieved and includes additional savings of £4.3 million in order to achieve a balanced budget. Delays in implementing the SOM are resulting in a monthly cost of £0.3 million, however, to date, £1.9 million of SOM savings and £3.2 million of other savings have been achieved against budget targets. While certain other savings are expected to be secured shortly, the most recent report to the policy and resources committee forecasts a reduction in the uncommitted general fund balance of £1.8 million by year end, due to the delays in full SOM implementation.

Financial management

Financial position

The Council's general services budget was approved by elected members on 12 February 2009 as £235.9 million of which £139.9 million was financed by revenue support grant, £43.4 million by non-domestic rates , £52.1 million by council tax, and the remaining £0.4 million by use of the general fund balance. The budget was balanced with no forecast increase or decrease on the opening uncommitted general fund balance as at 1 April 2009 of £1.8 million. The actual general services position is monitored throughout the year in order to manage any significant under / over spends by departments. At 31 March 2010 the outturn on the overall general fund balance was an increase of £276,000.

Income and Expenditure account	Outturn £'000
Net operating expenditure	**251,972**
Income: funding from revenue support grant, council tax and non-domestic rates	(237,420)
(Surplus) / deficit to be met from balance brought forward	**14,522**
Net additional amount required by statute to be debited or (credited) to the general fund balance for the year	(14,828)
Result for the year: (increase) / decrease in general fund balance for the year	**(276)**
Uncommitted general fund balance brought forward	(7,491)
General fund balance carried forward	**(7,767)**

Movement on the general fund balance	Uncommitted general fund	Committed general fund	General fund balance	
	£'000	£'000	£'000	£'000
Balance as at 31 March 2009	**(1,825)**	**(5,666)**	**(7,491)**	
Applied to expenditure		4,400	4,400	
				(3,091)
Budget variances:				
- non-recurring VAT receipt	(1,272)	-	(1,272)	
- departmental budget variances	475	(3,053)	(2,578)	
- additional revenue support grant	(40)	(313)	(353)	
- additional council tax income	(529)	-	(529)	
- NDRI shortfall	56	-	56	
				4,676
General fund balance at 31 March 2010	***(3,135)**	***(4,632)**		**(7,767)**

*Further analysis of the uncommitted and committed general fund balance as at 31 March 2010 is shown on the next page.

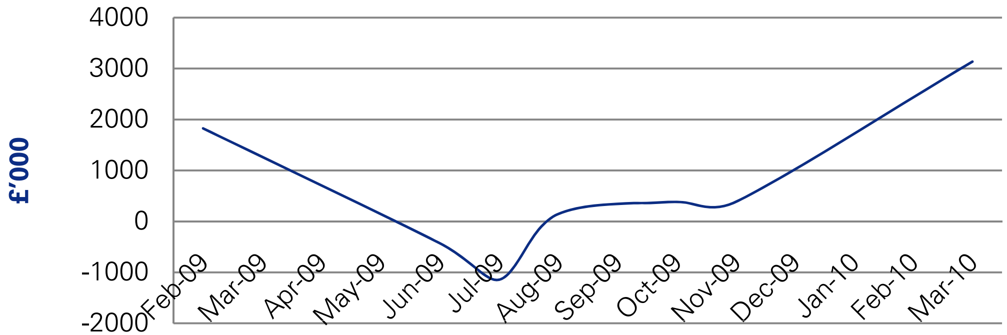
The main reasons for variance arising at the year end are:

- receipt of £1.272 million from HMRC following a successful VAT claim;
- an increase in overall departmental budget savings to a surplus of £2.578 million;
- additional revenue support grant received to fund PPP payments in 2009-10; and
- additional council tax income resulting from strong collection rates.

However, as detailed above, a number of the savings at departmental level relate to earmarked commitments and the expenditure remains committed as at 31 March 2010. Excepting the one-off receipt from HMRC, and excluding the movement in committed balances, the overall result for the year against budgeted position was, therefore, a surplus of £38,000.

Financial management (continued)

Forecast uncommitted general fund balance



	Feb-09	Jun-09	Jul-09	Aug-09	Oct-09	Nov-09	Mar-10
Forecast	1825	-431	-1147	143	382	381	3135

Summary of main commitments as at 31 March 2010	£'000
PPP grant funding	1,386
Helping people back to work funding	302
RSG carried forward	313
Debt charges	350
Single status & equal pay	488
Teaching (associated costs)	679
Other	1,114
Committed general fund balance as at 31 March 2010	**4,632**

The graph shows the forecast uncommitted general fund balance, as reported to the policy and resources committee during 2009-10. While the first quarter budget report is acknowledged by management to be a `worst-case' early forecast, the result for the year still demonstrates successful management action against the initial position.

