

# City of Edinburgh Council

## Annual report on the 2011/12 audit



Prepared for Members of City of Edinburgh Council and the Controller of Audit  
November 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key messages

## 2011/12 audit findings

This report summarises the findings from our 2011/12 audit of City of Edinburgh Council ("the Council"). As part of the audit we assessed the key financial and strategic risks being faced by the Council. We audited the financial statements and reviewed the Council's financial position and aspects of governance, best value, the use of resources and performance.

This report sets out our key findings and this introductory section presents our summary view on the major events of the previous year and on the risks and challenges which these bring for the future.

We have given an unqualified opinion on the financial statements of the Council. However, our opinion draws attention to the failure of three significant trading operations (Refuse Collection (including Trade Waste), Direct Cleaning and Edinburgh Catering Services - Other Catering) to breakeven on a rolling three year basis.

## Governance and Performance

City of Edinburgh Council is at a key stage in its organisational and service development. A new administration came into office in May of 2012. The Council has a relatively recently appointed Chief Executive and a substantially renewed management team who are working with the Council to develop new models of working and to address the wide range of current challenges which the Council faces. Those challenges are substantial. The Council's financial position, while currently in balance, faces the possibility of future deficit if it fails to deliver substantial savings on a recurring basis. This is not uncommon for Scotland's public bodies, but for the City of Edinburgh Council there are a number of current issues which add to this challenge.

The Council had been developing an Alternative Business Model approach to service provision. Considerable effort had been expended over a number of years to construct that model and to design it such that it delivered savings which the Council requires to ensure financial sustainability for the future. However, in 2011/12 the Council chose not to pursue that model, which would have entailed substantial use of external partnerships, and instead favoured the development of in-house alternatives. It is, of course, for the Council to make those choices, however it leaves a serious challenge for the organisation in ensuring that it can identify alternative savings. We are aware of a range of initiatives by the Council to address this and we will follow these developments with particular interest.

The issues of the Edinburgh tram system are well rehearsed. Our report discusses the issue in its wider context of the Council's service aims and its future financial challenges. The year under review has been one of significant developments for the tram programme. Early in 2011/12, a key development was the mediation process with the contractors which re-focussed the project after a particularly challenging period which had resulted in a stoppage on the project. The Council's decision making over the route and extent of the system did falter publicly later in the year, before

the current route option was agreed. Since then the developments have been steadier. The Council no longer manages the project and Transport Scotland now takes a more active role. Contractor relations are on a firmer footing and the project continues in line with the - albeit revised - timetable and budget. However, risks remain, as with many projects of this magnitude. The revised budget has also resulted in £231 million of additional borrowing for the Council, and whilst not the most indebted of Scotland's Councils, this leaves the City of Edinburgh bearing a relatively high debt burden going forward.

The Council has also faced a difficult year for its service reputation, specifically in relation to its handling, over a number of years, of its statutory repairs and related functions. Allegations have come forward of mismanagement and fraud, resulting in several staff being dismissed and a separate police investigation. The service is now operating on an emergency only basis while steps are taken to re-design the service. A dedicated team has also been established to deal with outstanding complaints and unbilled works of £27 million. This not only gives the Council the difficult challenge of restoring its service reputation but, our report concludes, it also leaves a legacy of financial uncertainty in relation to the recoverability of much of the substantial cost incurred, although this financial uncertainty is mitigated, to an extent, through an impairment provision.

Overall, however, we have concluded that the Council's governance arrangements are adequate and we recognise that considerable work is underway to strengthen the Council's governance framework at both an operational and political level. This in itself is a challenging area, and our report comments on the fact that for a short period in 2012 the Council's Audit Committee was chaired by a member of the ruling administration, which is not in accord with good and appropriate practice. However, we recognise that plans have been implemented and this very important role is now fulfilled by an opposition group member. A significant change has been the merger of the Finance and Corporate Services Departments into one department under the Director of Corporate Governance. The Council has initiated a number of reviews in, for example, audit and risk management arrangements, IT, strategic project management, procurement activity and priority based planning.

The Council and its management are doing much to develop the organisation's performance. There is a systematic approach to performance management which has provided a basis on which to develop and establish outcome-focussed performance improvement across the organisation, and a new Performance Framework is being developed. Reports indicate that overall performance is good with 88% of indicators showing performance being maintained or improving. These areas will be reviewed in the context of our upcoming Best Value review, which is referred to below.

## **Financial Management**

The preceding paragraphs set out the operating challenges for the Council, but it is essential to view these in the light of the financial resources, and their management, which will be fundamental to their resolution. Our full report makes these linkages clear.

In 2011/12, the Council spent £1.6 billion on the provision of public services, leaving a surplus on the provision of services of £16.5 million which after adjusting to the funding basis equates to some

£0.05 million. The unallocated general fund (funds held against the risk of unanticipated expenditure or reduced income arising in any particular year) was, as planned by the Council, unchanged at £13.0 million as at 31 March 2012. However, the Council's useable reserves have increased by £21.3 million (17%) during the year, which is a greater increase than most Scottish Local authorities. The Council needs to continue to ensure that the level of its reserves strikes a reasonable balance between meeting current obligations and preparing for future commitments or reductions in funding.

We have noted above the impact of the tram budget on increasing borrowing. At 31 March 2012, the Council had £1.4 billion of debt, an increase of £112 million compared to the previous year, and an increase of 30% since 2007/08. At 31 March 2012, the Council had borrowed £38 million in advance of need to take advantage of low interest rates, albeit this is reducing as part of its treasury management strategy. The Council therefore has a significant level of debt which needs to be monitored as part of its overall financial strategy. The annual cost of borrowing will continue to put pressure on the Council's budget setting process which is already seeking to deliver savings to meet future funding gaps.

Capital expenditure totalled £339 million during 2011/12, with slippage occurring of £62 million. Of this slippage, £11.3 million related to the tram project with the remainder relating to other Council services such as flood prevention and environmental projects. This project slippage is accompanied by shortfalls in capital receipts. Capital receipts in 2011/12, from asset sales (excluding Housing Revenue Account), were £5.2 million, a shortfall of £12.4 million on the budget. The Council is reviewing its approach to capital planning, including its assumptions on the availability of capital receipts, to ensure the most effective application of its limited capital resources.

## Outlook

Scotland's public bodies continue to face increasing demand and cost pressures for their services and this is likely to continue in the future. An ageing population, the effects of the recession and the heightened expectations of the public, all increase the demand for public services. These, together with cost pressures and existing financial commitments, place an additional burden on the capacity of public bodies to provide efficient and quality services at a time when budgets are reducing.

The Local Government Settlement 2012/13 to 2014/15 confirmed allocations for 2012/13 and contained provisional figures for the following two years. The Scottish Government's decision that no authority should receive less than 85% of the Scotland-wide per capita average grant support has added approximately £22 million to the Council's allocation in each of the three years covered by the Settlement announcement. The Council's updated revenue budget shows a funding gap of £4 million for 2013/14 and £32 million in 2014/15. The Council will need to identify savings through its long term financial plan to ensure that the funding gaps in 2013/14 and 2014/15 are closed.

The Council is taking forward a number of improvement plans following the decision not to pursue the Alternative Business Model as a means of generating significant savings. This is a crucial issue for the Council to resolve as the savings to be generated will be required to assist with financial

sustainability going forward. The plans are at an early stage and full business cases (incorporating planned savings) are due to be presented to Council in November / December 2012. This process includes activities covered by those statutory trading organisations that failed to achieve a 3-year rolling break-even position in 2011-12.

It would be appropriate to note here that the Council had already recognised the key issues recorded in this report and that work is being undertaken to by the Council to address them. In particular, we refer to the developments set out in its report of 6 November 2012 to the Governance, Risk and Best Value Committee, on Operational Governance. This report provides an update on a number of key workstreams in respect of the Council's governance framework, procurement, internal controls and a wide range of corporate risk areas including trams, property conservation and financial position. We will follow these significant developments with interest.

In May 2012, we concluded our shared risk assessment and assurance and improvement plan (AIP) for the Council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. Following on from this work a Best Value 2 audit is planned for the end of the calendar year. An important element of the best value audit is an assessment of the Council's self-evaluation activity. This audit will look at the Council's overall progress in meeting its Best Value responsibilities including progress in dealing with risks identified in the AIP.

The co-operation and assistance given to us by Council members, officers and staff is gratefully acknowledged.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee on 19 April 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Council officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with audit committees, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the Council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



# Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
  - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the foreword, annual governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

## Audit opinion

10. We have given an unqualified opinion that the financial statements of the Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the Council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
11. We have, however, drawn attention to a failure to comply with the Local Government Scotland Act 2003. Three significant trading organisations (STOs) have failed to break-even, on a cumulative basis, over a three year period. The STOs are Refuse Collection (including Trade Waste), Direct Cleaning and Edinburgh Catering Services - Other Catering. It is important to emphasise that this does not affect the overall opinion on the accounts. Not included in this listing is BlindCraft which ceased trading during the year.
12. The Council reports that service improvements are being implemented for refuse collection which resulted in a surplus of £0.683 million in 2011/12. These improvements, which include new shift patterns and changes to routing are on-going and once fully implemented in 2012/13 are expected to bring additional savings. It is hoped that this will help the service move towards a sustained break-even position in future. Direct cleaning achieved a surplus of £0.607 million in 2011/12 and would have achieved surpluses in the two preceding years were it not for costs incurred in relation to equal pay. It is anticipated that surpluses will be achieved in future years and in the process will turn the rolling three-year period into a surplus position. Edinburgh Catering Services (other catering) produced a small surplus in 2011/12 (£0.014 million) for the first time in recent years.

13. While the STOs have achieved surpluses in the current year there is no guarantee that this position will be maintained in future years. Also, at the recent Audit Committee (27 September 2012) management asserted that plans have yet to be fully developed that will deliver improvements in these services, but that these are in progress.

**Refer Action Point no. 1**

## Legality

14. Through our planned audit work we consider the legality of the Council's financial transactions. In addition the Acting Chief Financial Officer 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 legality issues arising from our audit which require to be brought to members' attention.

## Annual governance statement

15. As part of our annual audit we review the disclosures in the Annual Governance Statement and the process for obtaining sufficient assurances to inform the content of the statement. Overall we are satisfied with the processes put in place to obtain assurances from service directors and the Chief Executives / Directors of Finance of group companies.
16. We also reviewed the Acting Chief Internal Auditor's annual assurance report presented to the Audit Committee on 27 September 2012. It concluded that 'reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control environment'.
17. The Annual Governance Statement (AGS), while complying with the minimum disclosure requirements set out in the code of practice on local authority accounting in the United Kingdom 2011/12 in relation to the system of internal financial control, in our view would have benefited from the inclusion of further contextual comment on the issues around statutory repairs and related services.
18. The Annual Governance Statement referred in outline to a number of areas where improvements are required including:
- the procurement activities of the Council
  - the delivery of internal improvement plans
  - the management of major projects through a dedicated programme office
  - the control framework within a customer centred framework
  - the scrutiny and governance arrangements of the Council Committees.
19. The improvements planned are comprehensive and ambitious. Internal Audit will be responsible for monitoring improvement actions identified in the governance statement and the new Governance, Risk and Best Value Committee will be responsible for monitoring progress against these areas.

