

# East Renfrewshire Council

## Annual report on the 2012/13 audit



Prepared for Members of East Renfrewshire Council and the Controller of Audit  
October 2013

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

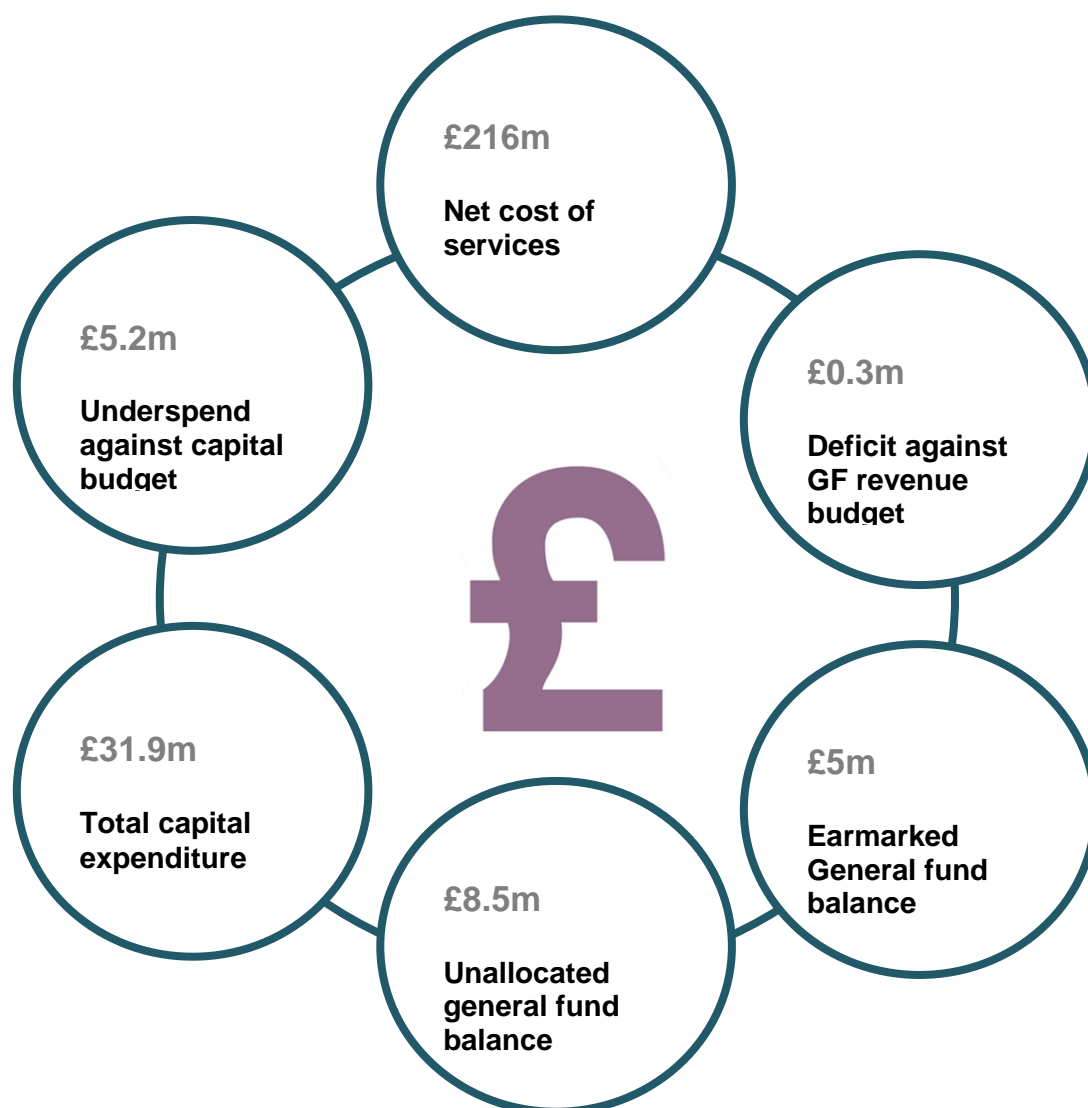
## 2012/13 Key Facts

This report summarises the findings from our 2012/13 audit of East Renfrewshire 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

## Financial Statements

We have given an unqualified opinion on the financial statements of the Council and its group for 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date.

## Financial position



The Council achieved an accounting surplus of £11 million. After statutory adjustments and the transfer of £9.1 million to reserves, the Council achieved a general fund deficit of £0.3 million.

The majority of the total general fund balance (£13.5 million) is not ear marked (£8.5 million) and the Council has a relatively high level of usable reserves and low levels of external borrowing which suggests a relatively good financial position to cushion against expected future funding shortfalls.

## **Governance and accountability**

We found that, overall, the Council's governance arrangements operated effectively during 2012/13. No material weaknesses in the accounting and internal control systems were identified during the audit although we identified a few areas for improvement in our Key Controls Report which was issued in May 2013.

## **Performance and best value**

The Council's Public Service Excellence (PSE) programme has achieved recurring savings of £3.4 million and a workforce reduction of 231 FTE. A revised PSE plan for the next 4 years has been launched and this includes four refreshed key principles. The Council has well established arrangements in place for performance monitoring.

The Public Services Network (PSN) Code of Connection is challenging and uncompromising about security measures and this needs to be taken into account in the Council's development and implementation of agile working.

## **Outlook**

Scotland's public bodies continue to face increasing demand and cost pressures for their services in the foreseeable future. An indicative 2014/15 budget was agreed in February 2013 with savings measures included and quantified over 2 years. The Council has identified a funding shortfall of £10.8 million for the period up to 2014/15 and through long term planning has identified £10.6 million of savings with a shortfall of £0.2 million. This will be addressed through long term financial planning.

The public reform agenda, particularly Welfare Reform, is resulting in a major change to the UK welfare system. There are early indications that welfare reform is resulting in increased rent arrears with the Council reporting an increase of 15% in rent arrears between April and June 2013. The Council is actively exploring ways of tackling this issue through raising awareness, direct engagement with tenants and further Discretionary Housing Payment (DHP) funding.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of East Renfrewshire Council. 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. 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 East Renfrewshire 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 the Audit and Scrutiny Committee, 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 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 East Renfrewshire 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.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement and the remuneration report. 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 East Renfrewshire Council for 2012/13 give a true and fair view of the state of affairs of the Council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.

