East Dunbartonshire Council

Annual Audit Report to Members and the Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed of David McConnell as the external auditor of East Dunbartonshire Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of East Dunbartonshire Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key Messages

Audit of financial statements	• Unqualified auditor's report on the 2014/15 financial statements. • Unqualified auditor's reports on the seven charitable trusts administered by the council. • There is scope for improvement in the provision and quality of working papers in support of the financial statements.
Financial management and sustainability	• The council reported an overspend of £0.297 million against the total net expenditure budget for 2014/15. • Overall financial management arrangements are adequate. However, there are instances of persistent under and over spending against budgets which indicates that improvements are required to ensure budgets set reflect service demands. • We conclude that the council's financial position is sustainable currently although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.
Governance and transparency	• Although the council's systems of internal control are adequate overall, there are significant control weaknesses in certain key areas. These have not been addressed despite recommendations by auditors in prior years. • The council's new scrutiny panels are still to begin working effectively. • The arrangements for the prevention and detection of fraud and corruption are satisfactory.

Best Value	• The best value audit report published in June 2015 highlighted that the council needs to have clearer priorities in its transformation programme to ensure critical projects are delivered and anticipated benefits are realised. • The Council is facing an increasingly challenging financial position and needs to ensure the delivery of savings of £23.3 million over the next three years. • The council has made considerable progress in improving its procurement function and improvement has also been noted in Public Performance Reporting. • A further follow up best value report has been requested by the Accounts Commission by December 2016.
Outlook	• Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. • Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of East Dunbartonshire Council. The report is divided into sections which reflect our public sector audit model.

2. The management of East Dunbartonshire Council is responsible for:
   - preparing financial statements which give a true and fair view
   - implementing appropriate internal control systems
   - putting in place proper arrangements for the conduct of its affairs
   - ensuring that the financial position is soundly based.

3. Our responsibility, as the external auditor of East Dunbartonshire Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **Appendices II and III**, include recommendations for improvements.

6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that East Dunbartonshire Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 Financial Statements

Audit opinion	• We have completed our audit and issued an unqualified independent auditor's report.
Going concern	• The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts' ability to continue as a going concern.
Other information	• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trusts	• We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by East Dunbartonshire Council and issued an unqualified independent auditor's report for each of the relevant trusts.
Group accounts	• East Dunbartonshire Council has accounted for the financial results of two subsidiaries and three associates in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £3.423 million.
Whole of government accounts	• The council submitted a consolidation pack to the Scottish Government by the deadline set. An audit of the return was not required as the value of the council's assets was below the threshold determined by the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 10 June 2015, in accordance with the agreed timetable. A detailed working paper checklist was issued to officers on 19 February 2015 and dates were agreed for early work. We received confirmation at this time from finance officers that complete working papers for each section would be received by the agreed dates.

10. The Finance Manager has co-ordinated responses to audit requests to assist with the reduced timescales for producing reports on the 2014/15 audit. The approach has allowed us to conclude the audit within the new timetable through addressing matters arising in a timely and efficient manner.

11. Early audit working papers for stock, debtors, cash and bank and financial instruments were provided on agreed dates between 8 June 2015 and 22 June 2015 with the exception of the sundry debtor reconciliation. Working papers to support reconciliations were not provided within the agreed timescales and the final council tax reconciliation was not received until 24 August 2015.

12. Working papers provided to audit varied in quality and in a number of instances there was deterioration in the standard of working papers provided.

13. A number of issues identified as part of the 2013/14 audit were not addressed in preparing 2014/15 accounts. For example, some calculations were based on prior year unaudited figures and did not take into account the final re-stated balances.

Overview of the scope of the audit of the financial statements

14. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Management Sub Committee on 26 February 2015.

15. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services.

16. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

17. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

The audit of the charities financial statements

18. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. The council had 7 funds which were subject to the full charities financial statements audit for 2014/15.

19. We have given an unqualified opinion on the 2014/15 financial statements of the relevant charities registered by East Dunbartonshire Council.

Group Accounts

20. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.

21. The council has accounted for the financial results of two subsidiaries, three associates, the Common Good Fund and Trust Funds in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £3.423 million.

22. The net assets of the group at 31 March 2015 totalled £310.409 million, compared to a net asset position of £347.324 million in 2013/14. This adverse movement relates to the significant increase in the pension liability within the council's accounts.

23. As part of the group accounts audit it was noted that the East Dunbartonshire Leisure & Culture Trust has recorded a deficit of £0.041 million for financial year 2014/15. However, the total net liability position of the Trust at 31 March 2015 was £4.491 million, after accounting for pension benefits (excluding pensions £0.041 million net resources expended). This is a significant increase on the 2013/14 figure (£1.614 million) and is due to changes in the assumptions used by the actuary, particularly in relation to the rates of return. The pension fund have a strategy in place to meet future funding liabilities. The council pays an annual management service fee to the Trust and regular meetings take place between council officers and the Trust's General Manager. In the current financial climate it is important that the financial sustainability of the Trust is kept under review, to ensure that council budgets are not placed under further strain to support the costs associated with the Trust.

Recommendation 1

24. Mugdock Country Park Joint Management Committee is a subsidiary of the council. The Joint Committee acts on behalf of East Dunbartonshire Council and Stirling Council to maintain and manage the country park. A Minute of Agreement was in place until 31 March 2014 which set out the level of support required from each council, with East Dunbartonshire providing 87.5%.

25. The Minute of Agreement between the councils has now expired. As a result, the funding of the park becomes uncertain.

Materiality

26. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally

be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

27. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

28. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of East Dunbartonshire Council we set our planning materiality for 2014/15 at £2.958 million (1% of gross expenditure). We report all misstatements greater than £30,000. Performance materiality was calculated at £0.740 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

29. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

30. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.

A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to:

- increase the net asset position of the council by £0.993 million predominately due to a reduction in the annual leave accrual which is offset by some asset revaluation and impairments
- decrease the general fund reserve by £0.104 million.

Significant findings from the audit

31. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

- The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Significant difficulties encountered during the audit.
- Significant matters arising from the audit that were discussed, or subject to correspondence with management.
- Written representations requested by the auditor.
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

32. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
Reconciliations: As has been the case in the three previous years, a significant issue was identified in relation to year end closedown procedures. The Non Domestic Rates (NDR), council tax and sundry debtors systems had not been reconciled to the financial ledger on a regular and timely basis throughout the year although they were finally prepared retrospectively during the final accounts and audit processes. Accountability for reconciliations remains weak as a number of key reconciliations were neither signed by the preparing or authorising officer.	Audit points are noted and the risk is acknowledged by the Council. No post-audit adjustments were identified but all improvement actions have been taken forward.
Employee related claims: The council has made a provision of £4 million to meet the likely cost of equal pay compensation claims based on individual employee records and the likelihood of the payments being due. However, the council have been unable to settle any cases to date. The position in terms of the liability will clarify as claims crystallise.	The provision for equal pay claims is reviewed annually and felt to be prudent and reasonable. Equal pay team are progressing cases towards settlement where appropriate.

Issue	Resolution
Holiday Pay Accrual: For the fourth consecutive year the council have restated their prior year annual leave accrual due to decisions by the Local Negotiating Committee for Teachers regarding the terms and conditions to be applied to teachers. Errors were noted in the calculation of the teachers holiday pay accrual resulting in an over accrual of £2.126 million.	Prior year restatements are a result of difficulties in implementing the Scottish National Committee for Teacher's (SNCT) revised pay and conditions, and the Council reverting back to Local Negotiating Committee for Teachers (LNCT) on a number of occasions. This will only be resolved when there is final agreed scheme that can be consistently applied nationally. The error in the calculation was a result of using the incorrect number of working days for Teachers. This has been corrected in 2014/15 audited Annual Accounts.
Impairment: In August 2015 routine maintenance work identified structural problems within the building at Our Holy Family Primary School, resulting in its closure awaiting remedial work, and the decanting of the staff and pupils to an alternative site. This raised the issue of whether the valuation of the property at 31 March 2015 was materially incorrect and whether the financial statements should reflect an impairment to the value of the asset.	A programme of curtain walling replacement was being carried out to Holy Family PS and during those works structural cracks in the building were discovered which were not evident in other areas; this therefore was not classified as routine maintenance work. Further investigation by structural engineers established the source of the problem. The Council's Corporate Asset Manager, acting as internal valuer, revisited the year end valuation and made appropriate adjustments to the value to reflect this new information which was not available at the time the valuation was originally prepared, resulting in the asset being impaired. Should a similar problem be discovered in other schools as a result of further intrusive surveys then those assets will be subject to a revaluation and possible impairment. This post-balance sheet event has been reflected within the Audited Annual Accounts.