Management has made a number of changes to the style of the general fund balance monitoring reports during 2009-10 which have improved their clarity, areas of good practice include:

- ✓ addition of a column detailing cumulative variances to budget;
- ✓ detailed explanations of departmental variances; and
- ✓ inclusion of commitments in the budget.

However, there is scope for further improvement to enhance the revenue monitoring reports such as:

- addition of a column to track changes to the original budget;
- clearer reporting on expenditure applied to commitments;
- monitoring of slippage and commitments during the year;
- clearer terminology; and
- greater use of graphs and tables.

Recommendation three

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 operation maintained by the Council for the three year period ended 31 March 2010 are shown below. This demonstrates that the Council achieved its statutory objective for its significant trading operation.

Significant trading operations (surplus) / deficit	2007-08 £000	2008-09 £000	2009-10 £000	3-year cumulative £000
Housing property maintenance	(276)	(77)	(279)	(632)

Housing revenue account

A balanced budget was set for the HRA in February 2009 based on income of £11.7 million. The outturn for the year was income of £11.8 million which is in line with budget. After statutory adjustments, the Council's HRA returned a surplus of £56,000 on the housing revenue account fund balance, which increased to £579,000. The un-earmarked balance on the housing revenue account fund at 31 March 2010 was £250,000 with the balance of £329,000 set aside to support the housing building programme and voluntary severance costs.

Rent arrears as at 31 March 2010 totalled £697,000 and represent 6.1% of gross rental income for the year. A bad debt provision of £569,000 million has been set, with former tenant arrears fully provided.

Capital plan

Total expenditure in support of the capital programme amounted to £13.6 million (excluding HRA additions and match funded project costs) against a budget of £15.4 million. The programme was funded by capital receipts, government grants and contributions from revenue. Significant capital works undertaken in 2009-10 include completion of footpaths and roadways associated with the new PPP schools, carriageway reconstruction following bad weather, completion of a new children's unit and the integrated health care centre and contributions to the Kirkintilloch Initiative.

At year end, a shortfall of £3.6 million in contributions due to the Council from partners in respect of the Kirkintilloch Initiative was borne as a cost by the Council. Providing this cash-flow support contributed to the Council's need to increase short-term borrowing and incur additional debt charges. Management expect to realise receipts in 2010-11 which will resolve this cash-flow requirement.

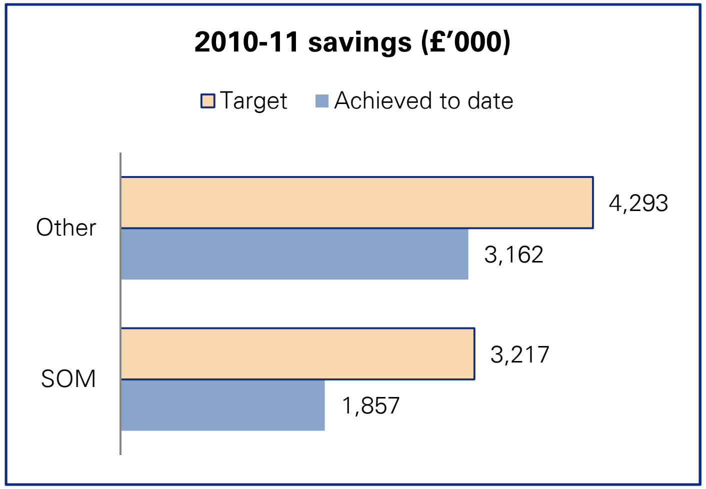
The capital plan for 2010-11 includes expenditure of £15.6 million and income of £13.1 million. The plan therefore assumes capital borrowing above the government supported level in 2009-10, however the long-term capital plan will eliminate this over-borrowing and regular updates will be provided to the capital asset management group to ensure it is minimised. It is normal for the Council to incorporate some over-programming to allow for slippage in projects.

Financial management (continued)

Financial planning

A revenue budget of £238.9 million for 2010-11 was agreed at the special meeting of the Council on 11 February 2010. This budget has been set on the basis that there would be a continued freeze on council tax in line with Scottish Government policy. The budget assumes that the savings of £3.2 million associated with implementation of the strategic operating model, which was approved by the Council on 17 December 2009, will be achieved. The budget includes additional savings of £4.3 million in order to achieve a balanced budget.