## Legality

11. Through our planned audit work we consider the legality of the Council's financial transactions. In addition the Director of Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Council's corporate 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.

## Group accounts

12. Local authorities are required to prepare group accounts in addition to their own Council accounts where they have a material interest or significant influence in other organisations. For the purpose of consolidation and incorporation the Council has included the following bodies as associates: Strathclyde Joint Police Board, Strathclyde Fire and Rescue Joint Board, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme Joint Committee and Renfrewshire Valuation Joint Board.
13. The overall effect of inclusion of these associates and trust funds on the group balance sheet is to reduce both reserves and net assets by £145.7 million. The group balance sheet as at 31 March 2013 discloses an excess of assets over liabilities of £111 million (2011/12 £119 million).

## Annual Governance Statement

14. As part of our annual audit we review the disclosures made in the Annual Governance Statement, included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement.
15. We are satisfied that the disclosures in the Annual Governance Statement are in line with the guidance contained in the CIPFA publication *Delivering Good Governance in Local Government*. We are also satisfied with the adequacy of the process put in place to obtain the necessary assurances for the Annual Governance Statement.

## Statement of Remuneration

16. We are satisfied that the Statement of Remuneration has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

## Accounting issues

17. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). Overall we are satisfied that the Council prepared the 2012/13 financial statements in accordance with the 2012/13 Code.

## Accounts submission

18. The Council's unaudited financial statements were submitted to the Controller of Audit before the deadline of 30 June 2013 and a comprehensive working papers package was also available. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2013. The financial statements are now available for presentation to members and publication.

## Presentational and monetary adjustments to the unaudited accounts

19. A number of presentational amendments were made at the request of audit. These adjustments are aimed at improving disclosures within the financial statements.
20. A small number of monetary adjustments have been made to the 2012/13 unaudited financial statements. As is normal practice these errors were reported to the Director of Finance and included within our ISA 260 Report submitted to the Audit and Scrutiny Committee on 26 September 2013.

## Pension costs

21. East Renfrewshire Council is a member of the Local Government Pension Scheme, administered locally by Glasgow City Council, which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the Council has recognised its share of the net liabilities for the pension fund in the balance sheet.



The valuation as at 31 March 2013 provided by the scheme's actuaries increased the Council's share of the deficit from £364.5 million in last year to £432.2 million this year.

22. There has been an increase in pension liabilities of £67.7 million as at 31 March 2013 compared with the liabilities at 31 March 2012. This is due to the drop in discount rate which is aligned to government bonds and the low level of interest rates. The scale of the movements in the Council's pension liability over the last 5 years, arising from the annual valuation, can be seen in Exhibit 1 below.

#### Exhibit 1: Movement in Net Pension liability 2008/09 - 2012/13

	2008/09	2009/10	2010/11	2011/12	2012/13
	£ million	£ million	£ million	£ million	£ million
Liability	223.8	381.6	336.6	364.5	432.2

Source: East Renfrewshire Council audited financial statements

23. It is important to note however that this additional liability does not have any immediate impact on the Council's financing requirements. The Council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

#### Trade and Other Payables

24. Our review of this area highlighted numerous balances relating to Council Tax and Rates which go back as far as 1996/97. These balances relate to amounts overpaid from previous years and whilst we acknowledge that some of these may be repaid at a future date the Council should review this listing and write off those deemed to be non refundable.

**Refer to Action Point No. 1**

#### Impairment of Doubtful Debt

25. Our 2011/12 Annual Audit Report highlighted that there was inconsistency in the approach to bad debt provisions. We were advised that the basis of assessing provisions for bad debts would be reviewed and revised working papers prepared.
26. We were provided with a spread-sheet detailing the various components to the bad debt provision but this was not easily understandable and we prepared our own summary sheet detailing the workings of the various bad debt provisions. Responsibility for this area of work will pass to the Principal Accountant, Revenue in 2013/14 and we understand that this will be reviewed and a detailed working paper prepared for 2013/14.

#### Non Current Assets

27. Our work in this area looked at assets which had been re-valued in the year and we noted that Patterson Car Park had been re-valued downwards from £720k to zero. Further investigation highlighted that the Council initially had an agreement to buy the land and build the car park

and it had an £850k grant from SPT for this. The car park is now built but the agreement to buy the land was never concluded. Our understanding is that this situation arose due to the liquidation of a third party and that the Council is actively pursuing the purchase of this land.

## Whole of government accounts

28. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The Council submitted the consolidation pack to support its 2012/13 WGA return to the Scottish Government on 21 August 2013. This has been audited and the audited return has been submitted.

## Outlook

29. The Charities Accounts (Scotland) Regulations 2006 as amended (the 2006 Regulations) set out the accounting and auditing rules for Scottish registered charities. These apply to all local authority registered charities. East Renfrewshire Council acts as Trustee for 17 Trusts, 7 of which have charitable status. These will require to be audited in 2013/14 and the requirements of the regulations are more onerous as detailed below.
30. A full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations. In 2013/14 we will require to audit and report on 7 charities. The Assistant Auditor General wrote out to Local Government Directors of Finance in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charities.
31. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 the Council (or a committee whose remit includes audit), will require to approve the financial statements by 30 September. Currently the Audit and Scrutiny Committee considers our ISA 260 report but do not formally approve the accounts. If the change is made officers will need to review the timetable for completing the audit to ensure revised accounts are provided to the Audit and Scrutiny Committee to approve the accounts by 30 September 2014. We will liaise with officers on the impact of this requirement on our audit work.
32. Police and fire functions transferred to the national police and fire bodies on 1 April 2013. The group balance sheet position may improve in future years as the Council will no longer be required to accrue the pension liabilities of these bodies into the group accounts.

# Financial position

33. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
34. 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.
35. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

36. In 2012/13 as recorded in the comprehensive income and expenditure statements, the council spent £281 million on the provision of public services and had in an accounting surplus of £11 million. There are two main areas of accounting adjustments that are made to translate the accounting surplus to the statutory or general fund position. These are:
  - Capital charges - depreciation is removed and an internal repayment of debt from services is substituted.
  - Actuarial pension charges are removed and employer pension contributions substituted.
37. Taking account of the above adjustments the statutory General Fund position has decreased by £0.3 million (net).