## Accounting issues

20. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). From our audit work, we are satisfied that the Council prepared the financial statements in accordance with the Code.

## Accounts submission

21. The Council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2012. Overall, the quality of working papers has continued to improve compared to previous years. The Acting Chief Financial Officer and his staff provided a comprehensive working paper package at the start of the audit. This enabled us to conclude the audit and certify the financial statements on 28 September 2012. The financial statements are now available for presentation to members and publication.

## Presentational and monetary adjustments to the unaudited accounts

22. On conclusion of the audit, there were a number of presentational changes made to the accounts. Each year there are also a number of changes to the group accounts to reflect the audited results submitted by group companies in September.
23. A number of matters were identified during the audit and adjustments were made to the accounts. The most significant items related to:
- The increase in the statutory repairs bad debt provision of £1.9 million taking it from £5.3 million to £7.2million.
  - Statutory repair debtor and bad debt provision balances relating to payments made to contractors but not billed to property holders of £27 million, of which some £11.3 million (41.8%) dates back to 2009) were all included within current assets. Based on the age of the amounts not yet billed to owners it was appropriate that a significant percentage of the debtor and bad debt balances were moved into long term debtors.
  - The provision calculation spreadsheet for equal pay for 2011/12 contained a misstatement of £0.7 million.
  - The percentages used to calculate the housing benefit overpayments bad debt provision were incorrect resulting in a mis-statement of approximately £0.3 million.

## Post balance sheet events

24. The financial statements draw attention to the Police and Fire Reform (Scotland) Act 2012 which received royal assent on 7 August 2012. Responsibility for Police and Fire and Rescue services will transfer from local government to new central government bodies on 1 April 2013. The full impact of the reform process is currently being assessed.
25. New Edinburgh Limited, a 50% owned subsidiary of CEC Holdings Limited, was placed in administration on 9 July 2012. There was no financial impact on the value of the Council's investment in CEC Holdings Limited.

## Statutory Repairs

26. An investigation has been on-going for approximately 18 months into alleged improper practices including poor service, overcharging and apparent gross mismanagement in the Council's statutory repairs service over a number of years. Complaints have been received from 883 owners covering 721 different projects. These cover a range of issues including the scope of work, costs, work quality, project management and communications. A Complaints Resolution Team has been appointed to investigate these complaints and report to an internal panel of senior officers on outcomes in each case. As reported to the Policy and Strategy Committee meeting on 7 August 2012, 58 complaints had been investigated with 45 agreed outcomes. Two appeal cases have also been received. There remains the risk of continuing reputational damage while complaints remain unresolved. The service is now restricted to emergency repairs only and is in the process of being re-designed.
27. A number of actions have been taken by the Council including disciplinary investigations and dismissal of staff as well as a separate police investigation. In addition, Deloitte were commissioned to undertake a review of the statutory repairs service. The Deloitte reports are not in the public domain due to on-going investigations. The total amount paid to Deloitte for their work on statutory repairs was £2.195 million in 2011/12.
28. The financial statements contain a total debtor balance of £39.7 million relating to statutory notices. The largest element of this balance is made up of work carried out by contractors but not yet billed to property holders of £27 million, of which some £11.3 million (41.8%) dates back to 2009. There is also £4 million of administrative costs to be billed to the owners, making a total of £31 million unbilled.
29. As part of our work on debtors, we have considered the collectability of outstanding debt in respect of statutory notice work. Prior to the current circumstances, recovery rates of approximately 95% for billed work were achieved. The financial statements contain a total bad debt provision for statutory notices of £5.3 million (13.3% of total debt). After discussions with the external auditors regarding the level of the bad debt provision, the Council revaluated the provision resulting in an increase of £1.9 million to £7.2 million. Although we believe the current increased provision is reasonable, based on the available information at the time, provisions by their nature are uncertain. Failure to recover the amounts anticipated will adversely impact on the Council's financial position going forward.
30. As outlined above, over several years a significant amount of unbilled work has been allowed to accumulate i.e. approximately £27 million (£31 million including £4 million of administrative fees attached to these bills). Preparatory work has been undertaken to understand the case histories of repairs bills prior to billing. We have been advised that priority is being given to finalising these accounts.

### **Refer Action Point no. 2**

31. The Council is currently considering options for the new service based on consultation with homeowners and the legislative framework. The consultation period ends on 31 October 2012. Several options are being considered including:

- Property Factoring - homeowners would appoint a factor to provide property maintenance, repair and management services on their behalf.
  - Edinburgh Stair Partnership - this was a service previously provided by the Council. It provided support and guidance to homeowners in taking a planned approach towards progressing repairs and required a 100% sign up.
  - Tenement Management Scheme - this is a statutory provision through the Tenement (Scotland) Act that enables home owners to manage common repairs where their title deeds do not clearly define the maintenance of areas of common responsibility.
32. The Council plans to have a new service in place by spring 2013. Its introduction will require a complete re-design of the service including statutory powers, policy procedures, IT, financial systems and performance reporting. It is essential that good governance structures are put in place to support these changes. In the meantime, an interim service focused on emergency common repairs will be provided by Property Conservation.

**Refer Action Point no. 3**

### Group subsidiary companies severance and bonus packages

33. The remuneration report discloses that the Directors of tie Ltd, a 100% owned subsidiary of the Council, were paid a total of £406,635 compensation for loss of office. Some of the Directors of tie Limited were also paid bonuses, totalling £35,019, in 2011/12. Also, the Directors of Lothian Buses plc, a company 91.01% owned by City of Edinburgh Council, were paid bonuses totalling £175,900. The Chief Executive of the Edinburgh International Conference Centre (EICC) was paid a bonus of £12,910, as disclosed in the remuneration report.
34. Whilst we have carried out our own review, we also asked the Section 95 Officer, in a letter of representation, about the appropriateness of these payments. The Council's Chief Financial Officer (S. 95 officer) confirmed that payments made for loss of office and bonus payments to Directors of Council owned companies have been made in accordance with relevant contractual obligations and approvals. The Council should continue to ensure the arrangements around bonuses paid in its subsidiaries accord with the Council's own vision of good governance, accountability and transparency. The Council has initiated a review of governance arrangements for its companies as part of the wider governance review.

### Tram vehicles

35. The Council initially capitalised £6.3 million of expenditure relating to tram vehicles as vehicles, plant and equipment. Finance staff subsequently identified that this expenditure should have been treated as assets under construction as the tram vehicles are still at the commissioning stage and are not yet ready for use. We requested and received evidence considering the appropriateness of this re-classification of expenditure, and we concurred with this treatment. The financial statements were amended to include tram vehicles expenditure as assets under construction.

36. With the Council's decision to terminate the tram line at York Place only 14 trams will be operationally required from the 27 ordered. The Council is currently examining disposal strategies for the remaining fleet. Management anticipate that this will generate operational savings.

**Refer Action Point no. 4**

## Heritage assets

37. The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 has a new section on heritage assets. This requires such assets to be recognised in the financial statements in accordance with FRS 30 heritage assets. Heritage assets are those that are intended to be preserved in trust for future generations and are held and maintained principally for their contribution to knowledge and culture. Heritage assets include historical buildings, archaeological sites, civic regalia, museum and gallery collections and works of art.
38. In recognition of the difficulty in obtaining valuations for this class of assets, the Code permits value to be measured in any way which is appropriate and relevant. In accordance with this Code requirement, the Council has recognised assets to the value of £37.2 million based on a combination of internal valuations carried out under the direction of the Council's Property Management and Development section and insurance valuations as detailed in note 17 to the financial statements. Note 17 also discloses that heritage assets are based on historical values because the cost of obtaining recent valuations would be disproportionate to any benefits derived. In future, the value of heritage assets will be reviewed on a regular basis to ensure they remain appropriate. We are satisfied as to the approach adopted by the Council in the implementation of FRS 30 and that, as this is a change in accounting policy, the previous year's figures have been appropriately restated in accordance with IAS 8.

## Heritage assets belonging to Common Good, Charities or Trusts

39. The notes to the financial statements disclose that it has not been practical or possible to split all heritage assets belonging to the common good fund, charities or trusts. The Council's balance sheet, therefore, may hold elements of heritage assets that belong to other entities. Whilst we have carried out our own review, we have asked the Section 95 Officer, in a letter of representation, about the appropriateness of these values. The Chief Financial Officer expressed the view that the value of assets belonging to other entities was not expected to make a material difference to the accounts.

## Group accounts

40. ISA600 'Using the work of another auditor' requires us to consider a number of matters relating to the audit of component entities included in the group financial statements of the Council. As part of this process we issue component auditor questionnaires to the auditors of all group entities and obtain audited accounts for all subsidiaries and associates. At the time of completing our audit work, we had yet to receive a completed component auditor questionnaire, or set of audited accounts, from the auditors of Transport Initiatives Edinburgh (tie) Ltd. A set of unsigned draft accounts incorporating a clean audit opinion has been

provided to external audit. The auditors have also since provided a completed component auditor questionnaire and confirmed that there were no matters which required to be amended in the Council's Group Accounts.

41. The accounts have not been signed by tie limited or its auditors as there are no tie limited employees left who are legally able to sign the accounts. The Council needs to resolve the issue to ensure the final accounts of tie limited can be signed off by the auditors.

**Refer Action Point no. 5**

## Equal Pay Provision

42. As at 31 March 2012 there remain a number of claims registered with the Council from APT&C (Administrative, Professional, Technical and clerical) employees under the Equal Pay Act 1970 (replaced by the Equality Act 2010). It should be noted that the Council reached settlement with former APT&C staff in October 2012. The Council had made a provision for the potential costs of such claims and associated costs, amounting to £24 million. We note that there has been a considerable amount of work done by the Council in this area and the provision has reduced significantly from the previous year. We have reviewed this area and conclude that the provision is more robustly derived than in previous years, where we had indicated that it may have been over-prudent.

# Financial position

43. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
44. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
45. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

46. In 2011/12, the Council spent £1.6 billion on the provision of public services, leaving a surplus on the provision of services of £16.5 million. The unallocated general fund (funds held against the risk of unanticipated expenditure or reduced income arising in any particular year) was, as planned by the Council, unchanged at £13.0 million as at 31 March 2012.

## Budgetary control

47. A favourable net outturn of £0.05 million was achieved by the Council for 2011/12. All departments returned underspends against their revenue budgets for a third year. Services achieved a total underspend of £5.0 million as shown in the table below. Exhibit 1 demonstrates the move towards an underspend trend in the last five years.

**Exhibit 1: Service (underspend)/overspend**

Department	2011/12 £ million	2010/11 £ million	2009/10 £ million	2008/09 £ million	2007/08 £ million
Children and Families	(3.6)	(0.8)	(0.3)	2.3	4.1
City Development	(0.0)	(0.1)	(0.5)	0.7	0.6
Corporate Governance	(0.2)	(0.3)	(0.4)	(0.9)	(0.3)
Health and Social Care	(0.6)	(0.1)	(0.9)	(0.4)	5.0
Services for Communities	(0.6)	(0.5)	(1.7)	(1.6)	(0.8)
<b>Total (underspend) / overspend</b>	<b>(5.0)</b>	<b>(1.8)</b>	<b>(3.8)</b>	<b>0.1</b>	<b>8.6</b>

Source: Council's 2011/12 financial statements



## Reserves

48. Included in the general fund balance is £88 million which has been earmarked for specific purposes, for example, equal pay and unspent grant income received in advance of planned expenditure. This leaves an unallocated balance of £13 million (2010/11: £13 million) to cope with risks and deal with unforeseen costs or losses. The Council had a strategy in place to maintain its free balances at £13 million during 2011/12. This was achieved. See Exhibit 2 for details of useable reserves.