Department	Budget 2009-10 (£'000)	Budget 2010-11 (£'000)	Forecast outturn 2010-11 ('£000)
Community	162,049	165,462	168,500
Development and Infrastructure	35,727	36,113	37,393
Miscellaneous Services and Joint Boards	22,135	21,715	29,409
Chief Executive / Corporate and Customer Services	577	(71)	(107)
Loans fund charges	15,368	15,673	8,014
Total net operating expenditure	**235,856**	**238,892**	**243,209**



The 2010-11 budget, tied to the SOM implementation, anticipated a reduction in staffing levels by approximately 250 posts. Our organisation-wide controls report, detailed the key costs, risks and funding arrangements associated with implementation of the SOM. Key aspects of that report were that while management had made a firm estimate of the savings to be realised through the revised staffing structure proposed through the SOM, an accurate assessment of the cost of change associated with the restructure was not available. This was due to the fact that management contended that costs for voluntary severance for specific individuals was unknown, and the extent to which natural turnover would reduce the need for severance arrangements to be borne.

No specific budget provision was included in the 2010-11 budget to fund the cost of change, however, Council agreed to redirect anticipated capital receipts to the capital fund in order to meet loans fund principal repayments. This allows the loans fund budget to be released to meet the potentially significant revenue costs associated with SOM implementation.

The report to the policy and resources committee on 26 August 2010 notes that £6.6 million of capital receipts are currently available to apply to the capital fund. This has allowed a transfer of budget between loans fund charges and miscellaneous services as shown above and provides the headroom for management to proceed with implementation of the SOM. Actual costs in respect of voluntary severance of £1.9 million were approved on 24 June 2010.

Financial management (continued)

The report to the policy and resources committee on 26 August 2010 outturn forecast of £243.2 million which would lead to a reduction in the uncommitted general fund balance as at 31 March 2011 of £1.8 million, in line with the budget overspend. The principal reason for this is that delays in full implementation of the SOM, due to the requirement to have in place resources to fund the cost of change, have given rise to departmental variances of £1.8 million in staff costs. The monthly impact on the achievement of planned savings associated with the SOM is £270,000. The current forecast assumes that these savings will not start to be realised in full until January 2011.

Monitoring savings

With significant levels of savings included in the revenue budget for 2010-11, it is important for achievement of this budget that there are accurate monitoring arrangements. Regular updates on the SOM savings have been made to members as part of the general fund revenue budget monitoring reports.

In respect of the other savings of £4.3 million, which were agreed at the budget approval meeting in February 2010, the following positive steps were taken by management:

- ✓ preparation of a detailed list of the savings required;
- ✓ quantification of each saving;
- ✓ implementation of a standard '4-box' schedule to track progress on delivery of each saving (implemented in March 2010);
- ✓ revisions to enhance the '4-box' reporting (April 2010); and
- ✓ regular updates on each saving, indicating those achieved and summarising actions to date provided to the strategic management team.

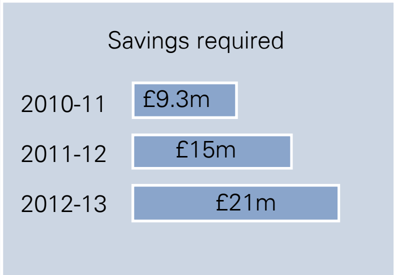
As at the policy and resources committee on 26 August 2010, £3.2 million of savings were reported as secured. Management are confident that a number of additional savings will be achieved or actioned shortly. The most significant saving proposed was £278,000 to be achieved by increasing the minimum distance eligibility criteria for free school transport, however a decision was taken on 28 August 2010 to reinstate the previous criteria for free school transport. While this was noted as having a potential impact on the uncommitted general fund balance, members noted a commitment to maintain the principle of sustainability beyond the current financial year in considering the options for future revenue savings through the 2011-12 budget preparation. This will be informed by the conclusions of the stakeholder engagement programme "Developing a Sustainable East Dunbartonshire".

Use of resources

Financial management (continued)

2011-12 and beyond

The medium-term finance and resources strategy was first prepared by the head of finance and ICT on 27 August 2009. This report sets out a summary of the financial model which identifies the savings required in 2010-11 to 2012-13, together with a sensitivity analysis of the model. A number of updates to the report have been provided during 2009-10, and the budget stakeholder monitoring group received an update on financial planning assumptions on 22 September 2010.



Source: Council minutes

It is evident through committee reporting that management are taking cognisance of the impact of a number of forecast pressures on income and expenditure in the medium-term. This has included consideration of:

- ✓ the budget announced by the chancellor of the exchequer in March and June 2010;
- ✓ the impact and uncertainty surrounding the outcomes of the comprehensive spending review;
- ✓ areas of spending protection (e.g. health);
- ✓ impact of the SOM;
- ✓ capital funding forecasts; and
- ✓ the impact of sector pay settlements.

Annual efficiency statement

The efficiency agenda underpins the development and implementation of the Council's medium-term financial and resources strategy. Implementation of the SOM has helped to achieve efficiencies through a number of workstreams by reducing duplication, streamlining administration and revising the service delivery structure.

