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East Dunbartonshire Council

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

Year ended 31 March 2011

30 September 2011

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

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Executive summary

This report concludes our appointed five year term as external auditors of the Council.

We would like to take this opportunity to thank members and employees of the Council for their cooperation and assistance over this period.

Strategic issues and risks

The Council faces a number of key risks related to the achievement of its strategic objectives. We have reviewed management's arrangements to address those risks and in most cases, conclude that actions have been identified which appropriately address the risk. During 2010-11, the more significant strategic objectives and activities were around:

- conclusion of the final phases of the strategic operating model;
- establishment of the culture and leisure trust; and
- robust financial management.

We have recommended that a post implementation review is carried out in respect of the SOM given its significance and impact on the Council.

Financial statements

Following approval of the financial statements by the head of finance and ICT on 29 September 2011, we issued an audit report expressing an unqualified opinion for the year ended 31 March 2011.

The *Code of practice on Local Authority Accounting in the United Kingdom 2010* ("the Code") for 2010-11 *was* based upon International Financial Reporting Standards (IFRS) for the first time. As part of the transition to IFRS, there was a requirement for the Council to restate the 2009-10 accounts to provide prior year comparatives on an IFRS basis. We worked closely with management to review the required adjustments.

We have recommended a process is carried out to review common good assets held by the Council, taking into consideration the relevant costs and benefits of such an exercise.

The quality of information provided by the finance team has been good and we worked closely with management to ensure required information was provided electronically were possible.

Use of resources

For the year ended 31 March 2011, the Council's outturn on its general fund balance was an increase of £2.1 million against budget. As a result, uncommitted reserves increased from £3.1 million (2009-10) to £4.2 million (2010-11). While this is in excess of the Council's target of £2.5 million, it has mainly been generated as a result of one-off gains.

In February 2011 the Council approved its 2011-12 revenue budget forecasting a breakeven position. To enable delivery of this target, the Council identified a savings requirement of £8 million. £6.5 million of savings were agreed in December 2010 with the remainder approved prior to finalisation of the budget in February 2011.

As at 25 August 2011, the Council was forecasting an adverse budget variance of £0.5 million. In addition, £1 million of the general fund balance has been earmarked to underwrite planned savings for 2011-12 which are in progress, but have yet to be fully secured.

The approved capital plan for 2011-12 was increased to £27.627 million through slippage from 2010-11 and the cost of purchasing the assets of East Dunbartonshire Development Company (£7.7 million).

The cost of the acquisition of the assets of East Dunbartonshire Development Company is mainly to be financed through additional borrowing. The Council expects to fund the costs of borrowing through rental income streams associated with the purchased assets.

Governance and performance

The statement on internal control highlighted that the division of duties within certain service areas could pose a potential risk to the effectiveness of the internal control system. The content of the statement is consistent with our understanding of the Council.

Internal audit's annual report, submitted to the audit and risk management sub-committee states that, notwithstanding ongoing issues in relation to division of duties, "reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year to 31 March 2011".

Headlines

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.

This report summarises our work for the year ended 31 March 2011.

We wish to record our appreciation of the continued co-operation and assistance extended to us by staff during the course of our work.

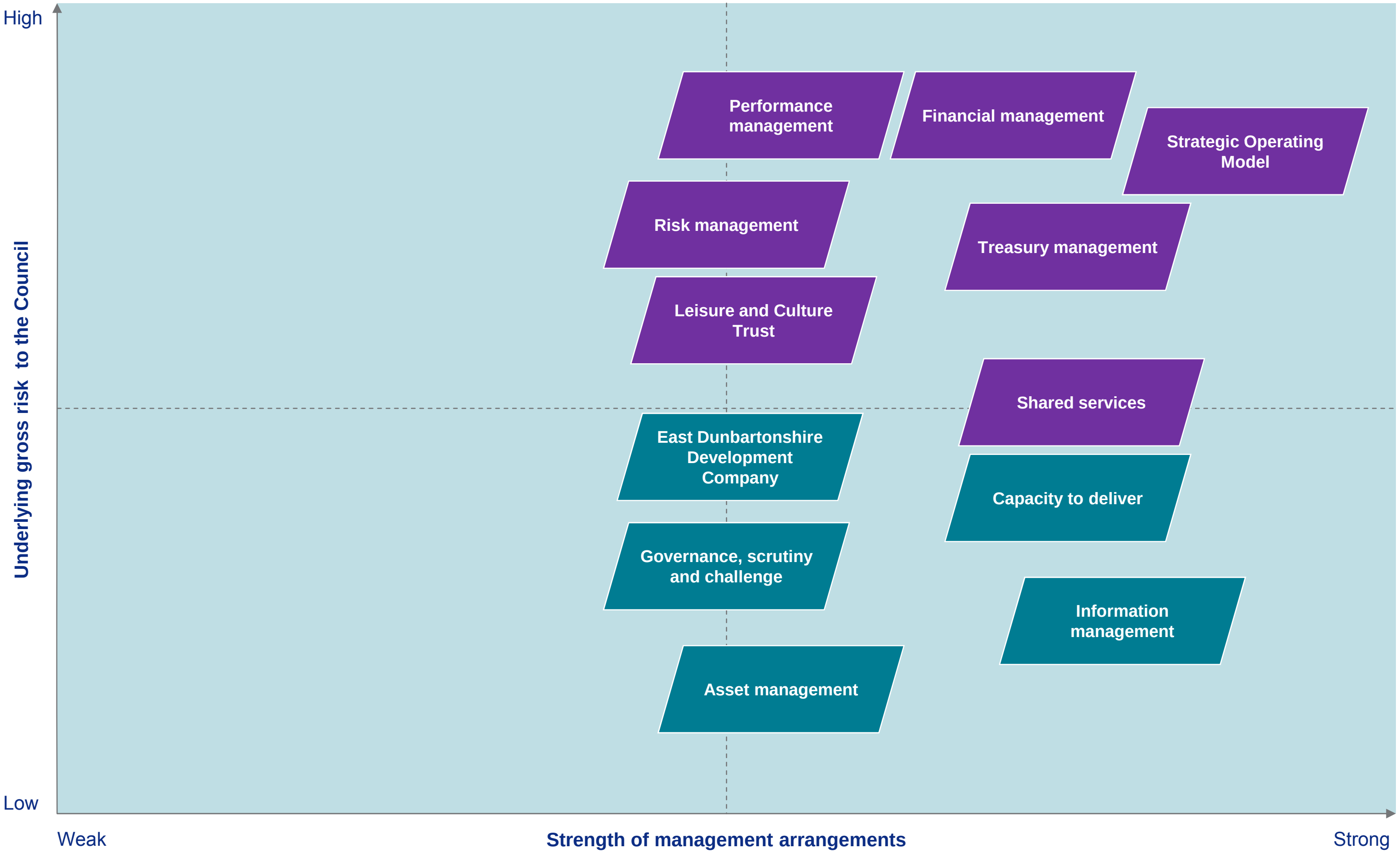
The action plan in appendix one includes a number of recommendations, none of which are considered to be 'high' risk.