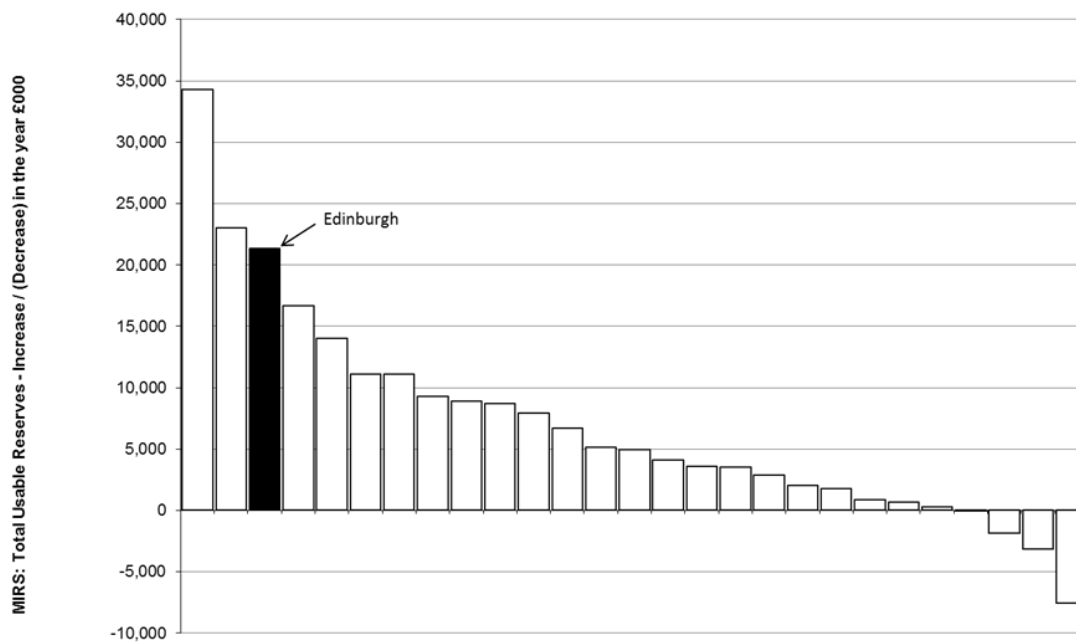
### Exhibit 2: Reserves

Description	31 March 2012	31 March 2011
	£ million	£ million
General Fund (unallocated balances)	13.0	13.0
General Fund (allocated balances)	88.4	76.7
Capital Fund	16.4	16.4
Capital Grants unapplied account	7.5	1.5
Renewal and Repairs Fund	19.0	15.4
<b>Total</b>	<b>144.3</b>	<b>123.0</b>

Source: City of Edinburgh Council's 2011/12 financial statements

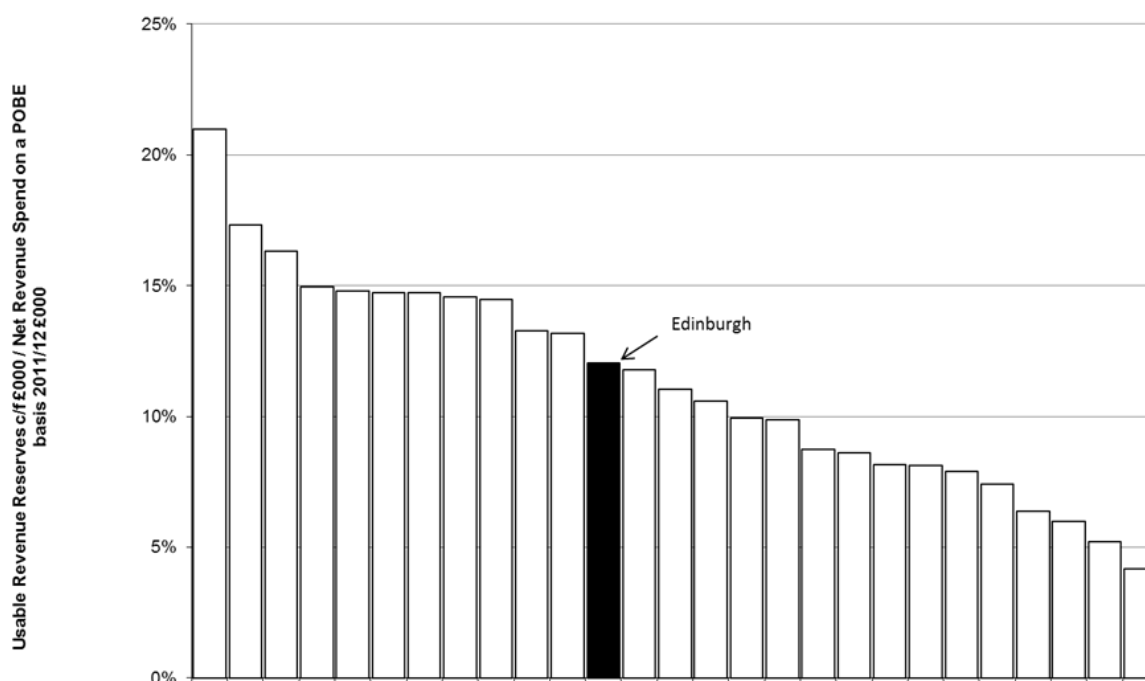
49. The overall increase in total usable reserves in 2011/12 is broadly consistent with the picture across the majority of Scottish local authorities, although that of the Council lies above the median value, as demonstrated in exhibit 3 overleaf.

**Exhibit 3: Movement in usable reserves in 2011/12**



Source: Scottish Local Authority audited financial statements 2011/12

50. Exhibit 4 below presents the Council's usable reserves position in relation to net revenue spend for the year in comparison to other Scottish local authorities. The graph demonstrates that the Council lies at the median level in relation to this financial ratio. It should be noted, however, that the comparison between authorities does not take into account the reserves strategy and risks within each local authority. The Council will need to ensure that the use of earmarked funds is kept under review and if it is identified that they are not needed for their earmarked purpose, their use is reconsidered in future budgets, in the context of the Council's service priorities. The Council also needs to ensure that the level of its reserves strikes a reasonable balance between meeting current obligations and preparing for future commitments or reductions in funding.

**Exhibit 4: Total usable reserves carried forward as a proportion of net revenue spend**

Source: Scottish Local Authority audited financial statements 2011/12

**Capital investment and performance 2011/12**

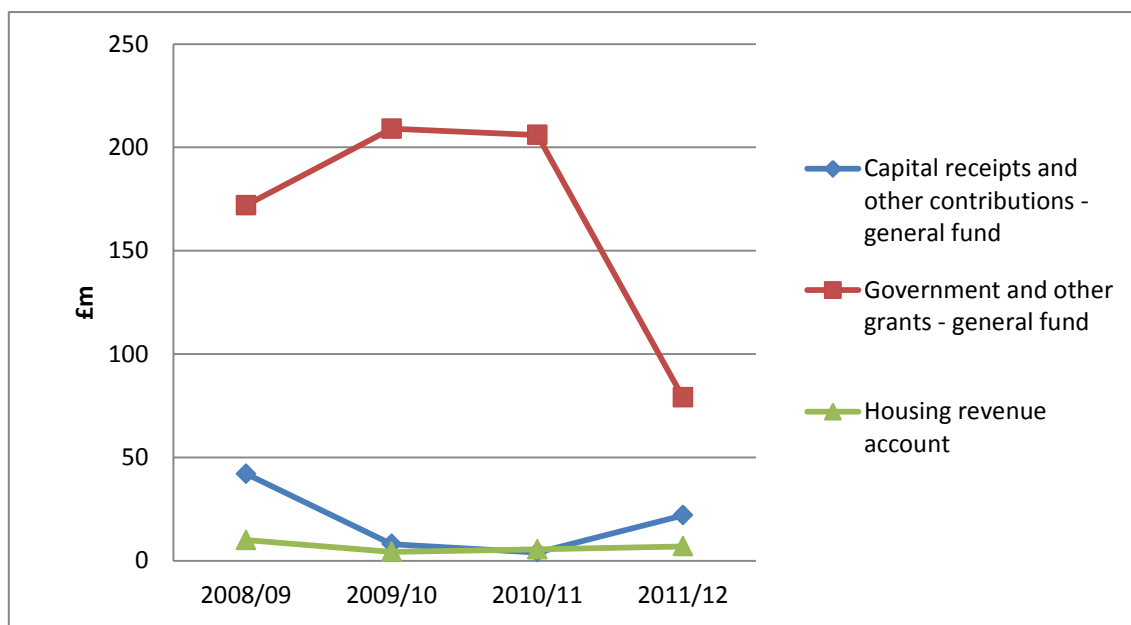
51. The financial statements show additions to the Council's property, plant and equipment of £297 million (2010/11: £258 million), the majority of which relates to roads and other infrastructure including the tram project. For a number of years, the Council's practice has been to manage its capital programme by over programming projects in the knowledge that not all projects will proceed in accordance with plans. The Corporate Management Team is reviewing capital budget practices as part of the wider governance review.
52. The outturn capital monitoring report for 2011/12 indicates that the Council had a significant number of capital projects with slippage, that slippage ranging from £0.02 million to £12.96 million. The total capital programme slippage reported in the financial statements was £62 million (2010/11: £70 million). From a review of the outturn report the largest project slippage of £12.9 million is the Edinburgh International Conference Centre extension which has been delayed due to inclement weather, however, it is not expected that this will impact on the overall timescales for completion of the project.
53. With the Council borrowing in advance of need to take advantage of low interest rates, combined with the capital programme slippage and reduced capital receipts, the result is a significant increase in investments and borrowing levels. The Council needs to consider whether the current process of over programming is appropriate or whether focusing on greater prioritisation and oversight of the capital programme will result in a more effective

approach. Management have advised that officers who work on capital monitoring (except the Housing programme) are being centralised within the Corporate Accounts Team in Finance and the entire process will be the subject of an internal review to identify best practice. This is intended to support a more accurate approach to capital receipts estimation and borrowing requirements for each financial year.

**Refer to Action Point no. 6**

54. In 2011/12, the Council had a capital funding budget of £116 million (excluding Housing Revenue Account) split between capital receipts, developers' contributions and government grants, with any balance between expenditure and funding obtained through borrowing. The trend in sources of funding for capital financing is reflected in Exhibit 5. It should be noted that government grants includes Transport Scotland's funding towards the tram project.