The Council's annual efficiency statement for 2009-10 reports cashable efficiency savings of £4.8 million which compares favourably with previous years.

Year	Reported efficiency saving £million
2009-10	4.8
2008-09	4.0
2007-08	2.3
2006-07	4.1

The following strategic workstreams are currently being implemented as part of the Council's medium-term finance and resources strategy:

- non-secondary school estate review;
- new service delivery model for leisure and cultural services;
- property rationalisation and asset management;
- strategic operating model review and workforce planning;
- review of competitiveness of service provision;
- utility and energy management arrangements; and
- improved commodity pricing through procurement arrangements.

In addition, as part of the stakeholder engagement programme, members and officers are working with a wide range of stakeholder organisations, to consider future service provision across all service areas.

Service provision

Leisure Trust

As part of its wider savings review, the Council approved establishment of a project team to produce a trust model for delivery of leisure and cultural services within East Dunbartonshire. This has been taken forward during the year, and on 30 September 2010, Council approved the proposed memorandum and articles of association to allow the Trust to be registered with the Office of the Scottish Charity Regulator. This will allow the envisaged savings of potentially £700,000 per annum to be realised as soon as possible, subject to initial set-up costs in the region of £150,000.

Audit Scotland have recently completed a study into the provision of physical recreation services in local government. This study considers local authorities use of arms length and extended organisations (ALEOs) in the provision of recreational services. This includes the use of leisure Trusts as well as community business' and the private sector. The Accounts Commission approved the publication of this report in October 2010.

We recommend that management carefully consider the findings and recommendations of this report and ensure that these findings are considered as part of the options being considered.

Recommendation four

Corporate governance arrangements

- The Council has undergone a period of significant change. In particular the ongoing implementation of the SOM has a number of associated risks, costs and funding arrangements which we highlighted in our organisation-wide controls report presented to the audit and risk management sub-committee on 2 September 2009.
- At their meeting on 30 June 2010, Council approved revised financial regulations and revised contract standing orders which take into account recent changes in relevant legislation, developments in service practices and procedures, and structural changes in services arising from the SOM. The remaining elements of the administration scheme will be reviewed and presented to future Council meetings.
- Audit Scotland recently published their report, as part of the improvement series for councillors and officers, "Roles and working relationships: are you getting it right?" Clarity about governance arrangements, roles and responsibilities and good working relationships are key to the success of the Council and ensuring it delivers best value and achieves the best outcomes for stakeholders. We recommend that members and officers use the checklists within this report to ensure their effectiveness.
- 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 work of internal audit.
- Our reports presented to the audit and risk sub-committee during 2009-10 to date have made 33 recommendations for improvements in key financial controls, organisation-wide controls, the financial statement production process, IT and performance management arrangements. It is management's responsibility to ensure these are actioned.

Corporate governance arrangements (continued)

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 has been undergoing a period of significant change. In particular, following a detailed review of the way in which the Council conducts its business, delivers services to its customers and is structured by senior officers, the revised SOM and senior management organisational structure was approved by Council on 3 March 2009. Further stages of implementation have been approved by Council at subsequent meetings during 2009-10.

Review of administration scheme

Following changes arising from implementation of the SOM and to align the Council's administrative scheme and related decision making processes to the corporate objectives and priorities in the single outcome agreement, the Council approved a revised administrative scheme at their meeting on 21 May 2009, including the establishment of four new committees responsible for service delivery. The Council also agreed that proposals for service performance scrutiny and involvement by elected members in the community planning structures should be developed.

The Council's administration scheme comprises a number of sections, including:

- Council standing orders;
- scheme of delegation to committees;
- scheme of delegation to officers;
- financial regulations;
- contract standing orders; and
- standing orders for disposal or leasing of heritable property.

At their meeting on 30 June 2010, Council approved revised financial regulations and revised contract standing orders which take into account recent changes in relevant legislation, developments in service practices and procedures, and structural changes in services arising from the SOM. The remaining elements of the administration scheme will be reviewed and presented to future Council meetings.

Corporate governance arrangements (continued)

Roles and relationships

Audit Scotland recently published their report, as part of the improvement series for councillors and officers, “Roles and working relationships: are you getting it right?” Clarity about governance arrangements, roles and responsibilities and good working relationships are key to the success of the Council and ensuring it delivers best value and achieves the best outcomes for stakeholders.

Drawing on their work in respect of Best Value, Audit Scotland looked at how well councillors and officers work together in local government and in particular:

- how well councillors and officers understand their respective roles and responsibilities;
- how roles, responsibilities and relationships between councillors and officers contribute to achieving best value (improving services, better outcomes for local people and value for money); and
- areas of improvement for councils to achieve better practice and performance.