Future accounting and auditing developments

Revisions to the Code of Practice

33. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.

34. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.

35. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets.

Health and Social Care Integration

36. The Integrated Joint Board (IJB) for East Dunbartonshire went live on 3 September 2015. The IJB is accountable for the provision of health and social care. Accounts will be required to be prepared for period to March 2016 followed by an external audit by the council's appointed auditors, Audit Scotland.

Financial Management and Sustainability

Net service budget expenditure £234.032m

Service Outturn £234.329m

Service Budget Overspend

£0.297m

Original planned capital expenditure £58.285m

Outturn Capital spend £35.597m

Capital underspend £22.688m

Usable reserves

Outturn usable reserves

£28.167m

Favourable movement in usable reserves

£2.032m

Savings Target

£4.542m

Savings achieved

£4.433m

Financial management

37. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.

38. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

39. The council reported a deficit of £2.753 million on the provision of services in the 2014/15 Comprehensive Income and Expenditure Statement. Adjusting this balance to remove the accounting entries required by the Code produces the revised position showing that the council increased total usable reserves by £2.032 million.

40. Overall, the council reported an overspend of £0.297 million against budgeted general fund services net expenditure of £234.032 million. Specific variances against budget were noted in the following services:

- Integrated Health & Social Care - £3.585 million overspend as a result of increased costs across a range of adult social care services. Increasing demand in this area has created additional financial pressures.
- Miscellaneous Services - £2.072 million overspend due to redundancy costs related to the voluntary trawl.
- Education and Children's Services – Underspend of £1.950 million due to an increase in projected savings arising through vacancies across curriculum development and early years support.

41. The outturn of the general services budget is, broadly, satisfactory. However, there are a number of areas of underspending/ overspending against budget lines which require attention to ensure that the budget approved is up to date and reflects the underlying cost of the service level approved by members.

42. As part of the financial statements audit work variance explanations were requested from staff regarding movements in budgets and year end balances. In some instances responses to queries were slow in being received and varied in quality.

43. The council is required by legislation to maintain a separate Housing Revenue Account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The income requirement for the HRA was set at £11.833 million and was to be funded from council house rents. This resulted in a rent increase of 3.8%, and increased the average weekly rent based on a 48 week period from £68.15 to £70.74.

44. The council's current tenant arrears in 2014/15 were £0.457 million. This is an increase of 24% from the level recorded in 2013/14

(£0.368 million). Current tenant arrears as at Period 5 in 2015/16 are £0.728 million. This represents a deteriorating position.

Recommendation 2

45. In 2014/15, the council recorded a deficit on HRA services of £1.994 million. This represents a significant deterioration from the prior year in which a surplus of £6.087 million was returned. However after applying statutory accounting adjustments there was an increase of £0.996 million on the HRA balance, resulting in a closing balance of £1.840 million at the year end. The main reason for this movement is an increase in depreciation and impairment charges following a major review in the valuation of HRA Council Dwellings in 2013/14.

Financial management arrangements

46. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the council to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the council
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

47. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles. Although issues of financial capacity are raised in the following section of this report.

48. We reviewed the council's financial regulations and concluded that they are adequate and current.

49. Financial monitoring reports (both revenue and capital) are submitted to the Policy & Resources Committee. Reports focus on projected outturn.

50. As auditors we attend a number of council and committee meetings each year. As identified in the Best Value follow up report, there are wider weaknesses in public scrutiny by elected members. There is often limited debate or challenge at council or committee meetings. Reports presented are complex and do not focus on strategic issues.

Financial capacity

51. The council have experienced staffing changes and reductions within the finance and revenue and benefits teams over recent years, including individuals key to the delivery of the financial statements. A temporary team leader was appointed during 2014/15 and prepared the financial statements. This is the third

change in key contact for the financial statements in the past four years.

52. Throughout the course of the 2014/15 audit, we noted that sole reliance is placed on individual members of the finance team for certain areas of responsibility. This results in very limited cover during periods of sickness absence or annual leave.

53. As part of the transformation programme, an accountancy review is underway. There has been slippage in the completion date for this review with the original completion date of June 2014 being deferred on a number of occasions. The latest planned completion date is 31 December 2015.

54. The finance team needs to be sufficiently resourced in terms of time, experience and knowledge to ensure internal financial controls are operating effectively; to support the preparation of the financial statements and to support the council decision making process.

Recommendation 3

Interim Controls Testing

55. As a result of our control work findings, additional substantive testing was required in the areas of authorised signatories, homecare and expenses.

- Testing of authorised signatories identified a large number of instances where the amounts authorised were outwith the specified limits.
- Payments to external homecare providers are not authorised prior to payments being made. Our testing identified instances of overpayments to care providers.
- Testing of expenses identified instances of overpayment, duplicate payments, lapses in controls around the certification and authorisation of expense forms and irregular submissions of expense forms for payment.
- There was a decline in the return of both imprest and inventory certificates submitted for annual accounts.

Progress in preparing 2015/16 reconciliations

56. In response to our Review of Key Internal Controls 2014/15 report in June 2015, the council gave agreed actions and action dates for addressing issues raised. Additional resources have been applied by the council to this area and some progress has been made. The council has indicated that the introduction of a revised income management system later in the current year should simplify and improve the reconciliation process.

57. For the reconciliations for council tax, NDR and sundry debtors it was agreed that in-year reconciliations would be in place by the end of July 2015, they were not however available within the agreed timescales.

58. The reconciliations have now been prepared up to the end of August 2015 (period 5). These reconciliations have not yet been reviewed by audit as they were received on 10 September 2015. In some cases the reconciliations have a significant number of

reconciling entries which result in the reconciliation being complex and cumbersome.

Recommendation 4

Conclusion on financial management

59. We have concluded that the council's financial management arrangements are adequate overall but with significant control weaknesses in certain key areas. There are some areas where improvements could be made to enhance existing arrangements. Whilst overall management of the financial position is broadly satisfactory, persistent under and over spending against budgets indicates that improvements are required to ensure more appropriate budgets are set.

Financial sustainability

60. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.

61. In assessing financial sustainability we are concerned with whether:

- there is an adequate level of reserves
- spending is being balanced with income in the short term
- long term financial pressures are understood and planned for
- investment in services and assets is effective.

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

62. The overall level of usable reserves held by the council increased by £2.032 million compared to the previous year and totalled £28.167 million. See exhibit 1 below.

Exhibit 1: Usable reserves

Description	31 March 2014 £ million	31 March 2015 £ million
General fund	11.313	12.558
Housing revenue balance	0.844	1.840
Capital fund	12.496	12.147
Other statutory funds	1.482	1.622
Total usable reserves	**26.135**	**28.167**

Source: East Dunbartonshire Council 2014/15 financial statements

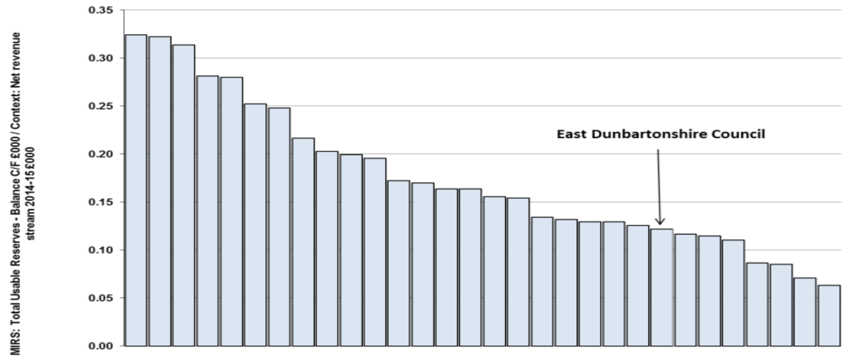
63. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows. The council's level of general fund reserves has risen from £11.313 million to £12.558 million. This indicates an improving position.

64. The General Fund balance includes £7.940 million of unallocated general fund reserves. This represents 3.41% of the 2014/15 net cost of services (£233.036 million) which is in line with CIPFA's best practice guidance of holding 2% - 4% of revenue expenditure. Planned commitments from the general fund balance amounted to £4.618 million and include social work pressures, modernisation, efficiency and reform initiatives, contribution to repairs & renewals fund and miscellaneous budget pressures for 2015/16. Earmarked balances represent 37% (2013/14: 54%) of the total general fund balance.