**Exhibit 5: Sources of Capital Funding**

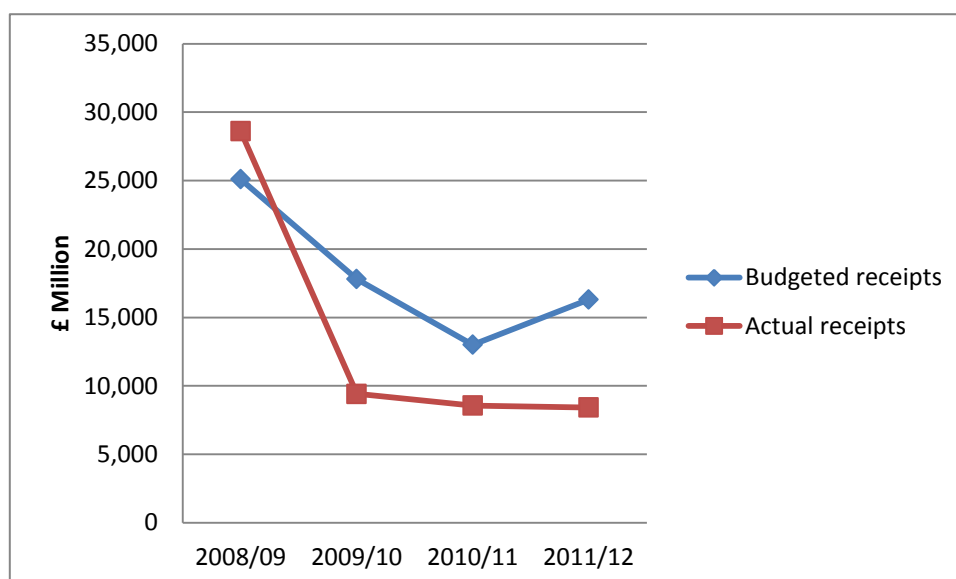


Source: City of Edinburgh Council's audited financial statements 2008/09 to 2011/12

55. The movements in exhibit 5 can be explained, in the main, by the funding requirements of the tram project. Government grants have been at a consistently high level as contributions from Transport Scotland (total contribution will be £500 million) have been received based on progress of the tram project. The reduction in 2011/12 reflects the revised payment schedules agreed following the mediation process to resolve the trams dispute. The £231m addition to the previous budget required to complete the tram project will be funded through prudential borrowing.
56. In common with other public sector bodies, the Council continues to face difficulties in generating the budgeted level of capital receipts. Capital receipts in 2011/12, from asset sales excluding those relating to the HRA, were £5.2 million, a shortfall of £12.4 million on the

budget. Exhibit 6 below shows the analysis of budgeted and actual capital receipts over the last four years.

### Exhibit 6: Capital Receipts Budget vs. Actual



Source: City of Edinburgh Council's approved capital budgets 2008/09 to 2011/12

57. Exhibit 6 highlights the reduction in both the budgeted receipts and the actual income from capital sales in the past four years. It also shows that a gap has remained between budgeted and actual income for the last three years which indicates that the Council is overestimating the level of capital receipts expected. The Council needs to ensure its budgeting of capital receipts is realistic as it impacts on the level of borrowing required each year, assuming the high level of capital programme slippage is also addressed through current plans.

**Refer to Action Point no. 7**

## Treasury management

58. The Council's money is invested in the 'cash fund'. The cash fund encompasses a number of the organisations including Lothian Pensions Fund and Lothian and Borders Police and Fire and Rescue Boards. As at 31 March 2012, the Council's 'cash fund' held cash and temporary investments totalling £343 million of which £235 million related to the Council. For the Council this represents an increase in cash held at the year end of £17 million.
59. The Council continued its strategy of low risk investment to ensure the return of the principal sums invested. The average interest rate achieved on the cash fund for the year was 0.77% which outperformed the benchmark (LIBID, London Interbank Bid Rate) of 0.48%. This generated income of £2.1 million for 2011/12. The Council maintained this low risk strategy by investing with banking institutions in mostly on-call or near call accounts. It is difficult to secure an attractive rate of interest particularly in the current economic climate where interest rates are at an historic low.

60. The Prudential Code requires the Council to demonstrate that its borrowing is affordable and sustainable. During the financial year, the Council operated within the treasury limits set out on the Council's treasury policy statement i.e. its prudential indicators. At 31 March 2012, the Council had £1.4 billion of debt (including HRA, Police and Fire), an increase of £112 million compared to the previous year. During 2011/12, the Council borrowed £135 million of PWLB (Public Works Loans Board) loans at an average interest rate of 4.28% with an average maturity in excess of 24 years. It is difficult to make a direct comparison with other local authorities because of differing positions on HRA debt and stock transfer. Having said that, the Council still has very substantial borrowing levels which have increased by some 30% since 2007/08. This is largely attributable to the tram project and purchase of Waverley Court and other assets.
61. In 2010/11, the Council borrowed in advance of need which resulted in the Council holding £83 million pre-borrowed. This was largely due to the Council's decision to take advantage of low interest rates and borrow £65 million during 2010/11. At 31 March 2012, the Council has a borrowing in advance position of £38 million. This reduction reflects the Council's strategy of reducing its investments and holding off borrowing further at present until it becomes clearer how the Eurozone sovereign debt situation will be resolved due to the effect it is having on borrowing and investment rates.
62. For 2011/12, the Council incurred loan charges (which included interest and repayments of debt) of £105 million (2010/11: £99 million) which represents 10% (2010/11: 10%) of the Council's net operating expenditure.
63. The Council has a significant level of debt which is monitored as part of its overall financial strategy. Repayment plans are kept under review to ensure that the Council is in a position to continue to demonstrate that its level of borrowing is both affordable and sustainable. The development of the tram project has added to the level of debt that will be held by the Council and the repayments that will need to be made over the life of the debt, This will continue to represent a pressure for the Council's budget setting process and this has been reflected in the long-term financial plan.

**Refer Action Point no. 8**

## Financial planning to support priority setting and cost reductions

### Savings

64. The Council's budget for 2011/12 included a savings target of £28.6 million. The Council achieved 87% (£25.0 million) of the savings target. Where an element of the target was not achieved, a substitute saving of equivalent value was delivered. Some of the savings not achieved were in areas where the Alternative Business Model work had been carried out and in property conservation. The unachieved savings in 2011/12 of £2.1 million have been carried forward and added to the Council's 2012/13 saving targets. There is a risk that the Council will not achieve these savings which are part of the plan to reduce the funding gap in future years.

**Refer Action Point no. 9**

## Workforce planning and management

65. The Council has established a Workforce Planning Task group that reports directly to the Corporate Management Team. The Group oversees and reports on workforce monitoring, recruitment controls, employment policies and strategies for voluntary retirement. The Council, however, recognises that further improvement is needed in relation to developing a more robust workforce planning strategy.
66. The Council has been steadily reducing its workforce through a planned process. Management report that this has not impacted significantly on employee relations or service delivery. Full time equivalent staff numbers have reduced by 797 in the period from the end of March 2010 to 31 March 2012. A significant number of staff (302) left under the terms of the Council's Voluntary Early Release Arrangements (VERA) with reported recurring annual savings of £9.6 million and total costs of £9.3 million. A further 102 staff left under the Council's redundancy policy while the remaining reductions have been achieved through turnover, redeployment and reducing temporary staff.
67. The Council has also developed a new Managing Attendance Procedure, in consultation with Trade Unions, which will assist managers to monitor, control and improve attendance levels while promoting good practice when dealing with sickness absence. It is also linked to the Council's Well Being Strategy. The Council achieved a "Gold" accreditation for Investors in people in January 2012.

## Partnership working

68. The Integration of Adult Health and Social Care Bill will bring forward legislation to create Health and Social Care Partnerships (HSCP), which will replace Community Health Partnerships and will be the joint and equal responsibility of Health Boards and Local Authorities. The Bill will put in place:
  - nationally agreed outcomes, which will apply across adult health and social care, and for which Health Boards and Local Authorities will be held jointly accountable
  - a requirement on Health Boards and Local Authorities to integrate adult health and social care budgets
  - a requirement on Partnerships to strengthen the role of clinicians and care professionals, along with the third and independent sectors, in the planning and delivery of services.
69. The Bill aims to ensure that adult health and social care budgets are used effectively to achieve quality and consistency, and to realise a shift in the balance of care from institutional to community based settings. Partnerships will be jointly accountable to Ministers, Local Authorities, Health Board Chairs and the public for delivering the nationally agreed outcomes.
70. In anticipation of the expected changes in adult health and social care the Council has been proactive in considering the move towards a HSCP. It has agreed to the early establishment of governance arrangements through the creation of a shadow HSCP. This will involve increasing the membership of the current Joint Board of Governance which exists between NHS Lothian and the Council. It acts as a high level governance structure to help the

development of policy, service delivery and performance monitoring between the two organisations in relation to their joint working in the health and social care areas.

71. The composition of this shadow HSCP will encompass a wider group which reflects the requirements of the health and social care legislation. It will include professional/clinical representation, staff from each body, people from the third sector and those who use health and social services and their carers. We will continue to monitor the development of the shadow HSCP through to the establishment of the HSCP, which is envisaged to commence on 1 April 2013.

## Outlook

### Budget and financial forecast beyond 2012/13

72. The Council's updated revenue budget shows a funding gap of £4 million for 2013/14, with a significant further increase expected in 2014/15. The Local Government Settlement 2012/13 to 2014/15 was announced on 8 December 2011, with the Council's grant funding allocation confirmed for 2012/13 and provisional figures given for the following two years. The Scottish government's decision that no authority should receive less than 85% of the Scotland-wide per capita average grant support has added approximately £22 million to the Council's allocation in each of the three years.
73. The updated funding projections, including the £22 million additional allocation, show a balanced budget for 2012/13. There is still an identified funding gap of £4 million for 2013/14 and a £32 million gap in 2014/15. The Council has undertaken a priority based planning exercise to identify savings which it intends will close the funding gaps in 2013/14 and 2014/15. We note that the suite of budget options was issued for public consultation in November 2012 after consideration by the relevant committee.

**Refer Action Point no. 10**



# Governance and accountability

74. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
75. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
76. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.
77. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

78. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. Following the local government elections in May 2012 there has been a change in the political administration of the Council with a Labour/ SNP coalition replacing the former Liberal Democrat/ SNP coalition. The Council provided a comprehensive induction programme for new members which covered the main functions of the Council, presentations from service directors, details of current and emerging issues impacting on the Council (e.g. welfare reform) and an overview of Council finances and funding.
79. During 2011/12 the main scrutiny role was performed by the Council's Audit Committee which has 13 elected members. Since the local government elections in May 2012, the Audit Committee has comprised 9 members of the administration coalition and 4 opposition members. The committee's remit includes risk management, IT security and anti-fraud reporting.
80. The Audit Committee is well attended. We would highlight, though, that the chair of the Audit Committee was a member of the ruling coalition for a short period of time. This is not consistent with best practice principles in terms of governance. We understand that this was a

temporary measure and that Councillor Balfour from the opposition has been appointed Convener of the new Governance, Risk and Best Value Committee (which has replaced the Audit Committee).