The report sets out a tool for checking progress in respect of member and officer relationships and a checklist of questions for members and officers to consider in order to ensure that the Council is as effective as it can be. It includes consideration of:

- respective roles and responsibilities;
- how behaviour is influencing working relationships and performance; and
- the provision of adequate guidance to officers and members;

It is recommended that the member and officer checklists, appended to the Audit Scotland report, are completed and an action plan for improvement developed where necessary.

Recommendation five

Partnership working

Clyde Valley Shared Services

Clyde Valley Community Planning Partnership (“CVCPP”) is composed of all the local authorities and community planning partners in the Clyde Valley area. The CVCPP commissioned an independent review of joint working and shared service opportunities early in 2009 led by Sir John Arbuthnott. The review sets out a framework for joint working and shared services. It also identifies some of the initial actions that would be required to deliver joint or shared approaches.

The review proposed a flexible approach that would allow authorities to implement some or all of the suggestions in an integrated manner, while retaining local accountability for service delivery. Ten work streams have been identified which have been assessed as having the greatest potential to deliver efficiencies and outline business cases are being worked on which aim to achieve significant savings.

Corporate governance arrangements (continued)

Systems of internal control

Statement of internal financial control

The statement for 2009-10 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 regular management information, financial regulations, financial and administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The statement identifies that it is informed by officers throughout the Council and by the work of internal and external audit. The statement of internal financial control highlights that division of duties within certain service areas could pose a potential risk to the effectiveness of the internal control system, but notes that management are satisfied that the situation is being effectively managed.

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;

- regularity audits;
- benefits, payroll and treasury management reports;
- statutory performance indicators; and
- follow-up reports.

Internal audit's annual report was submitted to the audit and risk management sub-committee and in respect of the Council's control environment, the 2009-10 annual assurance statement by the head of internal audit, dated 7 June 2010, stated that "*reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2010*".

Internal controls

We have submitted the following reports, which considered internal controls, to the audit and risk management sub-committee during 2009-10. 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 the weaknesses reported, controls are designed appropriately and operating effectively.

Report	Date (2010)	Number and key themes of recommendations	
Key financial controls report	30 April	8	Recommendations to enhance key financial controls and practices relating to core processes at the Council
IT controls report	28 May	5	Recommendations to formalise controls and enhance controls around back-ups, recovery and business continuity
Organisation-wide controls report	23 August	12	Recommendations to enhance scrutiny and ensure adequate monitoring together with a detailed summary of key risks and challenges facing the Council
Review of performance management arrangements	9 September	4	Recommendations to improve the revised arrangements for performance management and scrutiny following a detailed review by management
Report to those charged with governance	16 September	4	Recommendations to enhance efficiency of the accounts production and audit process together with additional recommendations on key controls

Prevention and detection of fraud and irregularity

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 risk management sub-committee. Whistle blowing allegations have been satisfactorily resolved, and no material frauds were identified during 2009-10. Members of the audit and risk management sub-committee have requested that more summarised reports on whistle blowing are presented to future meetings as the number and nature of the calls have been low risk and quickly resolved.

National Fraud Initiative

We submitted a completed questionnaire to Audit Scotland in February 2010 to inform the national report on local authorities' participation in the National Fraud Initiative ("NFI"). This included consideration of the Council's arrangements for responding to matches identified, arrangements for reporting results internally and compliance with Audit Scotland guidance.

The Council holds quarterly meetings of an NFI and benefit fraud group which comprises representatives from internal audit, revenues, the benefits fraud team and is chaired by the head of finance and ICT. These include discussion of progress on matches, planning and resourcing together with any significant results. We reported positively on the Council's NFI participation.

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Performance

- During 2009-10, a fundamental review of performance reporting arrangements was completed. As a result of this review, there was limited performance reporting during 2009-10.
- The strategic planning and improvement framework was developed during 2009-10 and replaces the corporate planning and improvement framework. Following the introduction during the year of the revised strategic operating model, the new strategic planning and improvement framework aims to provide a range of information to support the Council's services in developing strategic plans and delivering improvements.
- Our report to the audit and risk management sub-committee on 16 September 2010 detailed the results of our review of the revised performance management arrangements and made four recommendations to enhance the effectiveness of the revised arrangements.
- The direction of SPIs for 2009-10 represents a significant shift in the approach, reflective of the changing environment in which local authorities operate. This change in direction has significantly reduced the number of specific indicators that councils are required to use, and placed the emphasis for ensuring their accuracy with the Council. We have reviewed managements arrangements for the preparation of the statutory performance indicators and made a number of recommendations to ensure the accuracy of reported information.
- The Council was graded as non conformant by the procurement capability assessment exercise undertaken in 2009. The outcomes of the Council's participation in the 2009 PCA were reported to the corporate management team and management intend to report the outcomes of the 2010 PCA to the audit and risk management sub-committee, together with comparative information in respect of the 2009 results.