## Budgetary control

38. The Council's Budget Strategy Group (BSG) meets on a regular basis to review budget setting arrangements, including spending pressure assumptions and proposed savings plans. The BSG involves all members of the Administration and members of the Opposition also have access to financial information in order to table alternative budget proposals. The cabinet reviewed seven budgetary control reports during the year. Reports in the first half of the year reported "actual spend to date" with the first forecast year end outturn position reported in October 2012. In February 2012, the Council set its revenue budget forecasting a £0.7 million surplus. The Council delivered an under-spend of £8.8 million, but transferred £9.1 million to specific reserves, resulting in a deficit of £0.3 million for the year.
39. The Housing Revenue (HRA) reported an in year deficit of £3.2 million. After accounting for adjustments between accounting basis and funding basis and transfers to reserves this

resulted in an operational deficit of £0.09 million which has reduced the balance on this account to £0.9 million.

## Financial position

40. Based on the information in this report, we have concluded that, subject to any major change in pension valuations or Scottish Government Funding, the financial position of the Council remains stable and its activities are financially sustainable.
41. The general fund balance at 31 March 2013 was £13.5 million. This balance is made up of earmarked commitments of £5 million leaving an unallocated general fund balance of £8.5 million (3.5% of net revenue expenditure), which is in line with the Council's policy of retaining up to 4% of net revenue expenditure. This is a slight reduction from last year but is a result of forward planning by the Director of Finance to ensure compliance with the 4% policy.
42. Exhibit 2 shows the balances in the Council's funds at 31 March 2013 compared to the previous year. The Council's funds at 31 March 2013 totalled £49.1 million, an increase of £3.8 million on the previous year. Due to the establishment of the national Police and Fire services, net relevant expenditure will decrease in 2013/14 which would result in the non-earmarked General Fund exceeding the Council's policy aim of 4% for the next financial year. In anticipation of this, the unallocated general fund reserve was reduced by £0.5 million, this sum supplementing the amount transferred to earmarked reserves.

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### Exhibit 2: Usable reserves

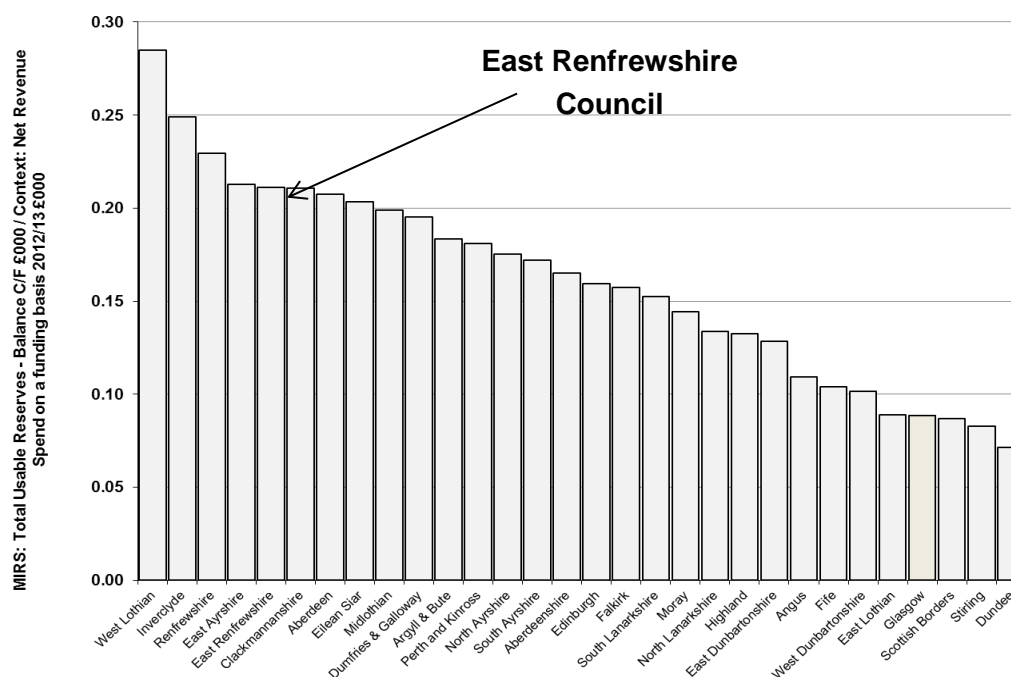
Description	31 March 2012 £ million	31 March 2013 £ million
General Fund Allocated	4.8	5.0
General Fund Unallocated	9.0	8.5
Capital Reserve	20.9	22.3
Housing Revenue Account	1.0	0.9
Repairs & Renewal Fund	8.4	11.1
Insurance Fund	1.2	1.3
<b>Total Usable Reserves</b>	<b>45.3</b>	<b>49.1</b>

Source: East Renfrewshire Council 2012/13 financial statements

43. Exhibit 3 below presents the Council's usable reserves position in relation to net revenue spends for the year in comparison to other Scottish local authorities. The graph demonstrates that East Renfrewshire Council has a high level of reserves compared to other councils as it plans for future commitments and anticipated financial pressures.

44. The Council anticipated transferring £0.7 million to reserves but the actual amount transferred totalled £9.1 million with the main elements being capital reserve (£6.1 million) and repairs and renewals fund (£2 million). This is due to increased amounts being returned from Police and Fire services and Council departments managing spend and efficiencies throughout the financial year.