81. All Council and committee meetings, including the Audit Committee, are open to the public and committee agendas (and supporting papers) are readily accessible on the Council's website. Furthermore, the Council is now piloting webcasting Council meetings to promote greater transparency and accountability. This is in line with best practice.
82. The Council at its meeting on 24 May 2012 agreed to a comprehensive review of its political governance arrangements. Following full consultation with members the new arrangements were approved by the Council at its meeting on 20 September 2012. In parallel, the standing orders, financial regulations and the Scheme of Delegation for officers are being reviewed and significantly updated.
83. There have been significant changes within the Council over the last 18 months and further changes are in the process of being implemented. On 30 June 2011 the Council approved a new senior management structure. The main change was the merger of the Departments of Finance and Corporate Services under the Director of Corporate Governance (appointed September 2011). Further, following a review by the Chief Executive a number of services were re-aligned across directorates and this was approved by Council. This included Transport, Property and Planning transferring from City Development and a transfer of Significant Trading Organisations services from Corporate Governance to Services for Communities.
84. The Director of Corporate Governance is leading on a fundamental review of operational governance arrangements that covers audit and risk management, anti-fraud arrangements, the effectiveness and suitability of the framework of internal controls, IT strategy and financial controls, procurement and new developments such as the establishment of a Corporate Programme Office. Some of this work was commissioned from Ernst & Young and KPMG.
85. As part of the governance review the post of Head of Finance became vacant. At a meeting of the Council, on 28 June 2012, the Corporate Finance Manager was appointed as Acting Head of Finance (and Section 95 Officer) for a period of up to six months while recruitment for a permanent replacement is underway. A new Head of Finance is expected to be appointed by mid-November 2012.

### The Edinburgh Tram Project

86. This project has had a history of problems and contractual disputes leading to significant delays and cost overruns. In August and September 2011 this also involved public uncertainty on the scale and route of the project. These problems attracted considerable media interest and adverse publicity which damaged the Council's reputation. A significant turning point was mediation and the signing of the Settlement Agreement on 15 September 2011 with the contractor Bilfinger Berger, Siemens and CAF which allowed progress to be made. The tram network was also reduced in scale to a line now running from the airport to York Place.

87. At the same time the Council appointed Turner and Townsend to manage the project and to wind down Transport Initiative Edinburgh (tie). Tie was a company wholly owned by the Council and was formerly responsible for project management but had not delivered its remit satisfactorily.
88. Revised governance arrangements, which require officers to report directly and regularly to the Chief Executive, have been implemented to improve scrutiny of the project and these include representation by Transport Scotland at all levels of the project, monthly meetings of the Joint Project Forum chaired by the Chief Executive, a Project Delivery Group and monthly meetings of an All Party Oversight Group. The revised arrangements also include the role of an independent certifier to help ensure a speedier resolution of any contract related disputes.
89. Furthermore, the revised governance arrangements include a requirement that general performance of the tram project be reported to the Audit Committee. This has not been the case, however, and at the recent Audit Committee meeting (27 September 2012) members drew attention to this. Management have advised that the new Governance, Risk and Best Value Committee's Scrutiny plan includes regular updates on the Tram Project.
90. Since the signing of the Settlement Agreement the tram project has made tangible progress with tram lines being laid, overhead lines and electrification works appearing along the tram route. In addition, new infrastructure (e.g. bridges) is progressing on schedule.
91. The tram project has required an additional £231 million of funding, adding to the Council's overall borrowing, to allow completion of the project. This increased the original budget from £545 million to £776 million. As at 15 September 2012, the project remains within this revised budget with some £669 million spent on completed works.
92. As with any major capital programme, the tram project is very complex and until its planned completion date of summer of 2014 there remains the possibility of further delays. There is a risk, therefore, that the project is not delivered on its revised timetable or budget. The First Minister has previously intimated that there is likely to be a future public inquiry into the tram project.

**Refer Action Point no. 11**

## Internal control

93. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work is informed by the auditor's assessment of risk and the activities of internal audit.
94. An early priority for our audit work in 2011/12 was the review of the Council's internal audit function. Our review covered the range and quality of work carried out by internal audit and an assessment of whether the internal audit function operated in accordance with the CIPFA code of practice for internal audit in local government. Based on our review we concluded that we could rely on aspects of internal audit work, either in full or part, in terms of International

Standard on Auditing 610 (Considering the Work of Internal Audit). Exhibit 7 summarises those areas where we placed formal reliance on internal audit work.

**Exhibit 7: Aspects of internal audit work on which we relied**

<ul style="list-style-type: none"> <li>• Trade receivables</li> <li>• Housing rent</li> <li>• Payroll (partial reliance)</li> <li>• Trade payables (partial reliance)</li> </ul>	<ul style="list-style-type: none"> <li>• Treasury management (partial reliance)</li> <li>• Council Tax billing and collection (partial reliance)</li> <li>• Non Domestic Rates billing and collection (partial reliance)</li> </ul>
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*Source: Audit Scotland's Review of the Adequacy of Internal Audit letter 2011/12*

95. Internal audit's testing of Housing and Council Tax Benefits complemented the work we are required to undertake in order to sign off the annual benefits subsidy claim. This has enabled us to focus our attention on areas of higher risk.
96. Additionally, our own testing of systems and controls concluded that the Council's system of internal controls is adequate although with scope for improvement. Some of the risks identified in a management letter (August 2012) are summarised below:
  - Delays in removing leavers' access rights to the payroll and general ledger systems.
  - Bank reconciliations are not reviewed by a second more senior officer.
  - Authorised signatures are not always checked.
97. These issues and others had already been highlighted by management and action plans are agreed. We will follow-up the action plan at a future date to confirm that agreed actions have been implemented.
98. Following a review of the internal audit function instigated by the Director of Corporate Governance summer 2012, the Council's internal audit service is going through a period of transition. The Chief Internal Auditor retired at the end of July 2012 and following a tender process a manager from PricewaterhouseCoopers was appointed to manage the service on an interim basis. At the end of September 2012 a further seven internal auditors retired. The current internal audit plan is based on 2400 days but with these departures the available resource is reduced to 1600 days. These resources are not being replaced in the short term. Management advised that it is their intention to manage the shortfall over the audit year.
99. Tenders have been issued for the provision of an internal audit service with two options being proposed - full outsourcing or co-sourcing. Tenders were returned on 10 October 2012 and are due to be evaluated in late October 2012. The outcome of this exercise will determine the future shape of the internal audit function. Until then internal audit will be running below full strength and this will impact on the amount of work that can be carried out. There is a risk that until a decision on the structure for Internal Audit is finalised, the service will not be able to deliver on its plans.

**Refer Action Point no. 12**

## ICT service review

- 100.** We carried out a Computer Services Review (CSR) as part our planned programme of audit work in 2011/12. The CSR is a high-level risk based assessment of Information and Communication Technology (ICT) services and is based on a well established methodology developed by Audit Scotland. It focuses on five key areas: - governance and delivery, scope and strategy; contract controls and compliance, asset protection and business continuity. An integral part of our review involved looking at the contractual relationship between the Council and its outsourced provider (BT).
- 101.** A number of good practices were identified during our review including:
- The change process for the ICT contract is managed through the Change Advisory Board which meets regularly to discuss the changes requested by departments.
  - The Council's eGovernment Division engages on a number of levels with Council staff, including departmental ICT Steering Groups.
  - Business continuity arrangements are well advanced with corporate and service business continuity plans in place.
- 102.** At the same time, our review highlighted a number of significant challenges for the Council; some of which are summarised below:
- The Council's eGovernment Division does not have full information on all ICT systems/ services purchased outwith the contract with BT. As a result, security controls for these systems may be inadequate.
  - The commercial nature of the ICT contract with BT makes it difficult for the Council to make changes to service provision which fully satisfy users' needs.
  - The current contract with BT does not include disaster recovery arrangements. Until disaster recovery arrangements are specified, costed and implemented, individual services need to make their own arrangements in this area to ensure that critical information is available in case of a system outage.
- 103.** Our overall conclusion is that the controls surrounding the management of the BT contract are adequate. However, the contractual relationship with BT may at times limit the flexibility to adopt changes in the ICT operating environment. This has been recognised and management advised that extensive scoping work on future ICT Strategy and arrangements are being put in place.

## Prevention and detection of fraud and irregularities

- 104.** Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on the adequacy of the arrangements put in place to prevent and detect fraud.
- 105.** The Council's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. The internal audit section also plays a key role in the

review of data matches as part of the National Fraud Initiative. Additionally, the internal audit section operate an anti-fraud public reporting system that allows members of the public to report suspected frauds directly to the Chief Internal Auditor. These initiatives form part of the Council's corporate anti-fraud and corruption policy.

106. Furthermore, the Council has put in a place a range of measures to prevent and detect fraud including guidance contained in Standing Orders and Financial Regulations; Codes of Conduct for Staff and Members and a 'whistleblowing' policy. The Council has also established a Benefits Investigation Team (BIT) dedicated to the identification, investigation and prevention of benefit fraud. The BIT works closely with the Department for Work and Pensions, HM Revenue & Customs and other public bodies to detect and prevent fraud.
107. We have concluded that, with the exception of parts of property services (highlighted elsewhere in this report), the Council has adequate arrangements for the prevention and detection of fraud and we are not aware of any specific issues that we require to bring to members' attention.

## NFI in Scotland

108. The National Fraud Initiative (NFI) is a counter-fraud exercise that works by using computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate results based on their investigations.
109. The NFI is co-ordinated by Audit Scotland and is carried out every two years as part of the statutory audit. The latest NFI exercise commenced in October 2010 with national findings reported by Audit Scotland in May 2012. The current NFI round has identified matches worth £19.8 million with a further £4 - 6 million anticipated. NFI has also resulted in 318 housing benefit frauds being stopped, the prosecution of 45 cases of alleged fraud, and public organisations identifying 184 pensioners whose deaths had not been reported to them and stopping those pension payments.
110. At a local level, internal audit play a key role in co-ordinating the investigation of matches with priority given to 'recommended matches' (i.e. indication of higher risk). Increasingly, service departments are being used to investigate matches with internal audit sample checking work done to confirm their results. It is intended that, in future, there will be less support from internal audit as NFI becomes more embedded within the Council.
111. The latest available information from internal audit has identified a sum of £0.325 million as a result of either fraud (51 matches) or error (125 matches). Recovery is under way in 42 of these matches and the total recoverable amount is recorded as £0.112 million.
112. A specific exercise was also carried out in the current year which compared single person discounts to the electoral register. Internal audit advised that, as at 4 October, a total of 55 matches had been identified with outcomes of £0.030 million. Recovery action is underway in

54 of these cases with a value of £0.028 million. A further 375 matches are still to be worked on.

113. The 2012/13 NFI exercise was launched in July 2012. Data matches will be returned in early 2013 for review and investigation.