65. Exhibit 2 below shows the council's usable reserves as a proportion of net revenue stream in comparison with other Scottish councils (net revenue stream being presented as general revenue grant, council tax and non domestic rates).

66. Although the council's position has improved from that noted in 2013/14, it still remains below the median level. The council should look to build on the improvement made and ensure a balance between meeting current obligations and preparing for future commitments is achieved. This will protect the council against the financial impact of unforeseen events or reductions in future funding.

Exhibit 2: Usable reserves as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2014/15

Financial planning

67. The council set its 2015/16 budget in February 2015 at £238.286 million. The council faces an increasingly challenging financial position. Improvements in its financial planning mean that it now has a better understanding of the impact of an ageing population on future service demands and costs. As a result, it now estimates that it needs to save £23.3 million over the three years to 2017/18, an increase on its previous projection of £20 million and representing around ten per cent of its spending.

68. A number of efficiency measures have been agreed and are being implemented across the council through transformational change and budget reduction activities. A number of governance and scrutiny developments have been designed and implemented to provide the council with the reassurance that savings plans are on

target and that the benefits, including financial savings, of projects and activities are realised.

Recommendation 5

Council transformational programme/efficiency strategy

69. As reported in the 2014/15 Best Value follow up, the council's transformation programme has had some successes, such as changes to employee terms and conditions and streamlining its senior management structure. Overall, however, important elements of the programme are behind schedule, particularly those projects which are more genuinely transformational and have the potential to deliver more significant benefits and savings. For example, the creation of community hubs to help deliver services is significantly behind schedule. Some projects have seen notable progress, such as implementing an integrated HR and payroll system, unified communications, and internal shared services. However, these projects are running 18, 20 and 38 months respectively behind schedule. Inevitably, these delays will affect the council's ability to deliver its planned savings over the next three years.

70. In recognition that it needs to make better progress in delivering its transformation programme, the council has strengthened arrangements for managing and overseeing the programme. In July 2014, it established a corporate Programme Management Office (PMO). The PMO has introduced a new project management framework, standardising processes so that the programme can operate in a more consistent and coherent way. This includes producing detailed business cases for all projects to help deliver and demonstrate long-term benefits.

71. The PMO monitors progress against transformation projects every fortnight. This provides for more high-level scrutiny by the chief executive, director of customer services and transformation, the PMO manager and other team managers through monthly transformation board meetings. Elected members also scrutinise the programme through progress reports to quarterly scrutiny panels.

72. There is evidence that the council's improved programme management is having a positive impact. The council has recently begun to demonstrate greater progress in implementing projects, it is essential that momentum in this area continues to deliver both efficiencies in service provision as well as the associated savings targets.

Capital programme 2014/15

73. Total capital expenditure for housing and general fund services during the year was £35.597 million. Housing capital expenditure was £11.489 million with general fund capital expenditure £24.108 million. The housing capital budget of £13.213 million was approved at the Special Council meeting in February 2014. The general fund capital programme of £34.9 million was approved by council in December 2013 as part of the ten year capital asset and investment programme. This was revised to £45.072 million during 2014/15 to reflect slippage carried forward from 2013/14.

74. Investment during the year included £6.7 million on the new build of Lairdsland Primary School, £5 million on council house new builds,

£2.9 million on roads and footpaths and £1.9 million on the Hillhead Community Facility.

75. The council reported an underspend against the revised level of capital expenditure of £22.688 million or 39% of the total budget for 2014/15. The general fund programme accounts for £20.964 million of this slippage, which equates to 46.5% of the total general fund capital budget. This slippage is not due to any single project, but reflects delays in a wide range of projects, such as the planned office accommodation, the Bishopbriggs relief road and the community hubs.

Recommendation 6

76. As reported in the Best Value Follow-Up Report there have been major delays in developing the network of five community hubs. These are an important part of the council's transformation programme and aim to provide integrated local customer services and to introduce changes to working practices and reduce staffing numbers. The hub initiative started in 2009 and to date only one hub is in place in Kirkintilloch. Construction has started on the Lennoxtown Hub.

77. The council has had difficulties with its other planned hubs, in Bearsden, Bishopbriggs and Milngavie, including difficulties securing land. The council should consider the robustness of option appraisal arrangements to ensure that capital plans are soundly based.

Recommendation 7

Asset Management

78. The council approved the Corporate Asset Management Plan and ten year capital investment plan in December 2013. These will be updated on an annual basis and the capital plan will be re-phased. Throughout the year regular capital programme monitoring reports are presented to the bi-monthly meetings of the Council's Policy and Resources committee.

79. In June 2015, Council received an update report on the Corporate Asset Management Plan, Major Asset Programme and 10 Year Investment Plan. The capital plan includes an £80 million investment in the school estate. The council are currently progressing the planning and design stages for four new build primary schools at a budgeted cost of £41 million. A further £33 million is assigned to phase two of the primary school improvement programme from 2019/20 onwards. Given the recent events regarding Our Holy Family Primary School where the school was closed at short notice due to structural defects it is essential that a comprehensive plan for the whole school estate is in place.

Workforce Management

80. As reported within the Best Value Follow-Up Report the workforce strategy in place in year focusses on key themes, including resourcing protocols, workforce and succession planning, leadership and culture development, terms and conditions and resourcing new structures.

81. The workforce strategy and its underlying action plan do not contain clear targets or timescales for meeting objectives. As a result, it is not clear how the strategy will contribute to the council's aims or how the council will measure success. We note that a new Workforce Strategy 2015-2018 was presented to the June 2015 Council meeting.

82. During 2014/15 the council continued its voluntary trawl exercise which was launched in January 2013 and received around 600 notes of interest. During the year a further 95 employees departed at a cost of £6.032 million.

83. The council has the third highest total cost of exit packages and the third highest average cost of exit packages in comparison with other Scottish local authorities in 2014/15.

84. During 2014/15, the Policy and Resources sub committee approved 87 exit packages with a total cost of £3.935 million. The costs approved only included the in year costs of the exit packages and excluded the capitalised cost of added years which adds an additional £1.9 million to the total cost of these exit packages. Members were not provided with information on the total costs during the decision making process.

85. The savings likely to be achieved through workforce reductions are not clear. Savings realised from an employee's departure are dependent on other adjustments to the organisational structure and may only result in a partial salary saving. Full salary savings are only achieved where the employee's post is completely removed from the structure.

86. As part of the financial statements audit we sought a clearer demonstration that the voluntary trawl scheme is realising anticipated savings and achieving value for money, however this does not appear to be fully in place. The council needs to develop more detailed monitoring reports which give actual savings achieved. Consideration should be given to undertaking lessons learned exercises from the existing scheme to ensure the achievement of Best Value.

Recommendation 8

87. Each year the local audit team provide information and sample testing results to the auditors of the Strathclyde Pension Fund to provide assurances of the integrity and completeness of pension information provided to the pension fund by constituent authorities. Issues arose in 2014/15 in relation to new employees to the council and an instance was identified where an individual selected as part of the testing could not be identified on the pension fund system despite their pension contributions being deducted at source.

88. From this process it was identified that the council were the poorest performing council in providing good quality data to the pension fund. For eight months of the year, no information was provided to the pension fund from the council in relation to new starts.

89. The lack of information provided to the pension fund has resulted in a significant number of queries arising from the pension fund's monthly reconciliation processes and has resulted in over 200 separate requests for information being made to the council.

Treasury Management

90. In 2014/15 the council borrowed £36 million comprising a combination of medium and long term loans, which resulted in an increase of £20 million in the borrowing position. The council have advised that this is to address their under-borrowed position and is in line with the Treasury Management Strategy. Of the total borrowed, £18 million was borrowed in order to replace matured debt. The remaining £18 million borrowed was subsequently invested on a short term basis with an expiry date of August 2015. This balance has been reinvested across three different funds with £8 million maturing in January 2016 and the remaining £10 million maturing in August 2016.

91. The decision to borrow, whilst in line with council strategy, has resulted in the council having to pay a higher rate of interest on the debt in comparison to the investment rate as outlined in the table below.