### Exhibit 3: Total usable reserves carried forward as a proportion of net revenue spend



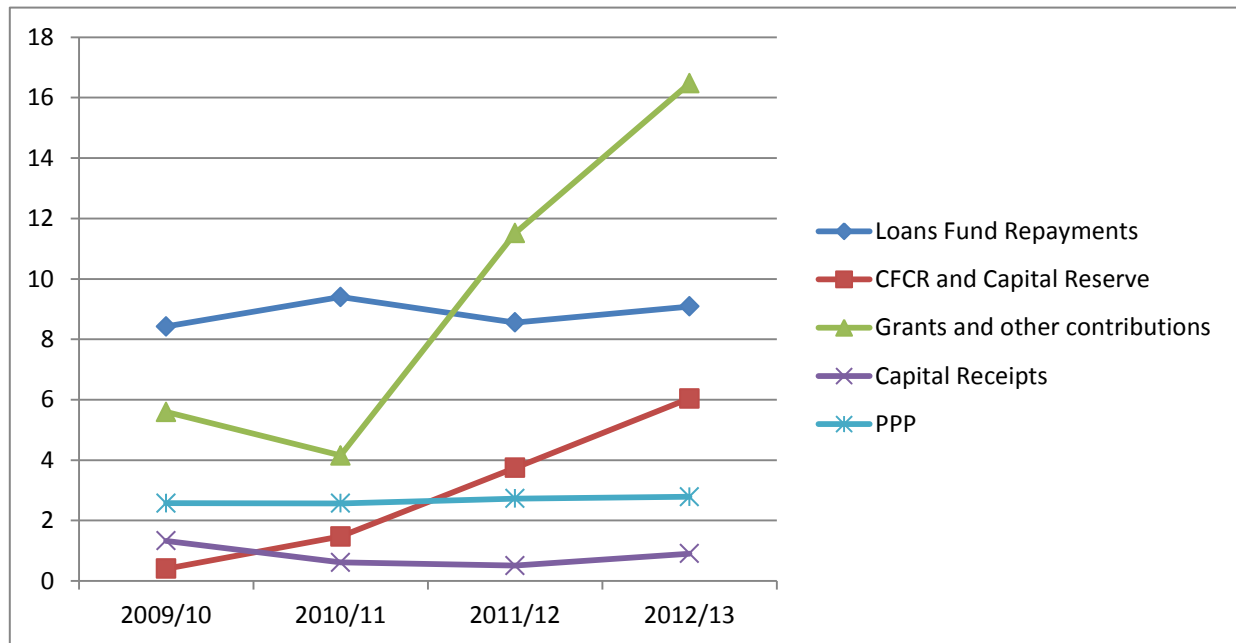
Source: Audit Scotland

## Capital investment and performance 2012/13.

45. The 2012/13 financial statements detail capital expenditure of £31.9 million split between the housing revenue account (£4.3 million) and the general fund programme (£27.6 million) which includes capitalised expenditure on PFI/PPP. The housing programme includes areas such as upgrades of kitchens and bathrooms, energy efficiency and aids and adaptations. The general fund programme includes investment in schools as well as improving roads and pathways and regeneration.
46. The housing capital outturn for 2012/13 of £4.3 million was £0.2 million over-budget due to the upgrade of the heating systems within sheltered housing and this increased expenditure was approved by the Council in October 2012.
47. The general fund capital expenditure for 2012/13 was £27.6 million against a budget of £33 million resulting in an underspend of £5.4 million due to slippage on a range of projects including property maintenance and Eastwood High School.
48. Exhibit 4 below shows the main sources of finance for capital expenditure over a number of years. For 2012/13 Government grants and other contributions increased significantly from

£11.5 million to £16.5 million. The Capital Reserve and other reserves such as Spend to Save along with Capital Funded from Revenue (CFCR) totalling £6 million continue to be important sources of capital funding. Loan Fund repayments remain stable at £9 million.

**Exhibit 4: Capital Adjustment Account Funding movements**

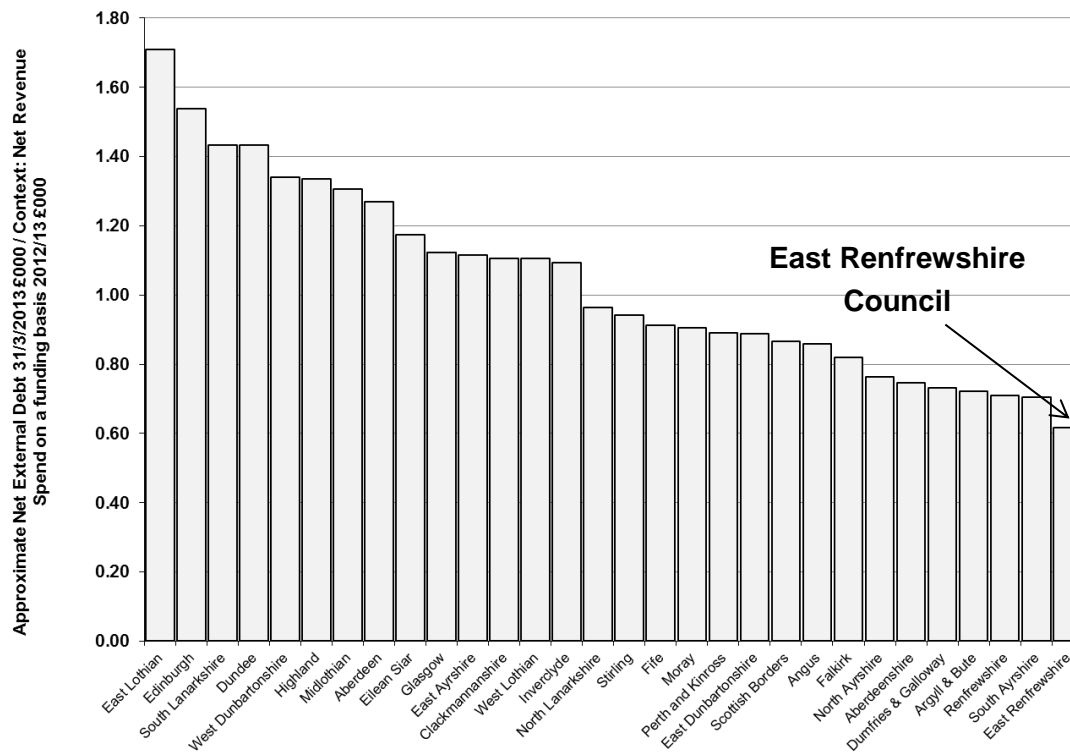


Source: East Renfrewshire Council Financial Statements 2009/10 to 2012/13

**Treasury management**

49. The Council has continued its prudent approach to Treasury Management in 2012/13 with the level of long term borrowing reducing by £8.9 million to £71.7 million. The Council's net external debt as a proportion of net revenue spends continues to be the lowest amongst other Scottish mainland councils as detailed at Exhibit 5 below. At 31 March 2013 the Council had total borrowings of £84.7 million (2011/12 £84.1 million) which includes its bank overdraft.