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 to manage and monitor performance lies with management and the members the Council. During 2009-10, a fundamental review of performance reporting arrangements was completed. As a result of this review, there was limited performance reporting during 2009-10.

Our report to the audit and risk management sub-committee on 16 September 2010 detailed the results of our review of the revised performance management arrangements. Our report highlighted a number of areas of good practice established by the Council, while making four recommendations to enhance the overall effectiveness of the revised arrangements. Our audit work for 2010-11 will revisit these arrangements to assess how they are operating in practice. We summarise below the key changes to the Council's arrangements.

Strategic Planning and Improvement Framework

The Strategic Planning and Improvement Framework was developed during 2009-10 and replaces the Corporate Planning and Improvement Framework. Following the introduction during the year of a revised strategic operating model, the new Strategic Planning and Improvement Framework aims to provide a range of information to support the Council's services in developing strategic plans and delivering improvements. The Strategic Planning and Improvement Framework is comprised of the following components:

- Corporate Improvement Plan;
- Corporate Framework for Business and Improvement Planning;
- Business and Improvement Planning 2010-11 to 2012-13 Corporate Guidance; and
- How Good is Our Service reporting template.

Revised scrutiny arrangements

During 2009-10 the Council approved the establishment of four new strategic committees to supplement the policy and resources committee:

- development and infrastructure;
- housing and community services;
- education; and
- social work services.

Business and Improvement Plans are approved by these committees prior to being subject to the Council's formal scrutiny process. Three new scrutiny panels were also established during 2009-10 to address the balance of scrutiny, providing a greater emphasis on scrutiny of performance.

The new scrutiny panels held initial meetings in April and May 2010 to scrutinise performance of all services. The process included a review of 2009-10 performance, together with scrutiny of the 2010-11 to 2012-13 Business and Improvement Plans. Work plans for each of the scrutiny panels were presented for Council approval on 30 September 2010.

Performance management (continued)

Statutory performance indicators

Direction

The statutory deadline for the publication by the Council of SPIs is 30 September. The direction of SPIs for 2009-10 represents a significant shift in the approach, reflective of the changing environment in which local authorities operate. This change in direction has significantly reduced the number of specific indicators that councils are required to use, and include measures designed to encourage councils to use a greater range of information as part of their mainstream performance management and reporting activities.

Audit Scotland Direction, "A New Direction; SPI guidance for audit bodies 2009/10", released in February 2009, details the responsibilities of external audit which have changed significantly to previous years. Our duty is 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; and
- to assess whether the Council is fulfilling its obligations as set out in paragraph 3.2 – the Council must ensure that, so far as is practicable, the information published is accurate and complete. Audit Scotland asks each chief executive to ensure that this is the case, and that all officers involved in the collection and reporting of performance information are fully aware of the contents of the guide and of their responsibilities.

Review of performance 2008-09

Audit Scotland published councils performance indicators for 2008-09 together with comparative data covering the period 2007 to 2009 in December 2009. A summary of the Council's performance was reported to the policy and resources committee on 9 February 2010. It was noted that:

- the Council was ranked top in five service areas;
- 28 areas performed in the top quartile;
- 22 areas performed in the lowest quartile; and
- 56 indicators had improved since 2008-09 and 24 had declined.

Review of arrangements in 2009-10

As part of the review of performance management arrangements carried out during 2009-10, a number of performance indicators have been identified, including those which will be publically reported. Representing best practice, each indicator is contained within the business and improvement plans at the Council and is aligned with achievement of a national outcome and the Single Outcome Agreement.

Performance indicators are now centrally recorded on Covalent. Each service is responsible for collecting and inputting the necessary data into the Covalent system and an SPI manual was issued to officers during 2009-10 which set out the timetable for collection of year end data and the methodology for calculating each performance measure.

In addition to year end reporting, performance information is reported quarterly to the newly established scrutiny panels, together with six monthly 'how good is our service' reporting.

Performance management (continued)

We have carried out work to assess the Council against the four criteria set out in the Direction in 2009-10 and establish whether the Council has:

- established systems and procedures to ensure that the required information is gathered;
- established mechanisms for ensuring the completeness and accuracy of the performance information;
- developed an approach to the presentation of performance information in the annual report and accounts; and
- agreed a proposed timetable for the publication of the annual report, submission to members and publication of statutory information.