Strategic objectives and risks	
The Council faces a number of key risks including financial sustainability and embedding the implementation of the final phases of the revised strategic operating model while maintaining high standards of service.	Page 4
Financial statements	
We have issued an unqualified audit opinion in respect of the 2010-11 accounts.	Page 9
A number of technical accounting matters were considered during the audit process; and we have made a number of recommendations for improvement within our report to management.	Page 9
Use of resources	
The Council reported an accounting surplus of £80.971 million for the year ended 31 March 2011. This included a one-off past service gain of £41.07 million as a result of the change in inflation assumption from RPI to CPI which reduced the Council's pension liability, together with a surplus on the revaluation of assets of £6.675 million. Following statutory adjustments the surplus resulted in an increase in the general fund balance of £2.1 million.	Page 14
Uncommitted general reserves increased by £1.046 million to £4.181 million. This is in excess of the Council's target level of £2.5 million, but remains comparatively lower than the majority of other local authorities.	Page 14
The Council has identified the need for significant levels of savings in respect of future years to achieve financial sustainability.	Page 16
We assessed management's response to Audit Scotland's national for reports issued during the year, including targeted follow-up of reports on procurement and waste management.	Page 20
Governance and performance	
The statement on internal control continues to confirm the existence of a framework of internal control.	Page 21
Internal audit completed their plan and did not report any significant risks or recommendations.	Page 21
Arrangements to prevent and detect fraud are embedded in internal controls, including processes to comply with requirements in respect of the National Fraud Initiative. A small number of Council services could improve the timeliness of responding to National Fraud Initiative matches.	Page 22
Management's arrangements to ensure the completeness and accuracy of performance indicators could be further enhanced, however our limited testing did not identify any significant errors in reported information.	Page 22

Summary of arrangements

Competing risks and pressures continue to present new and recurring challenges.

The diagram summarises the potential underlying risks to achievement of strategic objectives, compared to the strength of management arrangements to mitigate these risks. The following pages summarises those areas where we believe there are significant risks, together with those where management arrangements are likely to mitigate or eliminate these risks to a greater or lesser extent.



Assessment of significant risks

The implementation of the revised strategic operating model was largely completed during 2010-11. As a result of the changes arising from its implementation a number of audit recommendations and risk actions have yet to be fully implemented.

Arrangements in respect of treasury management are likely to mitigate the effects of significant risks.

Strategic operating model (SOM)	During 2008-09 the Council conducted a review of the way in which it conducts business, delivers services and is structured. The model proposed a reduction in strategic service delivery groupings from 13 to 10, together with revisions to management arrangements. The implementation of the SOM was largely concluded during 2010-11. In previous years' we reported that delays in implementation of the SOM and the impact of implementation on internal controls represented significant risks to the Council.	The implementation of the new strategic operating model represented a significant change programme. The new structure will require time to fully embed. The Council should continue to monitor the impact of implementation on the system of internal control, remaining alert to areas previous highlighted, particularly in respect of segregation of duties in certain areas. A number of previous audit recommendations and actions identified to mitigate organisational risks have yet to be fully implemented due to changes in processes and staff structures. While the implementation dates have been revised and are subject to regular monitoring, we note that in some respects progress has been slow.
	■ The delivery of the SOM represents a significant change to the Council's operating structure. There were a number of delays in implementation and it is important for the Council to complete a post implementation review, giving consideration as to whether intended benefits have been delivered. Such a review will also provide an opportunity for management to assess what went well and identify areas for improvement in the implementation of large change programmes. ***Recommendation one***	
Treasury management	The Council's annual treasury management and investment strategy outlines the Council's approach to managing risks associated with treasury management. Performance is reported in a mid-year report which includes information on significant variations from the approved strategy and update to performance against prudential indicators, as appropriate An annual treasury report is also prepared. The Council's treasury team manage the treasury function, including monitoring cash flows and financial commitments.	Our audit testing included a review of a number of treasury management controls such as review of cash-flow forecasting, the placing of short-term deposits and review of the reporting of prudential indicators. Controls were designed, implemented and operating effectively.
	■ In our view significant risks exist due to the overall importance of treasury management to the Council, but management have a number of appropriate controls which are designed, implemented and operating effectively which mitigate the risks.	