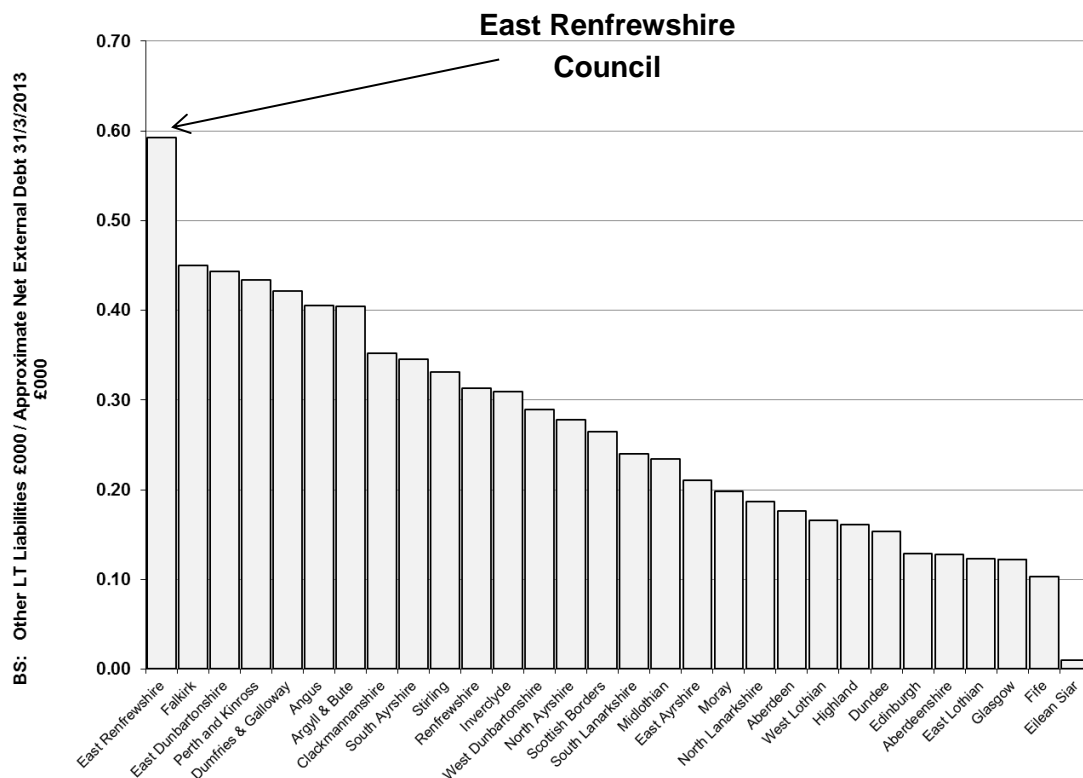
**Exhibit 5: Net external debt as a proportion of net revenue spend**



Source: Audit Scotland

50. The Council's exposure to other long term liabilities, including PFI, is much greater as illustrated by Exhibit 6. East Renfrewshire Council has two PFI contracts. One contract is for the provision of school facilities and the second is acting as the lead agency for the construction and maintenance of the Glasgow Southern Orbital Road. There is also a contract under the Public Private Partnership initiative for the provision of further new and extended school facilities. Under IFRS requirements, the Council must recognise the assets acquired under the PFI/PPP scheme and the related liabilities in its balance sheet.

**Exhibit 6: Long term PFI / PPP and lease debt as a proportion of net external debt**



Source: Audit Scotland

51. Going forward the Council approved the general fund capital programme for 2013/14 in February 2013 with £22.6 million of investment. This will be principally funded by borrowing, government grants, use of the capital reserve and capital receipts. The Council also received details of future plans to 2020/21 for information. This report set out the anticipated resources over the life of the plan and detailed that capital resources available to support investment remained constrained for future years, largely due to a reduction in the value of, and delayed timing of, potential capital receipts. The housing capital programme for 2013/14 to 2017/18 was also approved at this meeting.
52. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. The Director of Finance reviews the capital financing requirement on an annual basis and reports to the Council on a series of prudential indicators as recommended by the Prudential Code. The performance against these indicators is reported to Council and to the public via the financial statements. This helps the Council to plan its capital investment prudently and to demonstrate to the public that it is doing so.
53. In the continuing period of economic instability interest rates on investments remain low and the council received only £0.9 million in investment income this year which is slightly more than 2011/12 - £0.6 million. This situation is unlikely to change in the near future.



## Investment in Heritable Bank

54. As has been previously reported, the Council had £1 million invested in Heritable Bank, a UK based subsidiary of the Icelandic Bank, Landsbanki, when it went into administration in October 2008. At the time of the preparation of the financial statements, the administrators, Ernst and Young LLP, were projecting a return of 88p in the £ by the beginning of 2014. At 31st March 2013 the Council had received thirteen payments totalling £812,312. The latest creditors progress report issued by Ernst and Young outlined that the return to the creditors was now projected to be 94.02p in the £. To date the Council has received 14 payments totalling £988,238.

## Financial planning to support priority setting and cost reductions

### Savings

55. The Revenue Estimates forecast identified a projected funding gap of £10.8 million over the years 2013/14 to 2014/15. The Council has a robust methodology for identifying this funding gap and the ensuing cost reduction plans. However, as with any budget exercise, assumptions and projections that underpin the balanced budget can vary as events unfold. For example, the decision by the UK government to introduce pension reform on 1 April 2016 (one year earlier than planned) is estimated to significantly increase the Council's national insurance cost contributions in 2016/17. This has been recognised in the Council's longer term financial planning.
56. The Council has agreed £10.629 million of savings to address the projected budget gap. The profile of savings over the two financial years results in a surplus of £1.792 million in 2013/14 which will be invested in one-off measures and a shortfall of £0.152million in 2014/15.

### Workforce reduction

57. As part of the programme of savings, the Council has sought to reduce the workforce via early retirements and voluntary severance schemes. These decisions need to be affordable, fully funded and demonstrate value for money. In 2012/13 the Council had 35 exit packages at a cost of £1.3 million. The Council uses a 3 year payback as its benchmark position and all of the packages were within this period.
58. The Director of Finance and the Chief Social Work Officer both requested early retirement and the Director of Finance will retire in April 2014. This will result in the number of directors reducing from 5 to 4 and the responsibilities of the Director of Finance will be split between the Chief Executive and the Director of Corporate and Community Services. The Head of Accountancy will assume the Chief Financial Officer role with section 95 responsibilities. This will result in significant organisational change and we will monitor the impact of these changes. The Director of Education left in August 2013 and this post has only recently been filled.