As a result of this work, we have identified some scope for improvement. It is noted that internal audit did not commence a process to review indicators, selected by themselves, until late in the year, however, a process has now been established for 2010-11. It is recommended that:

- the Council considers alternative methods for collecting data, particularly in areas where it is known by staff responsible for collection of data that it is currently not being received in a timely manner (e.g. from external sources);
- detailed internal procedures are devised to ensure the completeness and accuracy of the information which is being reported in Covalent, for example through a rolling period of review by internal audit;
- a review of data input to Covalent by an officer should be evidenced as subject to review by an independent officer, particularly before information is reported to committee;
- while there is a Covalent user group which meets and can be used to share knowledge and best practice, consideration should be given to whether Covalent user training sessions should be held for staff throughout the Council;
- the ability to generate a performance report in Covalent before all data required to accurately calculate that measure is entered should be restricted or removed; and
- the ability to alter the calculation method behind a measure in Covalent should be restricted to a limited group of senior staff who are not involved in inputting data, as this would reduce the risk of manipulation.

Recommendation six

Housing benefits

Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Their specialist team have been 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 during 2009-10 and a detailed report issued in April 2010.

The report recognised that the Council "*demonstrates an awareness of what constitutes an effective and secure benefits service*", with a number of aspects of good performance highlighted. The report did, however, identify a number of key elements which were not in place that would normally be expected to provide management and elected members with assurance that the service is delivering continuous improvement.

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 2011.

Performance management (continued)

Assurance and improvement plan

The Accounts Commission approved a new approach to Best Value in July 2010. As part of a wider review of the scrutiny regime on local authorities agreement was reached between scrutiny bodies through adopting a shared risk assessment process. The following scrutiny bodies have developed a shared risk assessment: audit and improvement plan:

- Audit Scotland;
- KPMG LLP, external auditor;
- Care Commission;
- HM Inspectorate of Education;
- Scottish Housing Regulator; and
- Social Work Inspection Agency.

These scrutiny plans are based on risk. The risk assessment process is designed to identify where scrutiny activity will make the most difference in terms of helping the Council to improve and providing assurance to the public. The assurance and improvement plan sets out the planned scrutiny activity for the period April 2010 to March 2013. The scrutiny activity is proportionate to the assessed scrutiny risks.

No significant risks were identified requiring specific scrutiny work, although implementation of the SOM and the strategic planning and improvement framework, and addressing the significant financial pressures being faced, were all highlighted as key issues.

Procurement

The Public Procurement Reform Programme was set up following the McClelland review of Procurement in 2006. In January 2009, the Scottish Government promoted the use of a single Procurement Capability Assessment ("PCA") to assess procurement performance in public sector bodies and as a basis for the sharing of best practice and continuous improvement across the public sector in Scotland. The assessments were coordinated and conducted by the relevant Centre of Expertise, which for local government is Scotland Excel.

Every local authority in Scotland took part in the first round of PCAs in late 2009. The process assessed capability against each of the best practice recommendations from the McClelland review. The Council was classified as 'non-conformant' and scored zero in three areas where Scotland Excel have noted information was not provided. On that basis the Council feels the assessment was inaccurate. This classification has been common across local authorities and suggests that the organisation is open to risk of legal challenges due to the lack of visibility and control over procurement across the organisation.

The Council's internal audit team utilised the procurement audit toolkit to carry out a separate assessment which was reported to the audit and risk management sub-committee in June 2010 and completed an exercise to reconcile the results of both assessments.

The outcomes of the Council's participation in the 2009 PCA were reported to the corporate management team and management intend to report the outcomes of the 2010 PCA) to the audit and risk management sub-committee, together with comparative information in respect of the 2009 results.

Performance management (continued)

It is important that the Council takes steps to address the issues identified by these reports in order to ensure it is confirming with all legal requirements. In addition, experience from other public sector bodies have shown that significant savings can be achieved through centralised and strict control over procurement. Given the tough economic environment and the Council's ambitious savings plans we recommend that priority is given to ensuring that value for money is being achieved from the councils procurement service.