Exhibit 4: Borrowing and Investment rates

Date borrowed	Amount borrowed (£m)	Interest rate (%)	Term (Years)
26/08/14	5	2.61	5
26/08/14	5	2.82	6
04/12/14	5	3.49	25
04/12/14	5	3.5	42

Date invested	Amount invested (£m)	Interest rate (%)	Term (Years)
28/08/14	4	0.95	27/08/15
01/09/14	6	0.96	28/08/15
14/01/15	8	0.67	14/07/15

Source: East Dunbartonshire Council 2014/15 financial statements

92. It is not clear that these transactions demonstrate value for money as interest paid on these funds is higher than the rate of investment. This results in additional revenue costs being incurred.

Recommendation 9

Pension liability

93. The net liability on the council's balance sheet has increased from £153.134 million in 2013/14 to £195.212 million in 2014/15, an increase of £42.078 million. This is also reflected in the balance sheet for the group.

94. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. The valuation of the fund as at 31 March 2015 stated that the assets held were sufficient to cover only 70% of the accrued liabilities. The appointed actuaries express the view that future pension liabilities will still be met by a combination of the pension scheme's asset holdings, future contributions by employers and employees and planned increases in employer's contributions.

Conclusion on financial sustainability

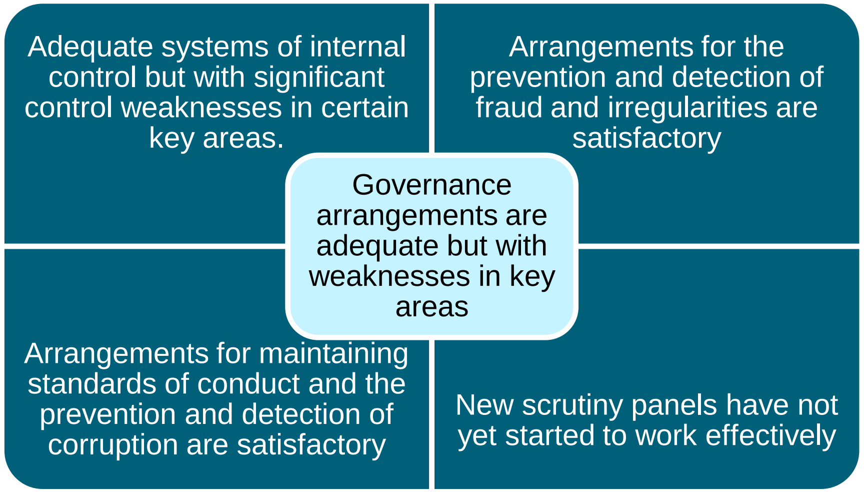
95. Overall we conclude that the financial position is currently sustainable although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels. However, whilst the council holds reserves within CIPFA's best practice guidance levels of 2% - 4% of revenue expenditure, they remain below the median in comparison with other Scottish councils. Future demands on the revenue budget due to a need to meet funding gaps and service debt levels may mean current reserve levels are insufficient in the medium to longer term.

Outlook

96. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.

97. In common with many other councils, the council is now reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

Governance and Transparency



98. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

99. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council is open and transparent although there are some areas where practices could be improved.

Corporate governance

100. Within East Dunbartonshire Council the corporate governance arrangements are supported by the following standing committees:

Audit and Risk Management Sub-Committee
Development & Regeneration Committee
Education Committee
Neighbourhood Services Committee
Policy and Resources Committee
Social Work Committee

101. As noted within the 2014/15 Best Value Follow-Up Report, the council sought to improve the effectiveness of scrutiny by elected members. In May 2014, it decided to replace the existing three scrutiny panels with two panels:

- Transformation, Economy and Employment, and
- Transformation and Community Well-being.

102. The work carried out by these scrutiny panels is determined by the Audit & Risk Sub-Committee which, in turn, responds to requests from the Policy & Resources Committee. In principle, these new scrutiny arrangements look to be sound. They provide for a greater focus on the transformation programme and its impact on re-shaping the delivery of services and meeting the significant financial challenges faced by the council. They also provide a clearer link with the overarching priorities within the Single Outcome Agreement.

103. The scrutiny panels have not yet started to work effectively. To some extent, this can in part be attributed to the fact that they have not yet had enough time to become fully established. Based on our observations and audit work, our overall conclusion is that governance arrangements within East Dunbartonshire Council are adequate but with weaknesses in some key areas.

Local code of corporate governance

104. During 2014/15 the council have approved and introduced a Code of Corporate Governance. The Code reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance.

105. Developments on the local Code of Corporate Governance will be taken forward by the Audit & Risk Team. A self-assessment checklist was established to allow officers to demonstrate effective Governance arrangements are in place which provided sufficient assurance to allow the Council Leader and Chief Executive to sign the Corporate Governance Statement which has been included within the financial statements with effect from 2014/15.

Internal control

106. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.

107. Our Review of Internal Control Systems Report issued in June 2015 highlighted a number of areas for improvement. Within this report, we noted the lack of progress made by the council in implementing the actions in our 2013/14 Review of Internal Controls System Report. Of the 32 points included, 19 were reported again in 2014/15. In addition, a number of overarching controls were again noted as areas for improvement. These include reconciliations, procedural instructions, staffing structures and second officer checks. Despite these areas for improvement also being highlighted in the reports issued in 2012/13 and 2013/14, it is disappointing to note that limited progress has been made in addressing these.

108. Our assessment is that the council’s systems of internal control are adequate but with significant control weaknesses in certain key areas. These have not been addressed despite recommendations by auditors in prior years. As a result considerable additional audit testing was required prior to certification of the financial statements.

Internal audit

109. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

110. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. Due to the nature and extent of internal audit coverage we placed limited formal reliance on the work of internal audit during 2014/15 due to a change in focus of activity. We placed formal reliance on the work undertaken by internal audit in the area of inventories.

ICT audit

111. Our ICT audit work during 2014/15 generally found that the ICT controls are satisfactory. However there were a few areas where further work is required to improve the control environment. These included the installation of a second connection to the internet and the ICT department completing their disaster recovery and business continuity plans. We are aware that ICT is working on these areas and are working towards a completion date of 30 September 2015. However, until plans are finalised there remains a risk that the council may not be able to protect its systems and recover quickly in the event of an incident.

112. Following discussions with ICT officers, changes have been made to the change control process which should improve handling of changes. ICT officers in conjunction with Internal Audit plan to review the password standards for all main systems in operation.

Arrangements for the prevention and detection of fraud

113. Overall, we concluded that the council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

National Fraud Initiative in Scotland

114. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

115. We concluded that the council take a positive and proactive approach to the NFI exercise. Testing of matches is seen to

prioritise on those that are recommended. However, our work also identified that:

- In some cases, the update notes added to the database are limited. As a result, it is unclear as to the level of testing carried out and how the overall conclusion has been reached.
- It is anticipated that a review of the NFI will be reported following the conclusion of the 14/15 exercise.
- The 'blue badge parking permit to DWP deceased' matching exercise produced 308 matches, with 244 of these being recommended. However, audit testing identified that none of these cases had been investigated.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

116. The arrangements for the prevention and detection of corruption in East Dunbartonshire Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Correspondence referred to the auditor by Audit Scotland /Statutory objections to the accounts

117. During 2014 and 2015, Audit Scotland received correspondence from a number of individuals about the relationship between Celtic PLC (Celtic) and The Lennoxtown Initiative (LI), a community regeneration company, and registered charity, supported by East Dunbartonshire Council, NHS Greater Glasgow & Clyde and Scottish Enterprise.

118. Auditors have carried out an investigation into the issues and questions raised by the correspondents. The focus of the investigation was on whether there was any evidence of corruption or fraud and whether there was sufficient monitoring and management of the relationships between the public bodies, the LI and Celtic (taking account of the principles of Following the Public Pound).

119. We are in the process of finalising our work on this correspondence and it is anticipated that we will be in a position to issue our report in autumn 2015.

Transparency

120. The 2014/15 Best Value follow up report published in June 2015 considered the effectiveness of the council's governance structures. As part of this, the transparency of decision making within the council was reviewed. This review highlighted that there are wider weaknesses in public scrutiny by elected members. There is often little debate or challenge at council or committee meetings. The transparency of decision-making has also been reduced by the large amount of information considered by members in private sessions at committee meetings.

121. In response to comments in the 2013/14 Annual Audit Report, there are signs the council is now changing its approach. For example,

the Policy and Resources Committee has considered no private papers so far during 2015.

122. However, council and committee reports can be very long, placing significant demands on elected members. In some meetings members have been expected to read over 700 pages of information and, on average, considerably more than in many other councils. Reports often contain a level of detail more appropriate for managers than elected members, and this can make it difficult to focus on key areas.