## Other Change Management programmes

59. In the four years since the launch of the Council's Public Service Excellence change programme it has achieved recurring financial savings of £3.4 million and a workforce reduction of 231FTE. The Council's Annual Efficiency Statement details total cash efficiency savings of £6.1 million which includes the £3.4 million as detailed above. A PSE plan for the next four years with four refreshed key principles has recently been launched to deliver change, efficiency and improvement.
60. The most significant part of this programme is within the Community Health and Care Partnership (CHCP) which is undertaking a fundamental and complex transformation programme which has already delivered £1.5 million of savings. These savings come from a combination of service redesign projects, re-negotiation of contracts and joined up process improvements. The PSE programme is discussed further at paragraphs 105 to 107.

## Partnership working

61. In October last year the Council were advised that a number of Clyde Valley local authorities including East Renfrewshire would work in partnership to progress an initial project to share ICT services based on the recommendations in the McClelland report on national ICT infrastructure. We understand that specific opportunities for ICT collaboration have been identified and are being progressed.
62. The Council is participating in the shared procurement of residual waste processing with East Dunbartonshire, North Lanarkshire, Inverclyde and Renfrewshire Councils. In 2012/13 North Ayrshire joined this consortium. Good progress is being made towards the overall delivery date of 2020 and procurement progress is on-going with outline solutions from bidders being assessed before the next stage of detailed solutions being submitted.

## Outlook

### 2013/14 budget and beyond

63. In February 2013 the Council approved a budget for 2013/14 budget of £211.9 million net that reflected savings measures of £6.3 million. The savings measures identified include:
  - review of management and administrative staffing (£0.4 million)
  - reduction in the number of teachers for P1 whilst recognising the legal class size restriction of 25 (£0.5 million)
  - loan charge savings through active management of the Council's loan debt (£1.2 million)
  - Budget adjustments to reflect current demands and previously agreed decisions (£1.6 million).
64. The most recently reported financial position for 2013/14 (as at 15 August 2013) details an operational real underspend of £0.03 million. The Council will prepare its first forecast outturn at the end of period 7 which will be reported to Cabinet in December.

65. Looking ahead it is clear that the outlook for public spending remains challenging for the foreseeable future and continuing to deliver vital public services with a reducing budget will remain a significant challenge for the Council.

# Governance and accountability

66. 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.
67. 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, in monitoring these arrangements.
68. 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.
69. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

70. East Renfrewshire Council has a well-established corporate governance framework in place focused on a Full Council supported by a number of standing committees which are accountable to it. The Council also has a well established system of reporting to Cabinet and the Corporate Management Team, to enable existing policies and new proposals to be considered and discussed by members and senior officers.
71. The Audit Committee has been renamed the Audit and Scrutiny Committee as it performs an essential scrutiny function and it has operated effectively during the year. The committee is composed of a majority of members from the Opposition parties. A key responsibility of this committee is to undertake a corporate overview of the Council's control environment and to review the adequacy of the policies and practices in operation to ensure compliance with relevant statutes, directions, standards and codes of corporate governance.

### Internal control

72. 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 should also be informed by their assessment of risk and the activities of internal audit.

73. As part of our audit we reviewed the high level controls in a number of the council's financial systems. Our work covered several systems including general ledger, treasury management, cash and cash equivalents, council tax, capital accounting and housing rents as well as aspects of the payroll and trade payable systems. The findings from this work were reported to management in May 2013 and action plan of improvements agreed.
74. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
75. Also, the Internal Audit Annual Report presented by the Chief Internal Auditor to the Audit and Scrutiny Committee concluded that reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control system for the year to 31 March 2013. This report also identified an issue post year end in relation to the evaluation of tenders and subsequent management of contracts and awarding of work has highlighted deficiencies and control weaknesses which will need to be addressed by management. This is detailed within the Annual Governance Statement.

### Internal audit

76. A key element of our work on internal controls is the extent of reliance that we place on the work of internal audit in terms of International Standards on Auditing 610 (Considering the work of internal audit). The findings from our review of internal audit were reported in February 2013 and we concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.
77. Also, we placed formal reliance on aspects of the work of internal audit in several areas, for the purposes of or financial statement audit responsibilities, including payroll, trade receivables and trade payables. This not only avoided duplication of effort but also enabled us to focus on other areas of risk.

### Procurement

78. The public procurement reform programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. In 2012/13 the Council achieved a PCA score of 58%, which is classed as 'improved' and this score meets the national PCA target of 50% by March 2013.

### Public Services Network

79. The Council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. For example, the council shares benefit information with the Department of Works

and Pensions while social work and education departments exchange information with the police, Criminal Justice Partnership and Children's Hearings.

80. The Government Secure Intranet (GSI) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
81. From November 2012 all applicants have to apply to connect to PSN which means complying with the stricter PSN Code of Connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations.
82. The Council's initial application was not successful and it worked with Cabinet Office assessors to progress the transition to PSN. The Council also engaged a specialist consultant to help with this work and has recently received PSN accreditation.

### Housing and council tax benefits performance audit

83. A risk assessment was previously carried out on East Renfrewshire Council's benefits service in September 2010 and a detailed report was issued. The report identified 24 risks to continuous improvement and management agreed to an action plan to address these risks. The current year's risk assessment confirmed that 14 actions had been fully completed, 8 actions are on-going and 2 risks have still to be addressed:
  - The council is not meeting the standard target to submit cases to the Tribunals Service within four weeks.
  - The council is not adhering to the commitment in the Benefit Counter-Fraud Business Plan 2010/12 to issue a press release following each successful prosecution, and does not make best use of the council website to publicise the outcomes from its counter-fraud activities. This would help to reinforce the council's anti-fraud approach, act as a deterrent to others considering fraud against the council and raise and maintain the profile of the fraud team.
84. These risks and those still on-going from this review as well as new risks should be incorporated into an updated action plan for implementation.

**Refer to Action Point No. 2**

### Prevention and detection of fraud and irregularities

85. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We noted that East Renfrewshire Council has a range of measures in place to prevent and detect fraud, including Standing Orders and Financial Instructions, a Code of Conduct for members and staff. The Council uses various methods of encouraging staff and members of the public to whistle blow to bring matters of concern to the attention of Internal Audit. This includes email via a link on the Council's website, by post using a freepost address and by phone to a dedicated number within Internal Audit.