Assessment of significant risks (continued)

Arrangements in respect of risk management have been enhanced during 2010-11. We made recommendations for further improvement, while recognising that a process to review the corporate risk register is due to commence during 2011-12.

Arrangements in respect of financial management are likely to mitigate the impact of significant risks, however the Council continues to face significant budget challenges.

Risk management	The audit and risk management sub-committee oversee risk management arrangements. The corporate risk management strategy outlines the Council's approach to managing risk. Risks facing the delivery of the Council's strategic and operational plans are linked to the Council's strategic and service level risk registers. Performance and progress in improving risk management is reported to the audit and risk management sub-committee. Underpinning the corporate risk register are service risk registers. The risk registers and associated action plans are incorporated into the Council's performance management system (Covalent). Management consider that this will facilitate easier monitoring and reporting of risks.	The Council's risk management arrangements are well developed. Risk management arrangements continue to evolve and the review of service risk registers continued during 2010-11, with individual risks and actions tracked within the Covalent system. This ensures that the management of risk takes place across the Council, and not viewed only as function of the council. Within our interim management report we raised a number of suggestions for management to improve the risk management arrangements. These were agreed by management. The Council's risk management officer recently left the organisation and a process to review the corporate risk register is due to commence during 2011-12.
	■ In our view significant risks exist, but actions have been identified which are likely to address these risks. ■ The continued focus and challenge of the audit and risk management sub-committee will be necessary to ensure arrangements remain embedded and responses to emerging issues are appropriately prioritised.	
Financial management	The Council 's budget is approved annually before the start of the financial year. The budget is the result of a combination of service level funding requirements required to deliver strategic plans, along with agreed budget savings. Individual services monitor financial performance through monthly budget monitoring reports and these feed directly into reports presented to the policy and resources committee. These include narrative explanations for variances during the year.	Given the increasing pressures on financial resources, adequate financial management arrangements are extremely important. Based on the work undertaken as part of the 2010-11 external audit we have concluded that, overall, the Council has robust financial management arrangements, including comprehensive budget monitoring and forecasting arrangements. The Council maintains a financial risk register which supports the identification and management of key areas of financial risk on a timely basis.
	■ In our view significant risks exist in ensuring that Council's cost base is moderated to ensure it matches resources on a sustainable level, but actions have been identified which are likely to address these risks.	

Assessment of significant risks (continued)

Arrangements in respect of performance management are likely to mitigate the impact of significant risks.

Arrangements in respect of the leisure and culture trust have been progressed during 2010-11 and into 2011-12. Recruitment of a company secretary and accountant has recently been completed. It is too early to assess the controls and processes in place with respect to the Trust.

Performance management	From April 2011, the Council had fully implemented a new performance management framework. Key performance indicators, linked to the Council's strategic priorities, are used to monitor performance at both a corporate and local level. Business and improvement plans have been developed and are reviewed on a quarterly basis by the strategic management team and are subject to detailed review by the relevant scrutiny panels.	The Council uses the Covalent system to ensure that performance is monitored on a formal basis and is clearly linked to strategic aims. Failure to meet performance targets increases the risk that the Council fails to meet its strategic priorities. Performance management arrangements enable adequate assessment and evaluation of the Council's underlying performance throughout the year. We reviewed the Council's new performance management arrangements during 2009-10 and note that the expected processes have been fully implemented during 2010-11.
	■ In our view significant risks exist, but actions have been identified which are likely to address these risks.	
Leisure and culture trust	In September 2010 the Council approved the next stages of the development of a leisure and culture trust ("the Trust") for the delivery of its leisure and cultural services. The Council agreed that officers should apply for charitable status for the Trust and also agreed to nominate five councillors as partner directors - one from each political group. In November 2010 the Council agreed to proceed to establish the Trust and the partner directors recruited independent directors in January 2011.	Following establishment of the Trust, with effect from 1 April 2011 and appointment of a general manager, the Council began recruitment of a company secretary and accountant. Members of Council staff have formerly transferred to the new Trust and payroll and other services are now provided by the Council on its behalf. The Council's 2011-12 financial statements will include the transfer of activities to the Trust. There is a risk that financial controls fail to operate as previously designed and implemented by the Council following the transfer of operations to the Trust. There is also a risk that financial information is not recorded and monitored appropriately from the point of transfer.
	■ In our view significant risks exist, and management have begun to take actions to address these risks.	

Assessment of significant risks (continued)

The Council has chosen not to continue its participation in the CVCPP, but continues to consider alternative delivery models, including shared services and is taking forward a business case for shared waste management services.

Shared services	The Clyde Valley Community Planning Partnership (CVCPP) is composed of all 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. Ten work streams were identified and assessed as having the greatest potential to deliver efficiencies.	Council received a report on 14 December 2010 outlining the initial work carried out in respect of the CVCPP and its work streams, one of which, 'A Common Charging Framework' is led by the Council. In March 2011, Council submitted their views on the strategy and framework under which the proposed plan for shared services would be prepared, to the structure plan manager. On 29 September 2011 the Council decided that in light of the current economic climate, the lack of certainty on the governance structure and the need for further clarity on the business case and the risks involved, it was not in a position to recommend proceeding with the proposals. The Council considered that in order to continue its involvement with the current proposals it would need to have certainty around the financial model, confidence in the retention of jobs within the local economy and clarification on the risks and the potential for local control of services to council customers. The Council considered that in light of recent developments across other Clyde Valley councils, the business case did not provide the certainty required. The Council agreed to continue exploring alternative delivery models, including shared services to deliver the efficiencies identified in the CVCPP proposals. A business case for shared waste management services continues to be pursued.
	■ The Council has chosen not to commit further resources towards participation in the CVCPP until a report on the delivery model is made and the model further developed. The Council continues to consider alternative delivery models, including shared services and is taking forward a business case for shared waste management services.	