Recommendation seven

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	One of the revised prudential indicators presented to the audit and risk management sub-committee on 16 September 2010 was the comparison of net borrowing to the capital financing requirement. While management have included the liability of £108.586 million associated with the PPP schools in net borrowing in the revised report, in line with our recommendations, the bank overdraft as at 31 March 2010 was not included. It is recommended that future calculations of net borrowing include any overdraft held by the Council. *Grade three*	It is agreed that management will further review the calculation of this prudential indicator and make any appropriate changes.	Corporate Finance Manager December 2010
2	We have discussed with management their progress to date in preparing for transition to IFRS and it is recommended that a detailed timetable is established and agreed to ensure that the opening balance sheet, re-stated 2009-10 balance sheet, template accounts and accounting policies are prepared, subject to internal review and approval and submitted for audit in a timely manner. *Grade two*	It is recognised that during closure of 2009-10 accounts, resources could not be dedicated to progressing work in IFRS transition. This has now commenced and it is anticipated that work on the opening balance sheet and restated balance sheet will be completed by the end of December 2010. In the first quarter of 2011, the work plan will progress template accounts and accounting policies. We will continue to liaise with external audit throughout this process.	Corporate Finance Manager. Ongoing

Appendix one – action plan (continued)

No.	Issue and recommendation	Management response	Officer and due date
3	Management have made a number of changes to the style of the general fund balance monitoring reports during 2009-10 which have improved their clarity, however, there is scope for further improvement to enhance the revenue monitoring reports such as: • addition of a column to track changes to the original budget; • clearer reporting on expenditure applied to commitments; • monitoring of slippage and commitments during the year; • clearer terminology; and • greater use of graphs and tables. *Grade two*	A number of recommended changes have already been taken on board. Management will further review revenue monitoring reports with a view to implementing further improvements.	Corporate Finance Manager December 2010
4	Audit Scotland have recently completed a study into the provision of physical recreation services in local government. This study considers local authorities use of arms length and extended organisations (ALEOs) in the provision of recreational services. This includes the use of leisure Trusts as well as community business' and the private sector. The Accounts Commission approved the publication of this report in October 2010. We recommend that management carefully consider the findings and recommendations of this report and ensure that these findings are considered as part of the options being considered. *Grade two*	The Council contributed to the study into the provision of physical recreation and now has a copy of the report and key messages. As our leisure services were not out to 'Trust' at the time of the survey and we are working towards the transfer of these services to a Trust model; we will examine the findings of the report and consider these as part of the current implementation process. The report will be made available at the next Trust project team meeting on 22 November 2010.	Leisure & Cultural Services Manager November 2010
5	Audit Scotland recently published their report, as part of the improvement series for councillors and officers, "Roles and working relationships: are you getting it right?" Clarity about governance arrangements, roles and responsibilities and good working relationships are key to the success of the Council and ensuring it delivers best value and achieves the best outcomes for stakeholders. It is recommended that the member and officer checklists, appended to the Audit Scotland report are completed, and an action plan for improvement developed where necessary. *Grade two*	The member and officer checklists will be completed and an action plan will be developed and presented to committee.	Head of Legal & Democratic Services December 2010

Appendix one – action plan (continued)

No.	Issue and recommendation	Management response	Officer and due date
6	The Council revised performance management arrangements during 2009-10, this included revisions to the processes in respect of performance indicators. In order to further enhance the robustness of the process it is recommended that: • the Council considers alternative methods for collecting data, particularly in areas where it is known by staff responsible for collection of data that it is currently not being received in a timely manner (e.g. from external sources); • detailed internal procedures are devised to ensure the completeness and accuracy of the information which is being reported in Covalent, for example through a rolling period of review by internal audit; • a review of data input to Covalent by an officer should be evidenced as subject to review by an independent officer, particularly before information is reported to committee; • while there is a Covalent user group which meets and can be used to share knowledge and best practice, consideration should be given to whether Covalent user training sessions should be held for staff throughout the Council; • the ability to generate a performance report in Covalent before entering all required data to accurately calculate that measure is restricted or removed; and • the ability to alter the calculation method behind a measure in Covalent should be restricted to a limited group of senior staff who are not involved in inputting data, this would reduce the risk of manipulation. *Grade two*	A number of actions are already being implemented or have been planned which will address these recommendations, including: • annual provision of guidance on data collection, completeness and accuracy within the SPI manual; • development of a 'Covalent Protocol' for inclusion in the SPI manual that will specify arrangements for data validation by heads of service prior to submission to committees; and • all services were provided with Covalent training in 2008 and 2009, refresher courses will be organised for employees designated by heads of service. In addition, internal audit will continue to review the accuracy of information reported, with a focus on areas identified as being a risk.	Corporate Planning and Performance Manager March 2011 Audit and Risk Manager Ongoing
7	It is important that the Council takes steps to address the issues identified by the 2009 procurement capability assessment report in order to ensure it is confirming with all legal requirements. In addition, experience from other public sector bodies have shown that significant savings can be achieved through centralised and strict control over procurement. Given the tough economic environment and the Council's ambitious savings plans we recommend that priority is given to ensuring that value for money is being achieved from the Councils procurement service. *Grade two*	The 2010 procurement capability assessment was conducted in October and the results are awaited. The findings will be reported to Policy & Resources Committee.	Corporate Procurement Manager January 2011