86. 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. Internal Audit investigated nine instances of potential fraud and two have been referred to the Police for further investigation. One of the investigations involved a loss of cash and the other related to a loss of income that the council was entitled to charge and receive for services provided. Four of the nine resulted in financial loss to the Council which is estimated to be between £31,204 and £32,854 of which £26,345 has been recovered. This leaves a net loss of between £4,859 and £6,509.
87. Overall, we have concluded that the Council's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

### NFI in Scotland

88. East Renfrewshire Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
89. NFI allows public bodies to investigate these matches and, if fraud or error, has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
90. NFI is co-ordinated by the Revenues Section although services are responsible for the initial investigation of data matches. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013.
91. The current NFI data exercise identified 2,348 data matches of which 439 are considered high quality and recommended for investigation. To date there have been no identified cases of fraud but work is on-going on one payroll to payroll case.
92. The Chief Internal Auditor monitors the outcomes of the investigations by the service departments. As work is on-going no formal update has been made to the Audit and Scrutiny Committee but this will be done in due course.
93. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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

94. 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.



95. The Council has a Code of Conduct for both members and officers with specific sections for each group. This Code covers a number of areas including gifts and hospitality, expenses and allowances, use of council resources and tendering. The Council also has an *Anti-Fraud and Bribery Strategy* which includes reference to all relevant policies and procedures aimed at preventing fraud and corruption.
96. The Council maintains a Register of Interests for elected members and for officers. Our review of the registers highlighted that although this is being used by some members of staff there would be merit in further reinforcing the need for staff to disclose any possible conflict of interest in the register. This information would then be used to support the identification of any related party transactions.

**Refer to Action Plan No. 3**

## Welfare Reform

97. The Welfare Reform Act 2012, as reported last year represents the biggest reform of the UK welfare system for 60 years. Last year we reported that the Council recognised that the new arrangements would have significant financial implications in terms of reduced funding and a possible increase in rent arrears. In response to this the Council has set up a Welfare Reform Planning Group with involvement from key staff. This group meets every six weeks to update the welfare reform action plan and to discuss training and communication plans to mitigate the impact of welfare reform on residents. One of the main challenges has been to explain all of the changes to those affected by welfare reform and the Council has used a range of communication methods:
98. The report submitted to Cabinet in September detailed that the level of rent arrears caused by benefit changes because of under occupancy is an on-going concern and as at the end of June of the 346 council tenants affected 37% had paid in full, 43% have made payments but are currently in arrears and 20% have made no payments. As a result of this position and the wider economic and financial climate, overall rent arrears increased by over 15% between the end of March and the end of June. This places significant financial pressures on the Housing Revenue Account and it is important that the Council continues to take active measures to reinforce the intent of the Council's rent arrears policy and in turn improve collection levels.

**Refer to Action Plan No. 4**

## Outlook

99. Welfare reform will continue for several years to come and the national rollout of the Universal Credit is due for full implementation within the UK by 2017. The original planned roll-out was due in October 2013 but this has been delayed with no further details of a revised implementation date. This will replace a range of existing means-tested benefits and tax credits for people of working age. The Welfare Reform Planning Group should continue to monitor the impact of these reforms on service provision.



# Best Value, use of resources and performance

- 100.** 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 audited body's progress against its Best Value improvement plan, if required.
- 101.** 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.
- 102.** Furthermore, 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.
- 103.** This section includes a commentary on the Best Value/ performance management arrangements within the Council. We also note any headline performance outcomes and measures used by the Council and comment on any relevant national reports and the council's response to these.

## Management arrangements

### Best Value

- 104.** The only separate Best Value report was in 2005 and it noted that the council demonstrated a clear commitment to Best Value and community planning. Since then the council has implemented its plan which was compiled in response to the 2005 report. The 2012/13 shared risk assessment process undertaken by the Local Area Network (LAN) concluded that a targeted best value review was not required.
- 105.** Public Service Excellence (PSE) is the umbrella programme for all change, efficiency and redesign/shared services activities across the Council. An update went to the August 2013 Cabinet meeting which detailed progress to date. Since inception, the PSE programme has achieved recurring financial savings of £3.4 million and a workforce reduction of 231 FTE. Customer satisfaction rates with Council services have remained stable despite significant

budget cuts. A total of 55 PSE projects and 24 CHCP projects have been initiated and 31 of these were delivered in 2012/13.

106. The Council acknowledge that the continued implementation of the PSE programme will be critical to ensuring that efficiency improvements are achieved and has refreshed its original key principles reducing from six to four:
- Better customer experience
  - Delivering through digital services
  - Improving assets and agile working
  - Processes simplified and standardised.
107. The biggest areas of work within the PSE programme are in the CHCP and around agile working, with particular focus on the CHCP and the Environment Department. These are complex programmes of work which have significant impact on "enabling services" like ICT as there are key requirements around information security, researching mobile devices and deploying suitable ICT kit. The Council need to closely monitor this to ensure the achievement of efficiencies in light of the stringent measures the Council has had to adopt in order to gain PSN accreditation.

**Refer to Action Plan No. 5**

## Performance management

108. The Council has well established arrangements in place for effective performance monitoring. It makes use of various performance management tools such as Covalent to report performance across all departments. There is a mid and end year reporting on SOA outcomes, Statutory Performance Indicators (SPI's) and the Outcome Delivery Plan (ODP).
109. Strategic year end performance reports were presented to cabinet in June 2013 and these are available on the Council's website.

## Overview of performance in 2012/13

### Statutory performance indicators

110. In 2012/13, a total of 25 SPIs were required and of these, 14 had improved, 8 had declined, 2 had a change to reporting status and 1 was not applicable
111. Improved indicators include equal opportunities, public access, council tax collection and homelessness. A decline in performance was observed in the payment of supplier invoices, rent management and use of libraries.

## Scotland's Public Finances

112. In August 2013 we issued Scotland's public finances: Addressing the challenges follow-up report. This report looked at the way that the Council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability.