Financial statements preparation and audit process

2010-11 was the first year the Council was required to prepare accounts in accordance with International Financial Reporting Standards.

A number of technical accounting matters arose in relation to conversion to IFRS and accounting for retirement benefits which have had a significant impact on the financial position at 31 March 2011.

Technical accounting issues

Conversion to IFRS

The 2010-11 accounts have been prepared in accordance with the *Code of practice on Local Authority Accounting in the United Kingdom 2010 ("the Code")* which is based upon International Financial Reporting Standards (IFRS). As part of the transition to IFRS, there was a requirement for the Council to restate the 2009-10 accounts to provide prior year comparatives on an IFRS basis.

- Management had a planned programme of work, with assistance provided from external advisers, to ensure implementation of IFRS in the required timescales, with progress reported to their audit and risk management sub-committee. This planned programme was ongoing throughout 2010-11, and the Council delivered the accounts in line with statutory deadlines. During the process we liaised with management and provided an interim progress report on IFRS transition.
- We reviewed the accounting policies prepared by management and agreed a final set.
- The transition to the Code in 2010-11 was a significant exercise undertaken by the finance team and was completed successfully.

Retirement benefit assumptions

The UK government announced on 8 July 2010 that they would in future use the consumer prices index ("CPI") in place of the retail prices index ("RPI") as the index for determining pension increases for public sector pension schemes. We understand that this will affect minimum required increases, applying to both current and future pension payments.

- We considered the Local Authority Accounting Panel bulleting (number 89) which set a presumption that the change in inflation measure would be accounted for as a change in benefit with respect of local government pension schemes.
- We are satisfied with management's assessment that scheme members expected inflationary increases to be in line with RPI and therefore that the change be accounted for as a change in benefits in the comprehensive income and expenditure statement.
- The statement of comprehensive income and expenditure includes a credit of £41.07million in respect of the change in pension benefits from RPI to CPI.

Financial statements preparation and audit process (continued)

Common good assets	Common Good funds and trusts are accounts which the Council administers, but which are not a part of the Council's own finances. In the main, they are funds which have been passed on by individuals to the Council for a specified purpose. In December 2007 LASAAC issued guidance on accounting for Common Good assets which recommended that Council's "*take such reasonable steps as necessary to ensure that Common Good asset registers support fixed assets recognised in the Common Good balance sheet.*"	Our discussions with the Council's legal and finance departments confirmed that they are not aware of any material Common Good assets recognised in the Council's accounts. While the Council has a sound understanding of assets held we recommend that they review assets to identify those that relate to Common Good funds. These should be managed in accordance with guidance on Common Good assets.
	■ It is management's view that any Common Good land / buildings held are not likely to be of significant value. While there were no issues identified through our audit that would indicate otherwise, we sought management representation confirming that they were not aware of any material Common Good assets held within the Council's accounts. ■ Asset records should be reviewed to identify any potential Common Good assets held to ensure that these are accounted for in accordance with CIPFA / LASAAC guidance.	

Financial statements preparation and audit process (continued)

Management anticipated risks around property, plant and equipment. We found instances of differences between the asset register and the accounts as well as completeness of accounting records.

Recommendations are included in the action plan in appendix four.

Areas of HIGH audit risk

Area	Value (£'000) 2010	Value (£'000) 2011	KPMG comment
Property, plant and equipment - valuation	681,602	688,633	The Council has a rolling revaluation programme of property, plant and equipment to ensure that assets are carried at fair value. During 2010-11, commercial and industrial properties were revalued by the Council. In addition, a number of specific properties, including council dwellings and schools, were revalued where there was evidence of a potential change in value, due to instances such as in-year capital investment or impairment. ▪ We reviewed the Council's revaluation and are satisfied that the valuations materially reflect the fair value of assets held. We have confirmed that the revaluations have been appropriately reflected within the accounts in accordance with the Code. ▪ We considered the valuer's approach to the valuation of assets, the methodology adopted, consideration of relevant guidance and sought input from Audit Scotland and KPMG's internal valuers. ▪ Within our report to those charged with governance we recommended that the Council should update the system reports produced by the asset register (Logotech) to ensure their consistency with the accounts and enhance the ease of reconciliation. We also we recommended that Common Good assets are included within the asset register to ensure that it represents a complete and comprehensive record of assets.

Financial statements preparation and audit process (continued)

Areas of HIGH audit risk

Area	Value (£'000) 2010	Value (£'000) 2011	KPMG comment
Assets held for sale	15,725	5,732	The Code requires assets to be classified as held for sale if their carrying amount will be recovered principally through a sale rather than their continued use. These assets are held separately from property, plant and equipment and held at the lower of carrying value and market value less costs to sell. Within the draft accounts the Council had a total of £11.181 million of assets held for sale. Of this balance, over £8 million related to assets being disposed as part of the Kirkintilloch Initiative. Our review identified that the Council had not obtained a valuation of the assets prior to reclassification as held for sale, as required by the Code. A number of the assets were also identified as not belonging to the Council and therefore required to be removed from the accounts. ■ A formal valuation was undertaken of the assets. The revised revaluation has been reflected within the updated accounts and has been reflected through property, plant and equipment, rather than within the assets held for sale note.
Remuneration report	-	-	The *Local Authority Accounts (Scotland) Amendment Regulations 2011* require the Council to provide a remuneration report as part of its annual accounts. Under the regulations, councils are required to disclose the remuneration and pension benefits for senior councillors and senior employees of the Council and its subsidiary bodies, together with details of the Council's remuneration policy or the role it has in determining such a policy. ■ We reviewed the draft remuneration policy and found that the Council had materially complied with the regulations.