123. Reports also tend to be complex and written in highly bureaucratic language. As a result, this can make them difficult to understand. The Best Value follow up report recommends that the council should write committee report papers in plain English and avoid unnecessary detail, to make them more clearly understandable.

124. Transformation updates provided to elected members during the year did not always include the most up to date data available in the council. This hindered the ability of elected members to scrutinise the transformation programme.

Freedom of Information requests

125. The council responded to 73.9% of freedom of information requests within statutory timescales as at April 2014 and this increased to 91.5% in March 2015.

126. The Scottish Information Commissioner highlighted the council in a report regarding the number of complaints submitted to her as a result of responses not being received by the enquirer.

Integration of health and social care

127. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.

128. Officers of the former Community Health & Care Partnership consulted upon and prepared an integration scheme on behalf of the Council and the NHS Greater Glasgow and Clyde. The Body Corporate model was selected and a new Board was established as the Integrated Joint Board (IJB) for the local area.

129. The integration scheme for East Dunbartonshire was submitted to the Scottish Government by the Council on 6 March 2015. Further revisions were required and the scheme received Cabinet Minister approval and subsequent establishment of the IJB on 26 June 2015. A report was submitted to East Dunbartonshire Council on 25 June 2015 seeking approval of the integration scheme and a revised integration start day of 3 September 2015.

130. The IJB met first met on 3rd September 2015 and approved the appointment of the Chief Officer and Chief Finance Officer, the board membership and scheme. The Strategic Plan was approved and functions and budgets were delegated to the IJB. The Board received an internal audit report providing a review of integration financial assurance. The report drew attention to 5 issues including the importance of reviewing budget allocations in an area of increasing service demands.

131. Financial cut off arrangements require to be developed to support the transition of services from the health board and council to the new partnership. This will assist budget setting and monitoring in the new partnership ensuring both income and expenditure are attributable to the correct organisation and period. VAT arrangements for staff recharges between constituent bodies of the integrated joint boards have not yet been agreed by HMRC. This has the potential to add further to budget pressures within the joint boards

Recommendation 10

132. The IJB has a challenging agenda in the coming months. Effective partnership working between the bodies involved in delivering joint services will be key in achieving targets set in the transition and future plans. Delivery and ongoing monitoring of the joint board strategic plan will be crucial in successful delivery of integrated services within East Dunbartonshire.

Welfare Reform

133. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. The Welfare Reform Group was established in 2013 to ensure support and advice is provided to people affected by welfare reforms. The group has representation from a wide range of partner organisations and council services to ensure that the right support is targeted through the most appropriate channel.

134. The council has been provided with an indicative date of December 2015 for its involvement in the national expansion of the roll out of universal credit. As at 31 March 2015, there were approximately 3,500 working age housing benefit claimants who are expected to migrate to universal credit by 2019. Regular meetings of the Welfare Reform Group will plan for, and address, the impact of the implementation of universal credit in the area.

Housing and council tax benefits performance audit

135. An audit of the council's Housing Benefit service was carried out during 2014/15 and a Risk Assessment report was issued in May 2015. The report considers the combined challenges of welfare reform, office re-location, organisational restructures, and the implementation of a Document Imaging Process (DIP) & Workflow system.

136. Despite these challenges, the service has broadly maintained its speed of processing performance. However over the three years to March 2014, the council's new claims performance has been consistently below the Scottish average and placed it, apart from 2012/13, in the lowest quartile. Conversely its change of circumstances performance has been above the Scottish average since 2012/13. Although still below the Scottish average, new claims performance has improved during the current year and

February 2015 management information shows year-to-date performance as 27.9 days.

137. Audit Scotland identified discrepancies in reporting performance for accuracy, interventions and overpayment recovery. Discussions with senior staff highlighted a need for more rigorous monitoring of the extensive monthly report. In addition, although reports presented to the Corporate Management team (CMT) and committee compare new claims speed of processing performance against the same period the previous year, they do not compare against the current target which makes effective scrutiny more difficult.

Local scrutiny plan

138. The 2015/16 Local Scrutiny Plan (LSP) was prepared by the Local Area Network (LAN) of scrutiny partners for the council and was submitted to East Dunbartonshire Council on 30 April 2015.

139. The LAN considered the focused Best Value work that was underway in relation to the Council's transformation programme and management of resources. It was agreed that this level of scrutiny was appropriate in addressing risks identified by the LAN in the prior and current year. As the Best Value report was scheduled to be published in June 2015 no further specific scrutiny work was identified by the LAN.

140. In addition to the Best Value follow up work, the council will be subject to a range of risk based and nationally driven scrutiny activity during 2015/16.

Following the public pound

141. In March 2015, the chair of the Accounts Commission for Scotland sent letters to council leaders and chief executives encouraging them to apply the Code of Guidance on Funding External Bodies and Following the Public Pound (published in 1996) more consistently across Arms-Length External Organisations (ALEOs).

142. The council's main ALEO partnership is for leisure provision through the East Dunbartonshire Leisure trust. The council maintain ownership of the material property assets and a service level agreement is in place to manage the delivery of leisure services. During 2013/14 the council reviewed arrangements and the costs of operating the municipal bank. A decision was taken to close the municipal bank in 2014/15 due to the rising costs and resources expended by the council. We have also referred to the council's relationship with the Lennoxtown Initiative charity in paragraph 132, and which will form part of a separate report.

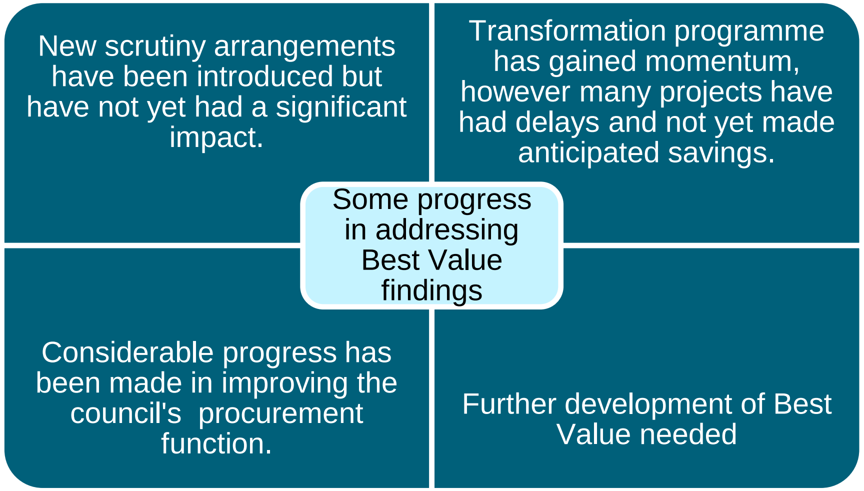
143. By Autumn 2015 Audit Scotland, on behalf of the Accounts Commission for Scotland, will undertake a review of the Following the Public Pound Code in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies. Any changes arising out of this review are not expected to take effect for councils until 2016/17 at the earliest.

Outlook

144. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

145. Partnership, joint working and arms length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



146. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Best Value audit

147. Follow up Best Value audit work was carried out between December 2014 and February 2015 following on from the Accounts Commission recommendations in December 2013. The report along with the Accounts Commission findings was published in June 2015. It highlighted the good standard of services provided by the council and recognised the progress that had been made in addressing some of the Commission's previous concerns. However, changes to scrutiny arrangements, the way the transformation programme is managed and the council's asset management plan, along with improvements in procurement, have not yet had a significant impact. The Commission expressed serious concerns about the pace of improvement, with a gap between the council's ambitions and the delivery of its supporting strategies and programmes.

148. The council is facing an increasingly challenging financial position. To address its projected budget savings of £23.3 million over the next three years, the council has been implementing a transformation programme. Since our previous Best Value audit, the transformation programme has gained some momentum. However, many transformation projects have had delays and not yet made the anticipated contribution to savings needed. The benefits realised by the transformation programme also remain unclear.

149. The Accounts Commission has highlighted that the council needs to have clearer priorities in its transformation programme to ensure critical projects are delivered and anticipated savings and benefits are realised. The council also needs to improve important areas such as managing its workforce and finances. It has requested that the Controller of Audit provides it with a further follow up report on the council's progress by December 2016.

150. A draft response to the report was submitted to the Council on 25 June 2015. The high level action plan has been incorporated in the council's performance management system for ongoing monitoring.