### Housing and Council Tax Benefits risk assessment

114. A risk assessment of the benefits service was carried out by one of our specialist benefits auditors earlier this year. The key objective of the risk assessment is to determine the extent to which the benefits service is meeting its obligations to achieve continuous improvement in all its activities. More specifically, the risk assessment considers the effectiveness of the benefits service in meeting the needs of the community and its customers, and delivering outcomes. The findings from the risk assessment were reported to management in September 2012.
115. The previous risk assessment of the Council's benefits service was carried out in March 2010. It identified 19 risks to continuous improvement. The findings were reported to the Chief Executive and the Council agreed an action plan to address these risks by October 2010. The current year's risk assessment confirmed that all but three of these 19 risks had been addressed, namely:
- The benefits service is committed to checking at least 4% of all benefits decisions. However, it has no process in place to ensure that the appropriate number of cases is being checked.
  - Benefits cases to be checked pre-payment are selected from the workflow system rather than the benefits IT system. The latter would provide better assurance on security.
  - Performance relating to dealing with requests for reconsiderations is not routinely monitored for speed or quality to ensure that those customers making such requests are provided with an effective and efficient service and one that complies with legislation.
116. The current risk assessment also identified a further four risks which were mostly related to performance reporting. Additionally, the assessment highlighted that the benefits service needs to do more to reduce the time taken to process new benefits claims. This latter point has been a recurring issue over the last three years.

#### Refer Action Point no. 13

117. Overall, the Council has been implementing a number of measures to help deliver continuous improvement following the risk assessment and management has agreed an action plan of improvements. It is important that these improvements are maintained and monitored particularly during a period of change due to the Welfare Reform Act 2012 and the introduction of a 'Universal Credit'. This will introduce significant changes in the way benefits are administered starting from 2013.

## Standards of conduct and arrangements for the prevention/detection of bribery and corruption

118. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
119. The Council recently strengthened its anti-corruption prevention measures by formally adopting an Anti-Bribery Policy and Anti-Bribery procedure to meet the requirements of the Bribery Act 2010. The Code of Conduct for Council Employees has also been strengthened to reflect the requirements of the Act and now includes specific reference to bribery and corruption. It also includes a wider definition of conflict of interest and reinforces the requirement for employees to declare any actual or potential conflicts of interest.
120. The Council's Monitoring Officer has overall responsibility for ensuring compliance with the new policy and procedure. In addition, service heads are required to appoint an officer within their services to be responsible for developing and monitoring bribery prevention arrangements and to submit these to the Monitoring Officer.
121. A number of other documents are to be updated to reflect the Anti-Bribery Policy and Procedure as follows:
- **Disciplinary Code:** to be revised to include specific reference to bribery as gross misconduct as part of a wider review of disciplinary, grievance and dispute arrangements.
  - **New Employee Contracts:** to be amended to include a clause stating that employees will not commit a bribery or corruption offence.
  - **Whistleblowing Policy:** to be amended to specifically refer to bribery and corruption.

## Complaints Handling Procedures

122. The Council submitted its revised complaints handling procedure to the Scottish Public Services Ombudsman in September 2012. This will consolidate and update all the Council's previous complaints systems while being compliant with the Ombudsman's expectations. Staff will be trained in the principles and processes of the new procedure including the use of a single recording system across the Council by the end of March 2013. Over this period the Council will advise the public of the changes through a formal launch of the new procedures, revising printed materials and refreshing its complaints web page. This is consistent with good practice.

## Outlook

123. New political governance arrangements were approved by the Council at its meeting on 20 September 2012. These replaced the committee structure that had been in place since 2007. The revised arrangements are designed to strengthen scrutiny and promote greater member involvement in policy development. The key elements of the new arrangements include:



- A Corporate Policy and Strategy Committee
  - Seven executive decision making committees (Communities & Neighbourhoods; Culture & Sport; Economy; Education, Children & Families; Finance & Budget; Health, Wellbeing & Housing; and Transport & Environment)
  - Governance, Risk and Best Value Committee
  - Petitions Committee
124. An important development is the replacement of the Audit Committee with a Governance, Risk and Best Value Committee. The new committee will have a wider remit that will cover audit, risk, performance issues and scrutiny reviews (including operational and service reviews). It will also meet four weekly commencing 6 November 2012. The Council anticipates that this will strengthen oversight, accountability, transparency and scrutiny across the organisation. We will monitor developments, including a planned post implementation review, to ensure that they are effective.
125. The Director of Corporate Governance is leading on a comprehensive review of operational, strategic and programme governance arrangements that includes:
- Transformation of procurement arrangements with assistance from specialist consultants.
  - Priority Based Planning which aims to align the Council's resources more closely to corporate priority outcomes.
  - A review of information compliance and audit and risk management arrangements.
  - The establishment of a Corporate Programme Office to lead, promote and support corporate working.
  - A review of the governance framework for ALEOs.
  - Development of a refreshed Council ICT strategy.
  - Effectiveness of the framework of internal controls.
  - The Council's vision, values and performance reporting arrangements.
126. These initiatives are at differing stages in their development and we will monitor their implementation over the course of our audit appointment to assess whether they deliver better governance.
127. The Tram Project will continue to remain an area of higher risk until its completion in the summer of 2014 because of its inherent complexity and the potential for unforeseen events. We will continue to monitor the project closely.
128. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset

management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.

129. As part of our work on the 2012/13 audit, we will consider the Council's preparedness for introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

# Best Value, use of resources and performance

- 130.** Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors are also required to review and report on an audited body's progress against its BV improvement plan.
- 131.** Additionally, auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
- 132.** As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
- 133.** This section includes a commentary on the Best Value arrangements within the Council and where relevant includes the auditor's view on the appropriateness of arrangements for performance management and achieving continuous improvement. We also note any headline performance outcomes/ measures used by the Council and comment on any relevant national reports and the body's response to these.

## Management arrangements

### Best Value

- 134.** The Council has set out a best value framework covering a range of relevant arrangements and activities, and these are underpinned by the Edinburgh Improvement Model (EIM). The EIM is a means of evaluating performance through structured self-assessment. This helps services gauge their performance, identify best practice, highlight areas for improvement and develop effective improvement plans. Performance scorecards are used at service level to assess the extent to which performance improvement is happening. The first round of reviews across the Council was completed in autumn 2010. Each review resulted in an improvement action plan and these will be followed-up during the second round of reviews currently underway.

135. The Council is developing a number of initiatives to improve its use of resources in a range of areas. These include reviews of procurement arrangements, asset management, priority based planning, managing attendance at work and internal improvement plans.
136. Phase II of Achieving Excellence was supported by a set of performance measures designed to gauge progress against 12 Achieving Excellence objectives e.g. high levels of satisfaction with the city, excellent educational attainment. These in turn were supported by 55 performance indicators.
137. The most recent Achieving Excellence performance report submitted to the Policy and Strategy Committee on 4 September 2012 highlighted that over the period 2007/08 to 2011/12 good progress had been made in most areas although in some areas performance was disappointing e.g. 46% of people surveyed were satisfied with the way the Council manages the city against a target of 50%. This in part reflects concerns with the trams project and statutory repairs.
138. Phase III of Achieving Excellence was approved by the Corporate Management Team in August 2012 and will run with the Capital Coalition's term. Progress will continue to be scrutinised at Committee to note achievements, impact and outcomes of the programme.

## Performance management

139. The Council has a systematic approach to performance management supported by an integrated framework through a corporate performance management system (Covalent). The Council's performance management system has provided a basis on which to develop and establish outcome-focussed performance improvement across the Council. The performance management system draws on performance information from a number of sources including the Single Outcome Agreement, departmental performance scorecards, statutory and local performance indicators and customer feedback.
140. A new Performance Framework is being developed to take account of political, partnership and operational outcomes identified by the Capital Coalition Pledges, the Edinburgh Partnership's Single Outcome Agreement 2012-15 and the Council's overall responsibility for delivering a wide range of services to Edinburgh. Performance measurement will be outcome-based and provide holistic information to support effective decision making and to evidence progress. A report on this new framework was submitted to the Council on 25 October 2012.
141. Performance is reported and monitored on a regular basis with performance results and improvement actions scrutinised by, amongst others, elected members, corporate management team, service directorate and divisional management teams.
142. All Directorates are required to demonstrate that they have effective arrangements in place that monitor performance and hold management to account for improvement actions. Most services are able to demonstrate this effectively and work is on going to ensure consistency of approach across services.
143. Monthly performance reports have been introduced at Corporate Management Team level to replace two monthly performance reports for each Directorate. The new report draws on a

range of indicators which highlight progress towards delivery of the Council's outcomes as set out in the Achieving Excellence programme.

144. The Council also publishes an Annual Performance Report to inform the public of its activities and achievements, financial position and performance. Single Outcome Agreement progress reports are also published by the Edinburgh Partnership. Additionally, statutory performance indicators are reported to committee and published on the Council's website. Taken together these reports provide an overview of the Council's performance.
145. Overall, the Council's performance management arrangements are soundly based with regular monitoring and reporting of performance to both management and elected members. As outlined above these arrangements are being reviewed as part of a new Performance Framework that will be more outcome focused. We will monitor developments in this area as they progress to assess their effectiveness.

### Alternative Business Models (ABM)

146. In 2009, the Council initiated a major project to examine Alternative Business Models (ABM) for provision of some of its services. The Council recognised the need to achieve substantial savings while at the same time re-designing services to make them more efficient and effective. This led to the ABM programme which explored options through a structured tendering process known as Competitive Dialogue. Where there was a convincing business case, the Council planned to deliver some services using Strategic Partnerships or Joint Ventures with private sector partners. The following service areas were part of the ABM process:
  - Corporate & Transactional Services (CaTS services) - including revenues and benefits, human resources and payroll.
  - Integrated Facilities Management - covering building maintenance and design, catering, cleaning, janitorial, portage and security services.
  - Environmental Services - including refuse collection, street cleansing, road maintenance and design and ground maintenance.
147. As the ABM process was being progressed, potential savings and innovations were also being identified and developed internally using the Public Sector Comparator (PSC). In the event that the business case for ABM in any of the three categories was not adequate, the ABM process would stop and the PSC work would be used to develop the existing service.
148. Council officers presented their recommendations in relation to ABM to the Council in November 2011 and January 2012. At the Council meeting on the 24 November 2011, councillors voted to terminate the procurement process for the Environmental Services work stream without the award of any contract. On the 19 January 2012 councillors voted to terminate the procurement processes on both Integrated Facilities Management and Corporate & Transactional Services again without the award of contracts (the CaTS termination being in accordance with officer recommendations).