Financial statements preparation and audit process (continued)

Systems and controls
Preparation of the financial statements ■ Draft accounts and supporting documentation were provided on 29 June 2011 which was in line with the agreed timetable. ■ We worked closely with management to obtain relevant supporting documentation and explanations which were provided in a timely manner. ■ Following discussions in advance of the year end audit, the majority of information was made available electronically and the format, structure and detail of information provided was good. ■ Narrative statements were provided at the same time as the draft accounts and were substantially complete and consistent with our understanding of the Council.
Control environment ■ The majority of financial controls are designed, implemented and operating effectively. ■ A number of audit adjustments were made to the draft accounts to ensure that movements on property, plant and equipment were reflected appropriately within reserves. There is scope for enhancement of the year end accounts production process by ensuring that a reconciliation of reserves is completed and cross referenced with other movements in the accounts. ■ Overall, management's approach to preparing the accounts is efficient.

Financial position

The reported surplus is consistent with the forecast outturn. The forecast outturn position on services improved considerably during 2010-11.

Financial position

For the year ended 31 March 2011 the Council generated an accounting surplus of £80.971 million (2009-10: £0.480 million), the surplus includes the impact of the transition from RPI to CPI which resulted in a one-off past service gain of £41.07 million together with the surplus on the revaluation of assets of £6.675 million. A number of statutory adjustments are made against this surplus to determine the Council's underlying increase or decrease in the general fund balance.

Following these statutory adjustments, as required by the Code, relating to differences in accounting and funding, the net increase on the general fund was £2.142 million as summarised in the following table.

Comprehensive income and expenditure statement	£'000
Surplus on the provision of services	36,863
Other comprehensive income and expenditure	44,108
Adjustment required between accounting basis and funding basis	(78,829)
Result for the year: increase / (decrease) in general fund balance for the year	2,142
General fund balance brought forward	7,767
General fund balance carried forward	9,909

The general fund balance as at 31 March 2011 is £9.909 million, of which £5.728 million has been earmarked for known future commitments, such as, ongoing pay and grading issues, temporary support for capital projects, efficiency and reform reviews, as well as various departmental projects.

The majority of the increase in reserves is achieved through a combination of savings from individual departments against budget and project 'slippage' (£5.355 million). Savings have been realised through a combination of the delivery of efficiency savings and a reduction in staff costs following the earlier than anticipated departure of some staff under the voluntary severance scheme.

As at 31 March 2011, the Council has an uncommitted general fund balance of £4.181 million, compared with the agreed minimum target for uncommitted reserves of £2.5 million. The following table summarises the movements in the Council's committed and uncommitted general fund balances.

Updated financial position	£'000	£'000	£'000
	Uncommitted balance	Committed balance	Total general fund
General fund balance at 31 March 2010	3,135	4,632	7,767
Commitments utilised	-	(3,963)	(3,963)
One-off VAT claim receipt	292	-	292
Additional revenue grant	323	-	323
Additional council tax income	135	-	135
In year surplus against budget	2,210	3,145	5,355
Amounts from surplus committed to future periods	(1,914)	1,914	-
General fund balance at 31 March 2011	4,181	5,728	9,909

Financial position (continued)

Housing revenue account

The Housing Revenue Account ("HRA") reflects the statutory requirement to maintain a separate account for income and expenditure arising from the provision of council housing.

The final outturn position for the year ended 31 March 2011 was a surplus of £0.502 million (2009-10: £0.056 million). The 2010-11 reported results include £190,000 achieved through a scheme to retain any income generated from a reduction in the council tax discount on long-term empty properties and second homes.

Trading accounts

Since 2008-09, the Council has only recognised property maintenance as a significant trading operation. In 2010-11, the net trading position of the property maintenance operation was a deficit of £0.351 million (2009-10: £0.279 million surplus). The operations have generated a small surplus over the three year period 2008-09 to 2010-11 of £5,000 and therefore met the statutory requirement to break-even over a three year rolling period.

In view of a changed operating environment and financial position, when assessed against established criteria, the Council approved the removal of the property maintenance trading account from financial year 2011-12. Therefore, financial year 2010-11 is the final year of the operation of this trading account.

Recommendation two

Capital position and plan

During 2010-11 the Council incurred capital costs of £24.2 million. The table below summaries the main areas of capital expenditure:

Capital expenditure	Total cost 2010-11 £'000
Roads and transport	16,641
Housing and social services	5,191
Other	2,578

The Council's progress against the annual plan is subject to scrutiny by the capital programme monitoring group. The approved capital plan for 2011-12 includes £12.875 million of expenditure. This was increased to £27.627 million as at 25 August 2011 by the inclusion of significant slippage from 2010-11 (£7.94 million) and the cost of purchasing the assets of East Dunbartonshire Development Company (£7.692 million).