Recommendation 11

Procurement

151. 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.

152. Since 2013, the council has made considerable progress in improving its procurement function. This was in response to concerns raised by Scotland Excel in their independent review. The council approved an updated procurement strategy and improvement plan in 2013 and increased staffing levels in its corporate procurement unit. It appointed a new procurement manager and has begun implementing an e-procurement system. This progress has been confirmed by two further PCAs. In 2013, its score increased from 25 to 44. In 2014, this increased again to 60, the highest proportionate improvement for any council.

153. The annual PCA is being replaced by the Procurement & Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP will introduce a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results will not be comparable with the previous PCA scores. The timings of the first assessments for local government have not been finalised but it is anticipated they will be conducted between January and June 2016.

Performance management

154. The council's performance information is reported through six-monthly How Good Is Our Service (HGIOS) evaluation reviews. These are supported by a Directorate Performance Guide which sets out good practice in performance reporting.

155. In accordance with the revised governance and scrutiny arrangements relevant to the council's Strategic Planning and Performance Framework, scrutiny of Directorate performance is now undertaken by the relevant Strategic Committee.

156. As reported in the Best Value follow up report, the HGIOS self-assessments are now shorter and the number of performance indicators has been cut from 216 to 166. This is in response to recommendations made within the Best Value report from 2013.

157. However, it was noted that performance reports still contain a level of detail more appropriate to managers than members.

158. The council continues to participate in the Local Government Benchmarking Framework (LGBF) which brings together performance indicators for a range of services as well as service costs and customer satisfaction.

Overview of performance targets in 2014/15

159. Within each report, 'prioritised performance indicators' are reported. These outline overall directorate performance. In addition to these, quarterly performance indicators relating to Business Improvement Plans and incorporating the Solace indicators are also monitored.

160. The table below shows a breakdown of annual and quarterly performance reported and the overall status of these indicators for each Directorate as reported in the HGIOS reports.

Exhibit 6: Performance information

Directorates	On target	2-5% off target	Off-target
Customer Service & Transformation	15	2	3
Development and Regeneration	9	2	3
Education & Social Work	22	1	6
Finance & Shared Services	9	5	1
Governance & Regulation	18	2	2
Neighbourhood Services	13	5	4
Total	**86**	**17**	**19**

Source: How Good Is Our Service Directorate Reports

161. Areas of particular strong performance include:

- 85.53% of employees have a completed Performance Development Review in place and this has exceeded the annual target. This is a significant improvement on the 13/14 result of 47.5%.
- Attendance at sports and leisure facilities and museums has again exceeded the annual target.

162. Areas identified for improvement:

- Current tenants arrears as a percentage of net rent due were 7.55% against a target of 5.50%.
- 68.40% of voids properties were returned within timescales, against an annual target of 85%.
- 10.59 days lost to sickness absence on average per employee against a target of 10 days.

163. The figure for sickness absence outlined above is an average which includes teaching and non-teaching staff. The information for both groups of employees is also provided within the HGIOS reviews.

164. The number of working days per teacher lost through sickness absence was 6.14 against a target of 6. However, the results for non-teaching staff were significantly poorer. The council loses 12.68 days to sickness absence on average per non-teaching employee against a target of 10 days. Although there has been a small improvement on the prior year figure (13.07 days), the council still failed to meet the target. Although there has been an investment in the development of sickness absence processes,

there has been a limited reduction in staff absence levels. Consideration should again be given to the effectiveness of measures implemented.

Recommendation 12

165. The council has achieved 70% of performance targets, with a further 14% being within 5% of the target. This represents a significant improvement on 2013/14 results.

Statutory performance indicators (SPIs)

166. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.

167. For 2014/15 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

168. Overall we concluded that the council's arrangements were satisfactory.

169. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for the council was issued to the Leader and Chief Executive in July 2015.

170. The council was rated as fully meeting the requirements in 22 of the 26 PPR categories, with the remaining 4 categories being assessed as an area for improvement. This represents a significant improvement from the previous year's results where the council was assessed as meeting 76% fully and 24% partially. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in Spring 2016.

National performance audit reports

171. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in appendix III. East Dunbartonshire Council has processes in place to ensure that findings from national reports are reported to members alongside an assessment of current arrangements against good practices and the agreement of actions to ensure further improvements. However, not all reports issued are submitted to or considered by the relevant council committee.

Equalities

172. The Equality Act 2010 introduced a new public sector ‘general duty’ which encourages equality to be mainstreamed into public bodies’ core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

173. We noted that the council presented its Equality Outcomes and Mainstreaming Report to Council in April 2015. This report included employment monitoring information.

Outlook

174. In common with other councils, East Dunbartonshire Council faces the key challenges of reducing budgets, an ageing population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However, as choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I – Significant Audit Risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Risk of material misstatement due to fraud in revenue recognition ISA 240 presumes an inherent risk of fraud where income streams are significant. **Risk** The council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA 240.	• Evaluation of accounting policies for income and expenditure. • Detailed testing of journal entries. • Review of accounting estimates. • Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income. • Substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements.	We undertook detailed testing of income streams. No frauds were identified.

Audit Risk	Assurance procedure	Results and conclusions
Risk of management override of control ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. **Risk** Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.	• Detailed testing of journal entries. • Review of accounting estimates. • Evaluating significant transactions that are outside the normal course of business. • Focused testing of accruals and prepayments.	We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness. We did not identify any incidents of management override of controls.
Valuations The financial statements of East Dunbartonshire Council include valuations which rely on significant assumptions and estimates. **Risk** The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.	• Completion of 'review of the work of an expert' for the professional valuer. • Focused substantive testing of key areas.	We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts. An impairment adjustment was required to the accounts as a post balance sheet event.
Budget pressures There is a risk that the council may overspend against capital and revenue budgets and place further pressure on reserves if budgets are not closely aligned to service delivery.	• Monitor the council's financial position via revenue budget monitoring reports presented to Policy and Resources committee and meetings with officers.	The audit team regularly attended council committee meetings and reviewed all capital and revenue budget papers and monitoring reports.

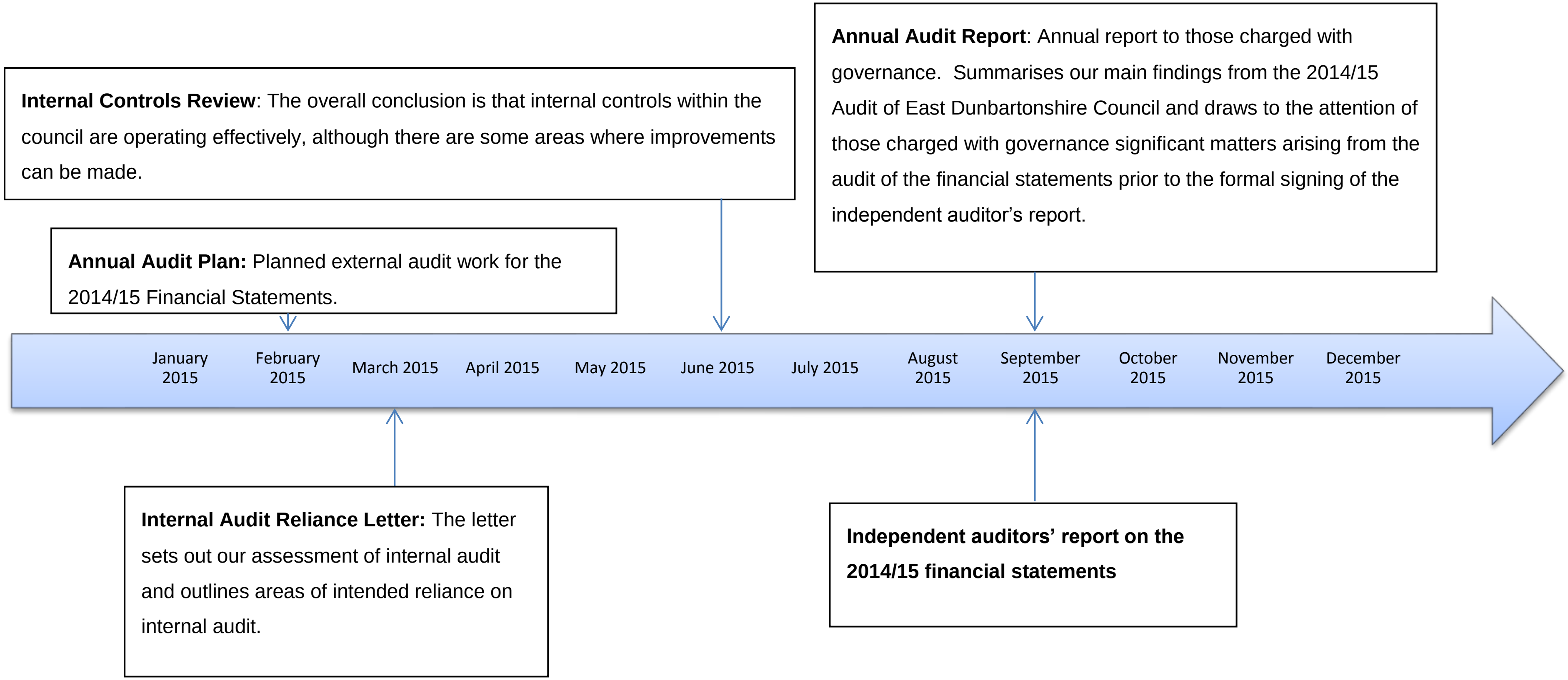
Audit Risk	Assurance procedure	Results and conclusions
Reconciliations The council may not be in a position to reconcile key financial systems at the year end.	• Review reconciliations as part of review of internal control systems work. • Review year end reconciliations during the 2014/15 audit of the council's financial statements.	Reviewed reconciliations during key controls and financial statements testing. As in previous years, key reconciliations in revenues and benefits were not undertaken on a timely basis during 2014/15 and were not provided within agreed timescales as part of the financial statements package to audit.
Equal pay The council's liability for successful cases may be higher than currently anticipated. This could have an adverse impact on the preparation of the financial statements.	• Review the equal pay provision as part of the financial statements audit work.	We reviewed the equal pay provision as part of our review of provisions within the financial statements and we consider it to be fairly stated given available information.