149. In all of these cases the Council noted that internal improvement plans had been developed which had the potential to deliver significant improvements and savings for in-house service delivery and instructed the Chief Executive to take these approaches forward. The financial implications of these decisions are potentially significant. The total value of the original ABM proposals is not lost as internal improvement plans are also anticipated to produce savings. But savings foregone could be substantial, and possibly in the region of £90 million over the period of the project. However the precise value will depend on what alternative schemes are brought forward.
150. Since then, officers have been working to develop the vision of the PSC options and to implement a programme of internal improvement for each service. An update on progress was reported to the Policy and Strategy Committee in August 2012. The key points are summarised below:
- **ImProve it.** This relates to the Environmental Service Plan. Management report that the programme is well established with a clear governance structure. A number of improvements have already been implemented such as a 5-day working week for collection staff, alternate weekly collection of refuse and a double shift pattern. The original public sector comparator anticipated £45 million of savings over a 7-year period. An on going review of financial costs and savings is likely to result in costs and savings being re-profiled.
  - **Integrated Property and Facilities Management (iPFM).** An IPFM programme office has been established and a Project Board has been created to oversee improvements. A number of work streams are being developed including plans to reduce the size and improve the quality of the Council's operational estate. Other initiatives include investment in energy efficiency measures to reduce energy consumption and carbon emissions. The iPFM programme is expected to generate £30 million of savings over a 7-year period. The financial assumptions underpinning the plan are currently under review.
  - **Corporate and Transactional Services (CaTS).** The CaTS programmed has focused on the Procurement Transformation Project to-date. This is now operational through the Council's partnership with an external consultant and has been removed from the scope of the programme while ICT and print services are now within scope. A Programme Board has been established to oversee developments and governance structures put in place. The committee report did not include any details of planned savings.
151. In each case the internal improvement plans are at an early stage in their development. An update on the internal improvement plans is due to reported to a late 2012/early 2013 meeting of the Council. Revised business cases for each internal improvement are also expected to be presented to Council when the full financial implications will be included along with their impact on the Council's long term financial plan. The business cases will provide details of revised costs and re-profiled savings figures.
152. At this stage it is difficult to assess whether the internal improvements and other initiatives such as transformation of procurement and priority based planning will be effective. There is a

risk, therefore, that the required service improvements and level of savings to help bridge the Council's funding gap in future years will not be achieved.

#### Refer Action Point no. 14

153. We will continue to monitor the progress made by the Council in implementing their internal improvement plans, priority based planning and the impact of the re-profiled savings on the Council's long term financial plan as part of our 2012/13 audit.

### Economic Development

154. The Council's Economic Development Service (EDS) carries out work supporting local businesses, attracting inward investment, supporting physical development and helping unemployed people into work or learning. Since 2009, the EDS has been committed to carrying out robust self-assessment of its performance. In summer 2012, the EDS carried out an audit of its performance over the operational period 2009/10 to 2011/12. The main focus of the audit was on assessing the performance of the EDS against the headline objectives set in its operational plan using the key performance indicators developed for this purpose.
155. The audit found that the EDS had met five of its six headline objectives and completed 33 of the 36 projects it set out to achieve. The EDS underperformed the Council as a whole in terms of meeting equalities targets, but outperformed the Council as a whole in terms of value for money (measured on the basis of leveraged income). A number of "learning points" for the EDS have emerged from the audit; these have been presented to the relevant managers for their attention. The audit will be used to help the EDS participate in Council-wide self-assessments such as the Public Sector Improvement Framework.

### Community and user engagement

156. An important component of the Council's Achieving Excellence programme is 'about putting customers first'. This includes carrying out surveys to gauge people's satisfaction with the services they receive from the Council and this is used to inform service development and policy. The annual Edinburgh People's Survey, covering 5,000 people, gathers data on a wide range of issues for analysis. The latest complete data is for 2011 and some of the findings include:
- 91% of those surveyed are satisfied with the city as a place to live
  - 81% of respondents are satisfied or very satisfied with nursery provision
  - 84% are satisfied or very satisfied with primary school provision
  - 77% are satisfied or very satisfied with secondary education provision (11% higher than that achieved four years ago)
  - 46% of respondents are satisfied with the way the Council manages the city. This in part reflects local concerns about the trams project and statutory repairs while the result is consistent with the national perception of councils not being fully effective.
157. The Council has used consultation with users and customers to shape policy *in a number of areas*. A good example of this is the Commissioning Strategy for Care and Support Services

where the final Strategy was influenced by engagement and *consultation* with service users, carers, voluntary and private sectors and staff and partner agencies. It is now routine practice for service design or change activity to be supported by the establishment of stakeholder Checkpoint Groups to ensure effective engagement of customers and stakeholders. Checkpoint Groups were a successful feature of the Commissioning Strategy for Care and Support Services.

158. The Council is working with the Consultation Institute to further develop and refine its approach to consultation. A consultation page has also been created on the Council's website and services are expected to post consultation exercises and their outcomes online.

## Overview of performance in 2011/12

### City of Edinburgh performance measurement outcomes

159. The Policy and Strategy Committee at its meeting on 4 September 2012 received a report outlining the Council's performance over the last three years. Performance was measured by 68 indicators, including local and national Statutory Performance Indicators, as summarised in Exhibit 8 below:

#### Exhibit 8: Summary of Edinburgh's Performance in 2011/12

	Measures	Improved (5%+)	Declined (5%+)	No change
Edinburgh's children and young people enjoy their childhood and fulfil their potential	9	4	1	4
Edinburgh is an excellent place to live, study, work, visit and invest	27	15	4	8
Health & well being is improved in Edinburgh and there is a high quality of care & protection for all who need it	12	11	0	1
The Council is an efficient and effective organisation	20	11	3	6

160. Some of the performance highlights achieved in 2011/12 include:

- 91% of pupils achieved 5+ standard grades at SCQF level 3
- 26% of pupils achieved 5+ highers at SCQF level 6
- 87.4% of school leavers were in a positive destination (the highest level achieved in ten years)
- 74.5% of total dwellings meeting Scottish Housing Quality Standard
- 79.9% of home care clients age 65+ received personal care
- 93% of tenants are satisfied with repairs to their homes
- The net cost of refuse collection per premise (£66.12) is lower than in previous years.

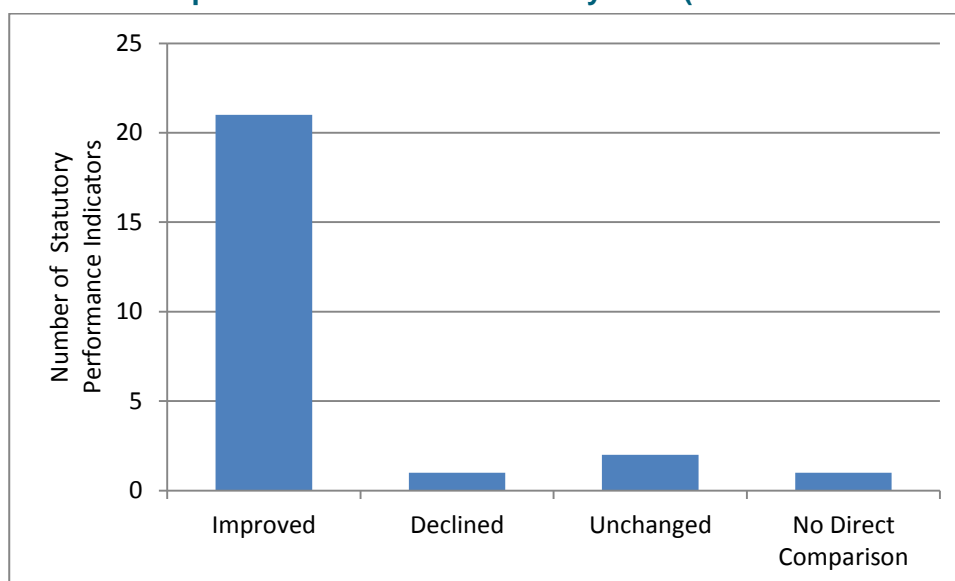


161. Overall performance is positive with 88% of indicators showing performance being maintained or improving. In some areas performance has declined. 74% of residents are satisfied with their neighbourhood as a place to live (80% as recently as 2009/10) while the average number of days per case to process Housing Benefit / Council Tax Benefit new claims and change events has risen to 19.2 days (15 in 2010/11). Management is aware of such issues and has developed action plans to help improve performance.

### Statutory performance indicators

162. In 2011/12, a total of 25 SPIs were required and these indicate an improving picture of performance. See Exhibit 9 below:

**Exhibit 9: Improvements demonstrated by SPIs (total of 25 indicators)**



Source: City of Edinburgh Council SPI data returns

163. Improved performance was recorded for those indicators relating to sickness absence levels, the cost of administering Housing and Council Tax Benefits and the cost of collecting Council Tax. In one area - the time taken to process planning applications - performance was poorer than that reported in 2010/11.

164. No direct comparison could be made for one indicator, the percentage of household waste recycled, as this statistic was not included in the SPIs for previous years.

### Maintaining Scotland's Roads: a follow-up report

165. Audit Scotland published a national report on *Maintaining Scotland's roads: a follow-up report* in February 2011. This report examined the progress on implementing the recommendations contained in the initial report on Maintaining Scotland's roads which was published in November 2004. The follow-up report found that little progress had been made.

166. At a local level we carried out a targeted follow-up review to assess the situation in the Council area. A similar exercise was carried out at all 32 councils across Scotland. The local review focused on four key questions:
- How did the Council respond to *Maintaining Scotland's roads: a follow-up report* following publication?
  - Does the Council have appropriate plans in place to operate road maintenance activities?
  - How does the Council manage the performance of its road maintenance activities?
  - What is the Council doing to maximise the value for money in its road maintenance service?
167. The local report highlighted that the Council has established a Service Innovation Team to help support improvements and deliver more efficient services. The Team has helped streamline the process for maintaining gullies and improved the way in which street lighting faults are dealt with.
168. The Scottish Road Maintenance Condition Survey shows that the percentage of roads that require intervention, within the Council area, has reduced from 52.8% in 2004/05 to 32.5% in 2011/12.
169. Our local report highlighted that there were key areas where improvements are required including the following:
- While the Council has made good progress in developing its Road Asset Management Plan (RAMP), there are some information gaps to be addressed before it can be finalised. In particular, life cycle plans of major road assets are incomplete in a number of aspects.
  - Additionally, the RAMP shows that the Council has yet to formalise its long-term investment strategies for key assets such as carriageways, footpaths and lighting.
  - At the time of the audit information on roads maintenance backlogs was not regularly reported to elected members and the public.
170. Our action plan of improvements has been agreed with management and its implementation will be monitored.
171. Crucially, however, our local report highlighted that there is still a significant backlog of maintenance work. Presently, the maintenance backlog stands at £72 million for roads, £69million for pavements and a further £12m for lighting. The backlog is based on the Society of Chief Officers of Transportation in Scotland (SCOTS) assessment criteria. With roads maintenance revenue expenditure remaining relatively static and capital expenditure expected to reduce it is unlikely that the current backlog can be addressed.

## National performance reports

172. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 10 overleaf:

**Exhibit 10: A selection of National performance reports 2011/12**

- |   |   |
|---|---|
| • Commissioning social care   | • Reducing greenhouse gas emissions                                   |
| • The National Fraud Initiative in Scotland                                   | • Best Value Audit - Lothian and Borders Police and Police Board      |
| • Best Value Audit - Lothian and Borders Fire and Rescue                      | • Transport for health and social care                                |
| • An overview of local government in Scotland - challenges and change in 2012 | • The role of community planning partnerships in economic development |
| • Review of Community Health Partnerships                                     | • Scotland's public finances: addressing the challenges               |
| • Modernising the planning system   |   |

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

- 173.** Audit Scotland encourages local authorities to review national reports, assess local performance against them and identify actions required to improve performance. The expectation is that these reports are presented to an audit or scrutiny committee for members to review and to question management on key issues.
- 174.** From our observations, national performance reports could be used more effectively by the Council. While these reports are submitted to committees, members are often only asked to note their content.
- 175.** In terms of good practice, committee members should receive a paper from relevant managers outlining progress locally against the national report together with an action plan identifying any areas with scope for further improvement. The action plan can then be monitored to ensure improvements are achieved. Also, relevant managers should attend the committee to answer any questions raised by members and provide them with assurance on progress being made. This approach has been adopted successfully by a number of public sector bodies.