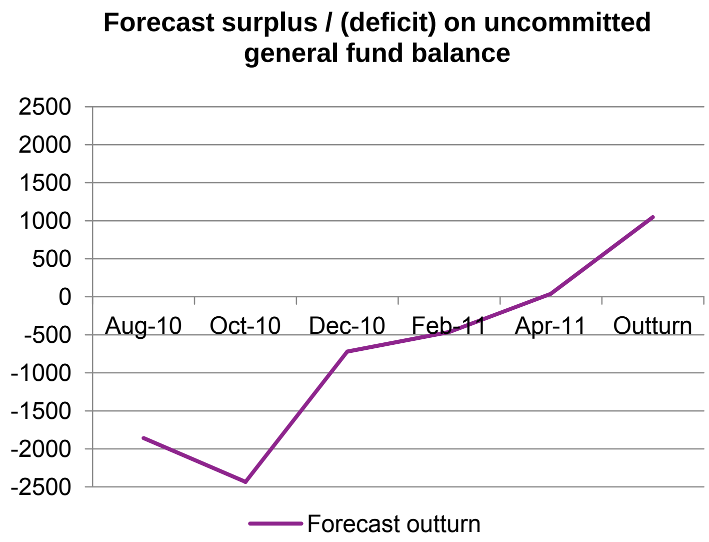
The total cost of the acquisition of the assets of East Dunbartonshire Development Company (£8.192 million) is to be financed through additional borrowing (£7.392 million), capital receipts (£0.3 million) and capital budget already provided (£0.5 million). The Council expects to fund the costs of borrowing through rental income streams associated with the purchased assets.

Financial position (continued)

Budget monitoring

In February 2010 the Council approved a balanced budget for 2010-11. The graph below summarises the forecast surplus or deficit on the uncommitted general fund balance, as reported to the policy and resources committee.

Financial performance is reported to management on a monthly basis and at each meeting of the policy and resources committee. Financial performance reports include detailed service level analysis and information on the utilisation of committed general fund balances. The originally approved budget is amended during the year to reflect updated information, such as receipt of additional grant funding or changes in services.



The final increase of £1.046 million on the uncommitted general fund balance is significantly better than the forecast in October 2010. The main reasons for the increase in the outturn are detailed on page 12.

Short term financial planning

In February 2011 the Council approved its 2011-12 revenue budget forecasting a breakeven position, leaving an uncommitted general fund balance of £4.181 million. To enable delivery of this target, the Council identified a savings requirement of £8 million. £6.5 million of savings were agreed in December 2010 with the remainder approved prior to finalisation of the budget in February 2011.

Waste management savings (£0.3 million) included within the 2011-12 budget are not currently being achieved due to operational changes as a result of revised legislation. In addition, social work savings (£0.8 million) are not currently being achieved due to delays in agreeing changes to staff terms and conditions and processes.

Achievement of the required savings was monitored by the corporate management team until the first 2011-12 general fund balance revenue monitoring report was produced, after which savings were incorporated into department budgets.

As at 25 August 2011, the Council is forecasting adverse budget variance of £0.469 million together with £1 million of the general fund balance earmarked to underwrite savings targeted for 2011-12 which are in progress, but have not yet been fully secured.

The Council has identified a number of risks to the delivery of financial plans which have been incorporated into the financial risk register. The Council utilises its budget monitoring arrangements and its financial risk register to monitor the delivery of the savings plans.

Financial position (continued)

Medium term financial planning

At the time of our audit there was uncertainty in respect of the Council's funding for 2012-13 and beyond as a result of the ongoing Scottish Government spending review. At a national level, negotiations have commenced with COSLA and the Scottish Government, but management do not expect detailed grant figures for individual councils to be known until December 2011.

Required savings forecasts have been revised assuming a 1%, 2% or 3% cut in funding (rather than 4% as previously expected). This results in a savings requirement of £3.5 million, £6.5 million or £9.7 million respectively, assuming continued achievement of the savings following the implementation of the SOM.

At this stage, based on its standard planning assumptions, the level of Council expenditure required to finance the current level of services would need to increase by around £4 million in 2011-12. Management is estimating that grant funding could fall by £3.5 million, producing a gap of £7.5 million for 2012-13.

The full year impact of savings, approved by council in December 2010 are around £1 million. This has the effect of reducing the required savings gap to £6.5 million. Further analysis of the scenario was undertaken by the Council's budget stakeholder monitoring group in August 2011, along with discussion on the arrangements to identify a range of measures to balance the position for 2012-13.

Financial position (continued)

Treasury management

The Council experienced significant delays during previous years in realising capital receipts from a number of land sales, particularly those associated with their schools PPP project. As a result, additional borrowing was undertaken in 2009-10 to meet capital expenditure commitments, primarily in relation to capital contributions to both the PPP schools project and the Kirkintilloch Initiative.

During 2010-11, significant progress was made in respect of a number of outstanding receipts, though these were not all at the levels originally anticipated or, in some cases, contractually agreed. The Council continues to pursue debtors where it has a legal basis to do so and the following table summarises the expected and actual capital receipts received to date in respect of the PPP project.

As at 31 March 2011 the Council had outstanding debt of £131.7 million, including £15.5 million due within one year. While this reflects a reduction in net debt of £16.9 million, the effective management of the Council's treasury function remains a high priority. Debt repayments during the year were primarily funded through capital receipts and land sales which had previously been agreed but were delayed, resulting in the increased borrowing.

The Council has forecast that additional borrowing will be required to meet future capital commitments along with final payments of liabilities associated with the voluntary severance scheme and the cost of purchasing the assets of East Dunbartonshire Development Company.

Area	Planned receipt £'000	Receipt to date £'000	Expected receipt £'000	Status
Former Bishopbriggs H.S.	11,520	6,175	1,500	Borrowing incurred. Agreed phased receipt; £6.175m in 2010-12, of which £6.1m was directed to the capital fund, and £0.075m to revenue. £0.5m due to be received in 2011-12, and £1m by 2015.
New Bearsden Academy (surplus land)	3,000	2,950	n/a	Borrowing incurred. Receipt achieved in 2010-11 and directed to the capital fund.
Old Bearsden Academy (phase 1 & 2)	11,000	11,000	n/a	Receipt achieved as anticipated
Old Bearsden Academy (phase 3)	16,900	(not disclosed)*	Uncertain	Borrowing incurred, legal proceedings ongoing. Interim receipt agreed. This was applied to the Council's debtor.
Douglas Academy	3,400	3,630	n/a	Borrowing incurred, receipt achieved in 2010-11 and directed to capital fund.
New Bishopbriggs Academy (former Thomas Muir H.S.)	2,000	0	2,000	Borrowing incurred. Receipt achieved in 2011-12.
Turnbull High	340	0	0	Borrowing incurred. No receipt anticipated.
Total	48,160	(not disclosed)*	3,500	*Due to legal reasons, these figures are not disclosed.