Audit Risk	Assurance procedure	Results and conclusions
Capacity of Finance Team There is a risk that the council fail to deliver unaudited financial statements and a comprehensive working paper package within agreed timescales.	• Meetings with finance staff throughout the preparation of the financial statements preparation and thereafter throughout the course of the audit. • Issue a working paper checklist to finance to outline requirements and agree timescales for the receipt of unaudited accounts and working papers.	Regular meetings with finance officers took place throughout the year. Weekly meetings were held during the financial statements audit. A working paper checklist was issued to finance officers on 19 February 2015 outlining financial statements working paper requirements. The unaudited accounts were provided to audit on 10 June 2015. However, not all working papers were delivered within agreed timescales.
Annual Governance Statement There is a risk that the council are unable to demonstrate compliance with 'Delivering Good Governance in Local Government'.	• Review of Annual Governance Statement during the 2014/15 audit of the council's financial statements.	We reviewed the Annual Governance Statement as part of our financial statements audit work and a requested a number of changes.

Audit Risk	Assurance procedure	Results and conclusions
Capital Plan Funding Gap There is a risk that the council's transformation programme does not progress as planned due to insufficient investment in ICT infrastructure	• Monitor capital expenditure through review of capital monitoring reports presented to the Policy and Resources committee. • Meetings with ICT officers to discuss infrastructure projects.	The audit team regularly attended council committee meetings and reviewed all capital budget papers and monitoring reports.
Capital Slippage Slippage in the capital programme may mean that associated service improvements and planned efficiency savings are not achieved within required timeframes.	• Monitor capital expenditure through review of capital monitoring reports presented to the Policy and Resources committee. • Review delivery of the annual capital programme during the audit of the council's 2014/15 financial statements.	Throughout the year the audit team attended council committee meetings and reviewed all capital budget papers and monitoring reports. The council continue to report significant levels of capital slippage against planned expenditure. The slippage relates to a number of projects and there continues to be a risk that planned service improvements and efficiency savings are not achieved.

Appendix II

Summary of East Dunbartonshire Council local audit reports 2014/15



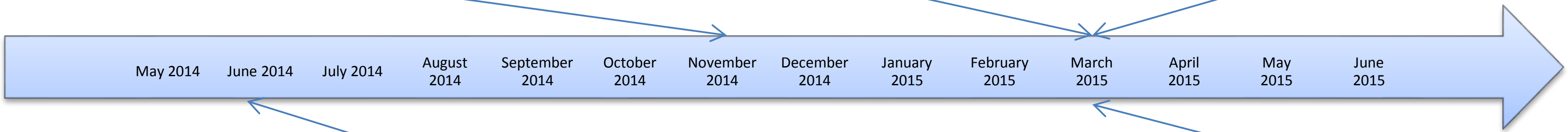
Appendix III

Summary of Audit Scotland national reports 2014/15

Community planning: Turning ambition into action – Many Community Planning Partnerships are still not clear about what they are expected to achieve. Local data should be used to help set relevant, targeted priorities for improvement that will address inequalities within specific communities.

Borrowing and treasury management in councils - Councils are meeting professional requirements but need to do more to set out the longer term implications of borrowing and other debt on their finances.

Update on developing financial reporting - Following the Smith Commission the framework for Scotland's public finances is undergoing fundamental change. The Scottish Parliament will have enhanced financial powers from April 2015. The report emphasises the importance of comprehensive, transparent and reliable financial reporting for accountability and decision-making. The report also notes that while the audited accounts of public bodies across Scotland provide a sound base for financial reporting and scrutiny, there is no single complete picture of the devolved public sector's finances.



Scotland's public finances - a follow up: Progress in meeting the challenges – Leaders and managers must produce balanced budgets and hold people in their organisations to account for how the money is used and what is achieved. Councillors have an important role in ensuring that approved budgets are used to best effect. To do this they need good-quality and timely financial information. They need to take a longer-term view on: options available for services; services standards and affordability; and the sustainability of financial plans.

An overview of local government in Scotland – A high level, independent view on the progress councils are making in managing their finances and achieving Best Value.

Appendix IV – Action plan

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 9/23	**East Dunbartonshire Leisure & Culture Trust Financial Sustainability** The net liability position of the Leisure Trust at 31 March 2015 was £4.491 million, (excluding pensions £0.041 million net resources expended) after accounting for actuarial losses. This is a significant increase on the 2013/14 net liability position of £1.614 million. **Risk** Additional funds will be required from the council to support the operation of the Trust. **Recommendation** The financial sustainability of the Trust should be regularly monitored and action taken to ensure financial balance.	The accounting position for the Trust is sustainable with Annual Accounts being prepared on a going concern basis as agreed by the Trust's external auditors. Officers of respective bodies liaise closely with respect to the ongoing trading position as well as future business plans.	Director of Development & Regeneration Director of Finance & Shared Services	An established reporting cycle and constituent controls environment are in place however this will be subject to ongoing scrutiny and review.

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 15/44	**Housing rent arrears** The council's current tenant arrears in 2014/15 were £0.457 million. This is an increase of 24% from the level recorded in 2013/14 (£0.368 million). **Risk** Rent arrears may continue to rise. The bad debt provision in respect of uncollectable rents may then become insufficient. **Recommendation** Action should be taken to ensure that debts are followed up in a timeous manner.	Rent arrears agreements & reductions are being pursued by Housing Officers as a matter of priority and this is reflected in increased legal actions from Notice of Proceedings (NOPs) to evictions to bring arrears down. The service is working with Revenues and Benefits to speed up housing benefit payments along with the Citizen's Advice Bureau to maximise tenant's income. The award of Discretionary Housing Payment to those entitled has been subject to robust internal controls. The Housing IT systems in place are being reviewed and a system to assist with Universal Credit with consideration being given to arrears mitigation as part of system functionality. An additional bad debt provision of £250,000 has been added to the HRA budget for 2015/16 and an additional £100,000 has been set aside to ensure sufficient budget is in place. As a result, over £530,000 is in the balance sheet with an additional £350,000 added in 2015/16.	Director of Neighbourhood Services	Systems and controls are in place however this will be subject to ongoing monitoring and review.