**Refer Action Point no. 15**

## Shared Risk Assessment

- 176.** The Local Area Network of scrutiny partners conducted a Shared Risk Assessment (SRA) and prepared an updated Assurance and Improvement Plan (AIP) covering the period 2012 to 2015. This was published on Audit Scotland's website and was submitted to the Audit Committee on 26 June 2012 for information and consideration. The main purpose of the AIP is to focus on scrutiny risk.
- 177.** The AIP identified three areas of significant scrutiny risk. These are summarised below but have been reported in more detail elsewhere in this report.
- Statutory Repairs Service
  - The Tram Project
  - Alternative Business Model

178. The AIP and supporting evidence will be an important source of information for the forthcoming Best Value audit scheduled for the end of this calendar year.

## Outlook

179. The Council received its first Best Value audit in 2006/07. It reported that the Council displayed many elements of a best value council. Another Best Value audit is scheduled towards the end of this calendar year. This will provide an independent assessment of whether the Council continues to demonstrate best value principles and is committed to continuous improvement. The field work for the Best Value audit is due to be carried out in the period November 2012 to January 2013 with a formal report published in spring 2013.
180. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. The approach is being piloted in a number of councils in the autumn of 2012. The lessons learned from the pilot audits will inform any amendments to our approach. The refined approach will then be rolled out across the local government sector.
181. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the Board/ Council in implementing these requirements as part of our 2012/13 audit.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	9 February 2012	19 April 2012
Shared Risk Assessment/Assurance and Improvement Plan	3 June 2012	26 June 2012
Internal controls management letter	30 August 2012	6 December 2012
Maintaining Scotland's roads - follow-up review	7 August 2012	27 September 2012
Report on financial statements to those charged with governance (ISA 260)	25 September 2012	27 September 2012
Audit opinion on the 2011/12 financial statements	28 September 2012	*27 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	5 October 2012	Not Applicable
Annual Report on the 2011/12 audit	31 October 2012	6 December 2012

\*Proposed audit opinion issued on 25 September 2012 along with the ISA 260 and officially signed off on the 28 September 2012.

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	13	<p><b>Significant Trading Organisations</b></p> <p>While the STOs have achieved surpluses in the current year management acknowledged that plans have yet to be fully developed that will deliver improvements in these services.</p> <p><b>Risk:</b> The surplus positions achieved in the current financial year may not be maintained in future years.</p>	<p>Action plans for the three STOs that did not meet the statutory target to break even over a rolling three year period are already being prepared as part of the overall internal improvement plans for the environment and integrated facilities management workstreams.</p>	Director of Services for Communities	March 2013
2	30	<p><b>Statutory Repairs</b></p> <p>The total value of work paid to contractors but not billed to owners is £27 million with approximately £11.3 million (41.8%) dating back to 2009.</p> <p><b>Risk:</b> Anticipated levels of recovery are not achieved leaving the Council with significant levels of shortfall in income.</p>	<p>As noted in the report, the Council has been undertaking preparatory work to ensure that case history is understood prior to bills being issued, thus reducing the number of potential queries. The level of impairment provision will be reviewed in 2012/13. In the interim, active monitoring of the level of sums outstanding is being undertaken on a monthly basis.</p>	Director of Services for Communities	June 2013

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	32	<p><b>Service re-design for Statutory Repairs</b></p> <p>The Council plans to have a new service in place by Spring 2013. Its introduction will require a complete re-design of the current service including statutory powers, policy procedures, IT and financial systems and performance reporting.</p> <p><b>Risk:</b> Good governance structures are not put in place and the re-design of the service is not properly implemented and monitored.</p>	A dedicated Property Sub-Committee has now been established with a specific remit to examine the background to the difficulties affecting the service and oversee the introduction of the new arrangements.	Director of Corporate Governance	April 2013
4	36	<p><b>Tram vehicles</b></p> <p>With the Council's decision to terminate the line at York Place, only 14 trams will be operationally required from the 27 ordered. The Council is currently examining disposal strategies for the remaining fleet which it anticipates will generate savings.</p> <p><b>Risk:</b> The Council may not be able to readily dispose of the trams to generate savings and may still need to conduct an impairment review with regard to the surplus trams.</p>	A plan is being put in place to dispose of surplus tram vehicles. It is envisaged as part of this plan that 14 trams are retained for the route from the Airport to York Place.	Senior Responsible Officer, Tram Project	November 2012
5	41	<p><b>Tie Limited accounts</b></p> <p>The accounts have not been signed by tie limited or its auditors as there are no tie limited employees left who are legally able to sign the accounts.</p> <p><b>Risk:</b> Tie Limited's final</p>	tie's accounts will require to be filed with Companies House, in line with statutory requirements, by the end of December 2012 at the	Finance, Commercial and Legal Manager, Tram Project	November 2012

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		accounts are not properly concluded and this may result in reputational damage to the Council in relation to the trams project.	latest. Arrangements have been made to allow this deadline to be met.		
6	53	<p><b>Capital programme</b></p> <p>The Council's current policy is to "over programme" its capital projects in the knowledge that all projects will not proceed in accordance with plans. A greater focus on prioritisation and oversight of the capital programme could result in a more effective approach.</p> <p><b>Risk:</b> The Council's capital programme is inefficient and ineffective and does not focus on priorities.</p>	<p>The Council has centralised its capital function (excluding the Housing programme). Processes are currently being reviewed to identify best practices and to roll these out across the programme. A greater emphasis will be placed on ensuring that future years' plans are reviewed regularly so that projects can be accelerated where opportunities present themselves, thus getting the best use of available resources.</p>	Head of Finance	On-going
7	57	<p><b>Capital receipts</b></p> <p>There has been a significant negative variance between budgeted capital receipts and the actual income received in the last three years.</p> <p><b>Risk:</b> Unrealistic budgets result in unanticipated increases in the level of borrowing required by the Council.</p>	<p>The Council's prime emphasis is on ensuring best value is obtained when disposing of surplus assets; in the current climate, concluding sales has proved particularly difficult to conclude, hence the budget variances. However, slippage arising on expenditure has ensured that there has been no</p>	Director of Services for Communities	On-going



Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			impact on the Council's overall borrowing requirement which is also reviewed on a regular basis.		
8	63	<p><b>Council borrowings</b></p> <p>The annual cost of borrowing continues to put pressure on the Council's budget setting process which is already seeking to deliver savings to meet future funding gaps.</p> <p><b>Risk:</b> Future savings plans could be put at risk by higher borrowing costs.</p>	The Council's long-term financial plan is reviewed and updated on an on-going basis to incorporate provision for approved additional loan charges, including those relating to the tram project. To date, effective treasury management has ensured that loan charges have remained within the budgeted level. The affordability of any additional capital investment will be considered within the framework of the LTFP and overall budget strategy.	Head of Finance	On-going
9	64	<p><b>Savings programme</b></p> <p>Unachieved savings in 2011/12 of £2.1 million have been carried forward and added to the Council's 2012/13 saving targets.</p> <p><b>Risk:</b> The Council may not be able to achieve its planned savings and future funding gaps may increase.</p>	As noted, a small element of savings originally planned for delivery in 2011/12 has been carried forward into 2012/13. In common with all approved savings in 2012/13, detailed implementation plans have been prepared and progress against these is included as part of	Head of Finance	March 2013

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			projecting an overall balanced revenue monitoring position for 2012/13.		
10	73	<p><b>Long term financial plans</b></p> <p>The Council will need to identify significant savings in its long term financial plan to ensure that the identified funding gaps in 2013/14 and 2014/15 are closed.</p> <p><b>Risk:</b> Funding gaps identified in 2013/14 and 2014/15, even with additional funding of £22 million from the Scottish government, may not be bridged.</p>	<p>A report to the Finance and Budget Committee identifies a funding gap of £3.888m for 2013/14. The Council has adopted a priority based planning approach in preparing a budget framework for 2013-2018 to address the funding gaps.</p>	Head of Finance	February 2013 (for 2013/14)
11	92	<p><b>Tram project</b></p> <p>The tram project is very complex and until it is completed in the summer of 2014 there remains a risk of impact from unforeseen events.</p> <p><b>Risk:</b> There remains a risk that the project is not delivered on time or within budget.</p>	<p>Risks are inherent in any major capital project. Progress on the tram project is being kept under close review by revised governance arrangements referred to in the report.</p>	Senior Responsible Officer, Tram Project	On-going
12	99	<p><b>Internal Audit function</b></p> <p>The internal audit function is undergoing a period of change and is currently running below full strength. This could impact on the amount of work that can be carried out in relation to the 2012/13 financial year.</p> <p><b>Risk:</b> The internal audit function may not be able to deliver on its planned programme of work in 2012/13.</p>	<p>A report on the proposed arrangements for the Internal Audit and Risk Management service will be considered by Council on 22 November. If approved by Council, these arrangements will supplement the existing level of resource to address any short-term reduction and thereby</p>	Head of Legal, Risk and Compliance	September 2013

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			address any shortfall by the end of the audit year. In the short-term, work has been reprioritised to allow medium- to high-risk work to be undertaken.		
13	116	<p><b>Benefits service</b></p> <p>The risk assessment of the Council's benefits service highlighted that the service needs to do more to reduce the time taken to process new benefits claims. This point has been a recurring issue over the last three years.</p> <p><b>Risk:</b> The Council is unable to implement improvements to its benefits processing and fails to deliver a best value service.</p>	<p>The service is actively looking to automate further ATLAS processes which will reduce processing timescales. An organisational review is currently being undertaken, separating Housing and Council Tax Benefits with a view to improving focus on each of these activities.</p>	Head of Corporate and Transactional Services	March 2013
14	152	<p><b>Internal Improvement plans</b></p> <p>Revised business cases for each internal improvement plan are expected to be presented to a late 2012/early 2013 Council meeting when the full financial implications (including revised costs and re-profiled savings) will be detailed along with their impact on the Council's long term financial plan.</p> <p><b>Risk:</b> Business cases are not robust and internal improvement plans do not generate the required level of savings to help bridge the Council's funding gap in future years.</p>	<p>While an important element of the Council's overall budget strategy, anticipated savings from the internal improvement plans form only part of a range of measures to address savings requirements going forward. The business cases will be subject to gateway reviews to assess the extent to which the savings and service improvements contained within them are robust and deliverable.</p>	<p>Director of Services for Communities</p> <p>Director of Corporate Governance</p>	January 2013

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
15	175	<p><b>Scrutiny of Audit Scotland's national performance reports</b></p> <p>From our observations, national performance reports could be used more effectively by the Council. While these reports are generally submitted to committees, members are often only asked to note their content.</p> <p><b>Risk:</b> Members are not able to assess local performance against national reports effectively. Also, they are not able to gauge whether appropriate improvement actions are being taken locally and progress monitored.</p>	<p>The newly-formed Governance and Risk Committee will consider the most appropriate means through which to take forward the recommendations contained within relevant reports.</p>	<p>Head of Legal, Risk and Compliance</p>	<p>On-going</p>