Financial position (continued)

The Council's treasury management strategy outlines the Council's overriding treasury management objectives. In line with CIPFA's Code of Practice on treasury management, the audit and risk management sub-committee is responsible for the scrutiny of the strategy and performance. The 2011-12 to 2013-14 treasury management strategy and 2011-12 investment strategy were presented to the audit and risk management sub-committee on 30 March 2011.

The treasury management strategy includes assessment of the Council's current and long-term borrowing commitments. A stakeholder working group is considering the most suitable strategy for the Council, including whether the existing level of borrowing should be maintained to enable prudent capital investment or if resources should be used to reduce the net debt. The latter option would generate annual savings through a reduction in interest repayments.

The Council has reported compliance with the prudential indicators set out in the treasury management strategy throughout 2010-11.

Following the reclassification of investment property to operational land and buildings under the Code, these have been removed from the annual investment strategy on the basis that the Council holds them primarily for the purposes of economic regeneration and not for rental income. It remains important for the Council to consider the level of rents set for these properties balancing investment decisions with economic regeneration.

Recommendation four

Movement in net borrowing	2009-10 £m	2010-11 £m	Variance £m
Long-term borrowing	122.2	116.2	(6)
Short-term borrowing	26.3	15.3	(11)
(Cash) / overdraft	2.4	(7.6)	(10)
	150.9	123.9	(27)

Audit Scotland national reports

Audit Scotland's corporate plan 2009-12 reinforces a commitment to maximising the impact of their work. As part of this process auditors are required to provide information on how bodies respond to national performance audit reports.

Improving public sector purchasing

In 2010-11 we were required to report on the Council's response to the publication of the joint Accounts Commission / Auditor General for Scotland report, "Improving Public Sector Purchasing" published in July 2009.

Our work centred around the answers to three questions to facilitate analysis of the Council's arrangements. Overall, we found that arrangement at the Council are appropriate and mitigate the issues highlighted by the report.

The corporate procurement strategy 2011-14 was approved by the policy and resources committee on 25 August 2011. It reflects the recommendations made in the report and the revised structures and processes now in place following the implementation of the SOM.

Waste management

We were also required to report on the Council's response to the publication in July 2009 of the report "Waste Management".

During our review we found that the Council was in the process of reviewing waste collection and disposal arrangements. However, we noted that delivery of the associated plans had been delayed pending the outcome of a Scottish Government review of strategic plans.

Corporate governance and performance management arrangements

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

Corporate governance framework	The Council operates a committee based structure with the Council supported through five committees; policy and resources, development and Infrastructure, housing and community services, education and social work committees. The committees are further supported by the audit and risk management sub-committee and the scrutiny panels which are chaired by members of opposition parties. These provide scrutiny and challenge to strategic decisions and performance. During 2010-11 the Council substantially completed the roll out of the SOM. This followed a comprehensive assessment of how the Council operates and delivers services to its customers . Delivery of the revised SOM resulted in a significant number of surplus posts at the Council. The Council undertook voluntary severance trawls during the year resulting in a total cost of £7.7 million. The Council will need to continue to monitor the impact of the SOM on internal controls.
Statement on system of internal financial control	The statement on internal control provides details of the purpose of the framework of internal financial control, along with an analysis of its effectiveness. The system of internal financial control is based on a framework of regular management information, financial regulations, financial and administrative procedures , management supervision, and a system of delegation and accountability. The statement highlighted that the division of duties within certain service areas could pose a potential risk to the effectiveness of the internal control system. However, management is aware of the situation and management considers that the issue is being effectively managed. This is consistent with our understanding of the system of internal financial control at the Council.
Internal controls	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. We have raised a number of recommendations within our interim management report to allow the Council to improve its internal controls.
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. The head of internal audit provides an annual statement on the adequacy and effectiveness of the internal control system at the Council. This was submitted to the audit and risk management sub-committee and states that, notwithstanding ongoing issues in relation to division of duties, “reasonable assurance can be placed upon the adequacy and effectiveness of the Council’s internal control systems in the year to 31 March 2011”.

Corporate governance and performance management arrangements (continued)

The Council has robust governance arrangements in place which allow strategic plans to be linked to operational plans.