113. Our report highlighted a number of good practices including a comprehensive package of budget papers which are aligned to the Council's priorities and an established process of preparing two year budgets and identifying areas where efficiencies and cost reductions can be attained. A process of consultation and engagement with members of the public, employees and other key stakeholders has also been undertaken.
114. Additionally, we identified a small number of areas for the Council to continue to monitor:
- The Revenue Estimates forecast identified a projected funding gap of £10.781 million over 2013/14 and 2014/15. This gap is based on various assumptions and projections that may change as events unfold.
  - An impact assessment on each saving proposal was presented to the Budget Strategy Group which identified risks to service delivery and could potentially increase pressure on existing staff.
115. We have agreed an action plan with management that will address the issues outlined above. We will monitor progress in implementing the action plan at a future date.

## National performance reporting

116. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports of direct interest in 2012/13 are outlined in the exhibit below.

### Exhibit 9: A selection of National performance reports 2012/13

- |                                                                                         |                                                                             |
|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| • Responding to challenge and change - An overview of local government in Scotland 2013 | • Protecting consumers                                                      |
| • Improving community planning in Scotland                                              | • Using cost information to improve performance - are you getting it right? |
| • Major capital investment in councils.                                                 | • Health inequalities in Scotland                                           |
|                                                                                         | • Reducing reoffending in Scotland.                                         |

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

117. Audit Scotland encourages local authorities to review national reports, consider key findings and assess local, performance against them and, identify local improvement actions where appropriate. The national reports are accompanied by a checklist which officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's performance reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.
118. Our national reports are presented to the Audit and Scrutiny Committee and relevant officers attend this meeting and advise the committee members of the local position against national findings.

## Assurance and improvement plan update 2013-16

119. The Local Area Network of scrutiny partners for the council conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the 15 May Council meeting for information and consideration by members.
120. The LAN has concluded that no risk based scrutiny work is currently required on the Council's services or outcome areas. Last year two amber scrutiny risks were identified in relation to the housing stock condition survey and the homelessness service.
121. The Council's asset management strategy for the Housing service was approved by members in June 2012. The Council is now validating the data gathered through its comprehensive housing stock condition survey. The survey results have been used to identify the costs of improvement work needed to the Council's housing in order to meet the Scottish Housing Quality Standard by 2015. The Council has advised us that the extent of works necessary and their consequent costs are lower than anticipated at £5.750 million over the period April 2012 to March 2015. The Council considers this to be a challenging, but achievable target and has prepared an updated delivery plan. This will be monitored by the LAN but the risk assessment has been changed to 'no scrutiny required'.
122. The AIP noted that the Scottish Housing Regulator's Targeted Inspection Report (April 2011) identified a number of weaknesses, many of which related to the Homelessness service. Some of these were considered to be significant and the Council undertook work to address these issues. In July 2012 the Council provided the Scottish Housing Regulator with a comprehensive Improvement Plan for the Homelessness service. The Plan addresses the weaknesses previously identified, though in many areas, as yet, it is too early to see improved outcomes for service users. It is the Scottish Housing Regulator's intention to monitor the Council's progress over the next year to ensure that the associated action plan delivers improved outcomes for service users but the risk assessment has been changed to 'no scrutiny required'.

## Outlook

123. Any future best value work will be determined through the shared risk assessment process but there are currently no plans for this work. Work is due to start soon on updating the Assurance and Improvement Plan covering the period 2014/17.
124. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. A number of councils will receive a CPP audit in 2013/14 including Falkirk, Moray, West Lothian, Orkney and Glasgow City Councils.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Review of the Adequacy of Internal Audit	19 February 2013	25 March 2013
Annual Audit Plan	18 February 2013	25 March 2013
Assurance and Improvement Plan	2 May 2013	15 May 2013*
Internal controls management letter	31 May 2013	27 June 2013
Scotland's Public Finances - local follow-up audit	30 August 2013	7 November 2013
Report on financial statements to those charged with governance	19 September 2013	26 September 2013
Audit opinion on the 2012/13 financial statements	19 September 2013	26 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	28 October 2013	7 November 2013
Report to Members on the 2012/13 audit	28 October 2013	7 November 2013

\* Paper submitted to East Renfrewshire Council rather than Audit Committee

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	24	<p><b>Trade and Other Payables</b></p> <p>The Council is correctly showing amounts overpaid by tenants for Council Tax and Rates. However amounts accounted for go back to 1996/97 and may no longer be refundable.</p> <p><b><i>Risk: the liabilities may be overstated as there is little likelihood of amounts being paid out.</i></b></p>	<p>A review is on-going within resources available and taking account of the benefits that would be derived from the sums of money involved.</p>	Head of Revenues	On-going
2	84	<p><b>Housing and Council Tax</b></p> <p>The Council has not fully addressed the issues identified by our previous housing and council tax benefits performance audit.</p> <p><b><i>Risk: the Council may continue to experience delays in processing claims and not meet targets.</i></b></p>	<p>An updated action plan was created in February 2013. The two items highlighted in para 83 will be completed by 31 December 2013.</p>	Head of Revenues	31 December 2013
3	96	<p><b>Register of Interests</b></p> <p>The Council should reinforce the need for officers to complete the Register of Interests thus disclosing any possible conflict of interest.</p> <p><b><i>Risk: there is a risk that conflicts of interest would be undisclosed and related party transaction information incomplete.</i></b></p>	<p>All staff were reminded in May 2013 about the need to declare any potential interest that might be perceived to present a conflict with their work and given an updated copy of the code of conduct. It was also issued to schools based staff. In addition intranet</p>	Deputy Chief Executive	April 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			based communications on the code including gifts and hospitality took place at the same time. The intention is to issue further reminders to staff early next year.		
4	98	<p><b>Rent Arrears</b></p> <p>Council rent arrears are increasing as a result of welfare reform changes.</p> <p><b><i>Risk: rent arrears may continue to rise leading to a significant loss of income for the Council.</i></b></p>	A review of rent collection arrangements including alternatives to legal action, increased use of home visits, mobile texting and developing direct debit payment arrangements is on-going. Staffing of the rents team is under review. Software supplier is being consulted to deliver improved management information.	Head of Revenues	On-going
5	107	<p><b>Public Service Excellence Efficiencies</b></p> <p>The Council has identified future efficiency savings through agile working.</p> <p><b><i>Risk: the stringent measures adopted to attain PSN accreditation may impact on the Council's approach agile working.</i></b></p>	Deliver PSN action plan	Head of ICT	April 2014