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 17/54	**Financial Capacity** The finance section has limited capacity and resilience. **Risk** The finance section does not have sufficient capacity to deliver key outputs. **Recommendation** The council ensure the finance section is sufficiently resourced and has the required skills, knowledge and experience to support council business.	Council has agreed Service Reviews for the Finance & Revenues & Benefits Services. The Reviews will be undertaken with the objective of mitigating the Audit Issue. Ongoing management activity will also look to mitigate the risks in this area.	Director of Finance & Shared Services Director of Customer Services & Transformation	December 2015

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 17/58	**Reconciliations for 2015/16** Reconciliations were not prepared in accordance with the timetable advised in management responses to the 2014/15 Best Value action plan prepared by the council. **Risk** Reconciliations are not prepared on a regular basis throughout 2015/16 providing assurance on the integrity of financial information within the council. **Recommendation** Reconciliations are prepared on a timely basis for the full financial year.	Reconciliations up to Period 5 have been completed.	Director of Finance and Shared Services	Improvement actions are in the process of being delivered.

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 19/68	**Budget Pressures** The council is facing a significant challenge in bridging a funding gap of £23.3 million over the next three years. **Risk** The council may not be able to generate sufficient efficiencies and cost savings to bridge the funding gap. **Recommendation** The council should monitor their achievement of savings and take appropriate action to address existing and emerging budget pressures.	Policy & Resources Committee receive information on the progress of the achievement of agreed budget savings. The Strategic Planning & Performance Framework and Transformation Programme are focussed on addressing budget pressures. The Financial Planning Model is regularly reviewed to identify any new factors and influencing variables. Periodic updates are presented to Elected Members.	Director of Finance & Shared Services Director of Customer Services & Transformation	An established reporting cycle and constituent controls environment are in place however this will be subject to ongoing scrutiny and review.

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6 21/75	**Capital slippage** An underspend against the revised level of capital expenditure of £22.688 million (39%) was recorded. **Risk** The capital plan is not delivered which may adversely impact upon the delivery of the Single Outcome Agreement and the achievement of planned savings. **Recommendation** The council should review their capital plans and improve the control of capital projects and, if necessary, re-profile the budget to reflect current plans.	The Council has recognised the need to improve performance in this area and has implemented a number of changes to its procedures relating to project management in 2014, including: • Corporate Asset Management Group (CAMG) established to oversee progress of the general fund capital programme. • Introduction, and ongoing development and enhancement of a Project Management Office (PMO) including close working between teams to enhance methodologies for non-transformational capital projects. • Introduction of regular project Highlight Reports to enable project tracking and early intervention. • New scrutiny panel for the capital programme. • Updated Corporate Asset Management Plan and re-profiled 10 year investment plan. • Introduction of Business Cases (Strategic, Outline and Detailed). • Appointment of additional resources to deliver major capital projects.	Director of Development & Regeneration	In place.

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
7 21/77	**Option appraisal – Asset Management** Option appraisal arrangements are not routinely carried out or robust in supporting developments and funding arrangements. **Risk** Decisions are taken without appropriate options being considered. **Recommendation** Improved option appraisal arrangements should be developed and implemented by the council to support effective decision making.	The Council's Corporate Asset Management Plan, approved in November 2014, and creation of the Project Management Office (PMO) have led to the introduction of a robust and systematic option appraisal regime to examine alternative uses of resources, focusing on the assessment of need, objectives, options, costs, benefits, risks and funding. For all projects, option appraisals will consider the full business case for investment in terms of capital and revenue implications and where appropriate return on investment. Business cases will be developed as each project develops (strategic, outline and detailed) in line with the business planning and project management procedures used more widely across the Council, utilising Prince Lite methodology. These will provide the basis for all important project decisions and will enable decision making process to be scrutinised by all relevant stakeholders. The process is consistent with Audit Scotland guidance issued in March 2014.	Director of Development & Regeneration	Now in place.

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
8 22/86	**Voluntary trawl scheme** Exit packages approved by the Policy and Resources sub committee do not contain all costs to the council. **Risk** Elected members approve exit packages without an understanding of the total cost associated with the decision. **Recommendation** It is recommended that future papers relating to exit packages include the total costs to be incurred by the council.	Exit packages presented to P&R contain costs which are borne by the Council. These include the one off costs such as strain on the fund or redundancy as well as the annual cost for pension added years. The payback period has been based on these costs and reflects what the actual impact will be on the Council's annual budget. In addition capitalised annual costs will now be included. These costs reflect the cost of adding unworked years to the length of service, and are based on actuarial estimates of life expectancy. These costs are a notional calculation based on actuarial assumptions to reflect the cost of paying a higher pension over the employee's remaining life. Whilst this is a recognised cost, it does not reflect an actual cost that will be borne by the Council, and therefore is unlikely to impact any decision. This however will now be included.	Director of Finance & Shared Services Director of Customer Services & Transformation	Now in place.

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
9 23/92	**Borrowing** The council borrowed an additional £20 million during 2014/15, with £18 million being reinvested. **Risk** The council incur additional revenue costs whilst funds are invested in short term deposits at a lower rate of interest. **Recommendation** It is recommended that the borrowing decisions are linked to planned activity to ensure revenue resources are being used to achieve value for money.	Consistent with the Treasury Management Strategy, borrowing was undertaken to secure long-term loans at favourable fixed rates. This is affordable within Revenue Budgets and reduces the financial risk to delivering of Capital Programmes due to predictions of imminent steep increases to PWLB interest rates, at a time when Reserves and Provisions are likely to be applied.	Director of Finance & Shared Services	An established reporting cycle and constituent controls environment are in place however this will be subject to ongoing scrutiny and review through the Treasury Management Strategy.

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
10 30/ 131	**Integrated Joint Board** Financial cut off arrangements are not currently in place to support the transition of services to the integration joint board. **Risk** If formal arrangements are not in place there is potential for income and expenditure to be incorrectly classified in the wrong period or organisation. **Recommendation** Procedures are established to support accuracy in the recording of financial transactions during the close down of the former partnership arrangements and establishment of the new integrated joint board.	Officers have engaged with Audit Scotland with a view to mitigating this risk. National guidance from LASAAC is not yet available. Officers will fully apply the recommended approach to ensure the Annual Accounts of both bodies meet the appropriate standard. Meetings have been held with the IJB Chief Financial Officer to agree arrangements.	Director of Finance & Shared Services	June 2016

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
11 34/ 150	**Best Value Follow Up Report Action Plan** The council have prepared a high level action plan in response to the June 2015 follow up Best Value Report. **Risk** If the council does not prioritise detailed actions within the plan there is a risk that projects will be further delayed and services will become unsustainable. **Recommendation** It is recommended that the action plan is sufficiently detailed to promote improvement and transformation within the council.	The Council will continue to focus on the development and delivery of its approach to Strategic Planning through its prioritised Transformation Programme to achieve identified financial efficiencies, improvement and transformation. This commitment was reflected in the recently refreshed programme (Transformational Programme Report CST060/15/AD to Council on the 25 June 2015) which adds further emphasis through prioritisation and benefits realisation. It sets out key considerations, prioritisations and areas for development to be taken forward, along with associated timescales for improvement to demonstrate how the Council will deliver on its ambitions and the programmes through which this will be achieved. This work is supported by the Council's Transformation Programme Management Office and overseen by senior internal management control and Elected Member scrutiny arrangements. The ongoing reporting of Transformational projects to Policy & Resources Committee will support scrutiny with the detail being remitted to the Audit & Risk Management Sub-Committee with specific areas being passed to Scrutiny Panels for further consideration. There is a well-established cycle of activities in this area with such activities being reflected in Covalent throughout the course of the year.	Director of Customer Services & Transformation	Individual target dates are specified within the prioritised Transformation Programme and are reflected in ongoing progress monitoring reports as presented to Elected Members for Scrutiny.

No. Page/ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
12 35/ 164	**Sickness absence** The absence level remains high despite the council investing in the development of processes to address the high level of absence. **Risk** Service delivery is impacted by high sickness absence levels. **Recommendation** A review is undertaken of the effectiveness of measures implemented.	Focus on the reduction of sickness absence remains a key priority across the Council with on-going review of the Wellbeing at Work policy, as well as review of Occupation Health and wider support to the Council including revision of the Employee Relations & Wellbeing service delivery model (Reference: updated Workforce Strategy approved by Council in June 2015). This remains a key indicator for the Council with ongoing reporting, statistical analysis and support/ challenge for teams through our HR function. Additionally, the Council is currently leading the LGBF Family Group 4 HR Benchmarking Group which has prioritised absence and absence improvement as its key focus. This activity (research, benchmarking and best practice review) will supplement the Council's ongoing development of its approach to ensure that absence levels continue to decrease.	Director of Customer Services & Transformation	Established programme of quarterly monitoring of sickness absence which includes consideration of qualitative and quantitative aspects relating to absence performance.