Fraud and irregularity	We evaluated that the procedures and controls related to fraud were designed and implemented effectively. During 2010-11 there were no significant frauds identified at the Council. The Council continues to participate in the National Fraud Initiative ("NFI"). From the 2011 data, the Council had 1,702 matches. We found that the Council had only concluded the results of 578 of these and that 249 remained unopened. While we acknowledge that the implementation of the SOM has lead to structural change within the Council, it is essential that the Council investigate indications of fraud in a timely manner. The Council should allocate resources accordingly to ensure matches are followed up in an appropriate timescale. ***Recommendation three***
Single outcome agreement	The Single Outcome Agreement ("SOA") was approved by Council in March 2011. The SOA acts as the Council's overarching strategic plan, incorporating the former corporate development and community plans. The SOA sets out the Council's strategic priorities as: ■ the promotion and support of enterprise and employment whilst protecting and enhancing the Council's natural and built environment; ■ the health, safety, wellbeing and success of the Council's communities; and ■ improvement in the value of the services the Council provides and the outcomes achieved. Following the comprehensive stakeholder engagement programme undertaken throughout 2010, nine key local outcomes for the Council, and its strategic partners to deliver over the SOA period were identified. These have been incorporated into the SOA. Underpinning the SOA is the Council's strategic improvement plan for 2011-14. This sets out strategic improvement priorities over the three year period supporting delivery of the SOA .
Corporate / service planning – links to improvement plans	From April 2011, the Council rolled out new performance management arrangements. Key performance indicators, actions to mitigate risks and audit recommendations are recorded centrally in the Covalent system. The system allows key performance indicators, linked to the Council's strategic priorities to be monitored both at a corporate and local level. Local business and improvement plans have been developed and are reviewed on a quarterly basis. These are subject to review by the scrutiny panels. This ensures robust challenge to performance both at local and council level to ensure delivery of strategic priorities.

Corporate governance and performance management arrangements

Internal audit scrutiny of performance reporting could be improved through more timely assessment of statutory performance indicators.

Performance reporting – SPIs and KPIs

Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. Our testing did not identify any weaknesses surrounding the performance reporting arrangements at the Council.

Internal audit has a rolling programme of reviewing performance indicators during the year. We found that a number of the reviews completed within 2010-11 were of indicators reported in 2009-10. Furthermore, reviews that tested 2010-11 data were not fully completed. We recommend that management consider aligning the review programme with SPI submissions to ensure that the data tested is relevant to the current financial year.

Recommendation five

Annual efficiency statement

The Council's annual efficiency statement 2010-11 reports delivery of cashable efficiencies of £5.086 million which compares favourably with previous years.

Year	Efficiencies reports £'000
2010-11	5.1
2009-10	4.8
2008-09	4.0

In 2010-11, the Council completed a detailed stakeholder consultation programme which involved stakeholder working groups identifying their service priorities. The results of this review informed the corporate budget and the development of the 2011-14 SOA. The strategic planning and improvement framework supports the delivery of the SOA with the core elements of performance measurement reflected in each of the Council's ten business and improvement plans and their associated indicators.

The most significant efficiencies reported, are attributed to the implementation of the SOM, while the Council's scrutiny panels review business and improvement plan performance to confirm that service provision and corporate targets are not adversely impacted.

Appendix

Appendix one – action plan

The action plan summarises specific recommendations, together with related risks and management's responses.

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

Ref	Issue and risk	Recommendation	Management response
1	The delivery of the SOM represents a significant change to the Council's operating structure. There were a number of delays throughout the implementation and it would be beneficial for the Council to undertake an assessment of the project as a whole.	Management should carry out a post-implementation review which assesses the final costs and benefits of the SOM together with a summary lessons learned from the implementation of the significant program of change. **Moderate risk**	Agreed. It has always been the intention to present a paper on the implementation of the SOM, once fully implemented. **Responsible officer**: Head of Customer Relations & Organisational Development **Implementation deadline**: 31 March 2012
2	The Council approved the removal of the property maintenance trading account from financial year 2011-12.	Management should implement a process to ensure an annual review for the existence of statutory trading operations is carried out. This should be subject to review by an appropriate senior member of staff or committee. **Low risk**	Agreed. Since 2009 an assessment of the key indicators has been undertaken and this will be formalised during the final accounts process for 2011-12. This will be conducted by heads of service in the services affected and will be reported to the audit and risk management sub-committee by the head of finance & ICT **Responsible officer**: Heads of service **Implementation deadline**: 30 June 2012
3	The Council continues to participate in the National Fraud Initiative ("NFI"). While we acknowledge that the implementation of the SOM has lead to structural change within the Council, it is essential that the Council investigate indications of fraud in a timely manner.	The Council should allocate resources accordingly to ensure matches are followed up in an appropriate timescale. **Moderate risk**	Agreed. The audit and risk manager will collate an assessment of areas where prioritisation of investigation of NFI matches is required and an action plan will be agreed by the strategic management team. **Responsible officer**: Heads of service **Implementation deadline**: 31 December 2011

Appendix one – action plan (continued)

The action plan summarises specific recommendations, together with related risks and management's responses.

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

Ref	Issue and risk	Recommendation	Management response
4	Following the implementation of the Code, the Council reclassified a number of investment properties as property, plant and equipment. As a result they were removed from the 2011-12 investment strategy presented to Council on 30 March 2011. There is a risk that due consideration is not given to balancing economic regeneration activities with review of rental income.	Management should formalise a detailed economic regeneration plan, including the details of relevant assets held for specific purposes. This should include details of planned rent levels, asset sales and purchases and the process for review. **Moderate risk**	Agreed. This will be included as part of the strategic asset review being considered by the council. **Responsible officer**: Head of Assets & Property **Implementation deadline**: 30 June 2012
5	Internal audit have a rolling programme of reviewing performance indicators during the year. We found that a number of the reviews completed within 2010-11 were of indicators reported in 2009-10. Furthermore reviews that tested 2010-11 data were not fully completed.	Management should consider aligning the review programme with SPI submissions to ensure that the data tested is relevant to the current financial year. **Moderate risk**	The rolling programme reviews the underlying reliability of the SPI performance reported, therefore it is not always necessary to review the latest data. Internal audit prioritise review of SPI's where the basis of measurement has changed. However ,the sentiment of the recommendation will be considered and if possible this will be incorporated into the timescale of the SPI audit work. **Responsible officer**: Audit & Risk Manager **Implementation deadline**: 30 June 2012

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