



# East Dunbartonshire Council

2015/16 Annual audit  
report to Members and  
the Controller of Audit

September 2016

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

The Accounts Commission has appointed 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.

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.

## Contents

Key messages .....	3
Introduction .....	5
Audit of the 2015/16 financial statements.....	6
Financial management and sustainability .....	13
Governance and transparency .....	23
Best Value.....	29
Appendix I: Significant audit risks .....	33
Appendix II: Summary of East Dunbartonshire Council local audit reports 2015/16.....	37
Appendix III: Summary of Audit Scotland national reports 2015/16 ...	38
Appendix IV: Action plan .....	39

# Key messages

## Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.
- Unqualified auditor's reports on the seven charitable trusts administered by the council.

## Financial management and sustainability

- The council reported an underspend of £4.392 million against the total net expenditure budget for 2015/16.
- 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.
- The Council is facing an increasingly challenging financial position and needs to ensure the delivery of potential savings of £37.6 million over the next four years.
- 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.
- East Dunbartonshire Health and Social Care Partnership became operational on 3 September 2015.

## Governance and transparency

- Although the council's systems of internal control are adequate overall, there are certain areas where controls could be improved.
- The council's scrutiny panels continue to establish themselves in order to work effectively and make an impact.
- The arrangements for the prevention and detection of fraud and corruption are satisfactory.

## Best Value

- We expect the findings from the ongoing Best Value follow-up audit to be considered by the Accounts Commission before the end of 2016 and published shortly thereafter. The audit will report on the council's progress on issues highlighted in the June 2015 Best Value report.



**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 2015/16 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 [appendix II](#) and [appendix 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.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of East Dunbartonshire Council will be Audit Scotland. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit of the council and its group and issued an unqualified independent auditor's report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• 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's, its group and associated charitable trusts' ability to continue as a going concern.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• 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.</li></ul>
<b>Charitable trusts</b>	<ul style="list-style-type: none"><li>• We have completed our audit of the 2015/16 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.</li></ul>
<b>Group accounts</b>	<ul style="list-style-type: none"><li>• East Dunbartonshire Council has accounted for the financial results of two subsidiaries and three associates in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £8.667 million.</li></ul>
<b>Whole of government accounts</b>	<ul style="list-style-type: none"><li>• 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.</li></ul>

## Submission of financial statements for audit

10. We received the unaudited financial statements on 22 June 2016, in accordance with the agreed timetable. The working papers were adequate and council staff provided support to the audit team which assisted the delivery of the audit to deadline.
11. In 2015/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. The East Dunbartonshire Health & Social Care Partnership was established on 27 July 2015 and became operational on 3 September 2015. Consequently, as the amounts concerned in 2015/16 are material, they have been consolidated into the group accounts.

## Overview of the scope of the audit of the financial statements

12. 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 & Risk Management Sub Committee on 15 March 2016.
13. 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. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

14. 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.
15. 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

16. 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 2015/16.
17. We have given an unqualified opinion on the 2015/16 financial statements of the relevant charities registered by East Dunbartonshire Council.

## Group Accounts

18. 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.
19. 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 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £8.667 million.
20. The net assets of the group at 31 March 2016 totalled £369.775 million, compared to a net asset position of £310.437 million in 2014/15. This positive movement relates to the significant decrease in the pension liability within the council's accounts.
21. As part of the group accounts audit it was noted that the East Dunbartonshire Leisure & Culture Trust (the Trust) has recorded a surplus of £0.032 million for financial year 2015/16. The total net liability position of the Trust at 31 March 2016 was £1.566 million, after accounting for pension benefits. This is a significant decrease on the 2014/15 figure (£4.491 million) and is due to changes in the assumptions used by the actuary, particularly in relation to the rates of return. The pension fund has a strategy in place to meet future funding liabilities.
22. 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. During our audit of the council's financial

statements we identified that the council has a debtor balance of £0.774 million at 31 March 2016 owed by the Trust. This debtor balance has increased to £0.781 million by mid-June 2016 and relates to outstanding utility bills. The council should ensure that money owed by the Trust to the council is paid promptly.

**Action Plan No. 1**

## Materiality

23. 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).
24. 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.
25. 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 2015/16 at £3.187 million (1% of gross expenditure). We report all misstatements greater than £0.03 million. Performance materiality was calculated at £0.797 million, to reduce to an acceptable level



the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

26. 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.

- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

30. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

## Evaluation of misstatements

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

28. 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.

## Significant findings from the audit

29. 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.

**Table 1: Significant findings from the audit**

## Significant findings from the audit in accordance with ISA260

### Payments to Social Care Providers

31. Our review of internal controls in 2015/16 identified that existing controls relating to Carefirst system payments to private care providers need to be further enhanced to ensure payments are made only for the care provided. As a result of Carefirst system payment batches being misplaced, additional substantive testing in relation to payments made to care providers through the Carefirst system was undertaken by the external audit team and the council's Internal Audit section. The audit work sought to confirm that, for a sample of cases, the amounts paid to care providers during 2015/16 was consistent with the care package agreed between the council and care provider. Although no further issues of material concern were identified in the extended sample, a particular issue remains relating to delays in updating the Carefirst system. Examples of delays noted during audit testing included care package changes not being updated and client absences (e.g. in hospital) not being actioned promptly, with 3 to 4 months' delay in some cases. These delays appear to be as a result of paperwork not being provided by social services staff to finance staff timeously.
32. The council paid private providers approximately £19.5 million for home care and care at home services through the Carefirst system in 2015/16. Given the amount paid to private care providers, we would expect robust controls to be in place to ensure payments made to these providers are both accurate and timeous. As the payments made through the Carefirst system are recorded in the financial ledger which is the main accounting control system used to produce the council's annual accounts, the issues identified in respect of the Carefirst system require to be addressed as a matter of priority to ensure that payments are fully aligned with the care provided.

*Appendix IV – Action Plan No. 2*

## Significant findings from the audit in accordance with ISA260

### Council House Disposals

33. International Accounting Standard 18 (IAS18) sets out the required accounting treatment for revenue arising from the sale of goods. IAS18 requires that a disposal should be recognised on the date when the risks and rewards of ownership are transferred, rather than the point when an authority becomes committed to the disposal. Our audit testing identified that the unaudited 2015/16 accounts recognised income of £0.546 million from the sale of 12 council houses. Although the missives for the sale of these properties were concluded prior to 31 March 2016, the council continued to charge rent in respect of these properties beyond the year end. As a result, the risks and rewards of ownership of these properties lay with the council at 31 March 2016 and the income from the sale of these properties should not be recognised in the council's 2015/16 accounts. On this basis these properties should be recognised within the accounts as council dwellings and not treated as disposals.

*Resolution:* The audited accounts have been updated to reflect this with no material impact on the council's financial position.

## Future accounting and auditing developments

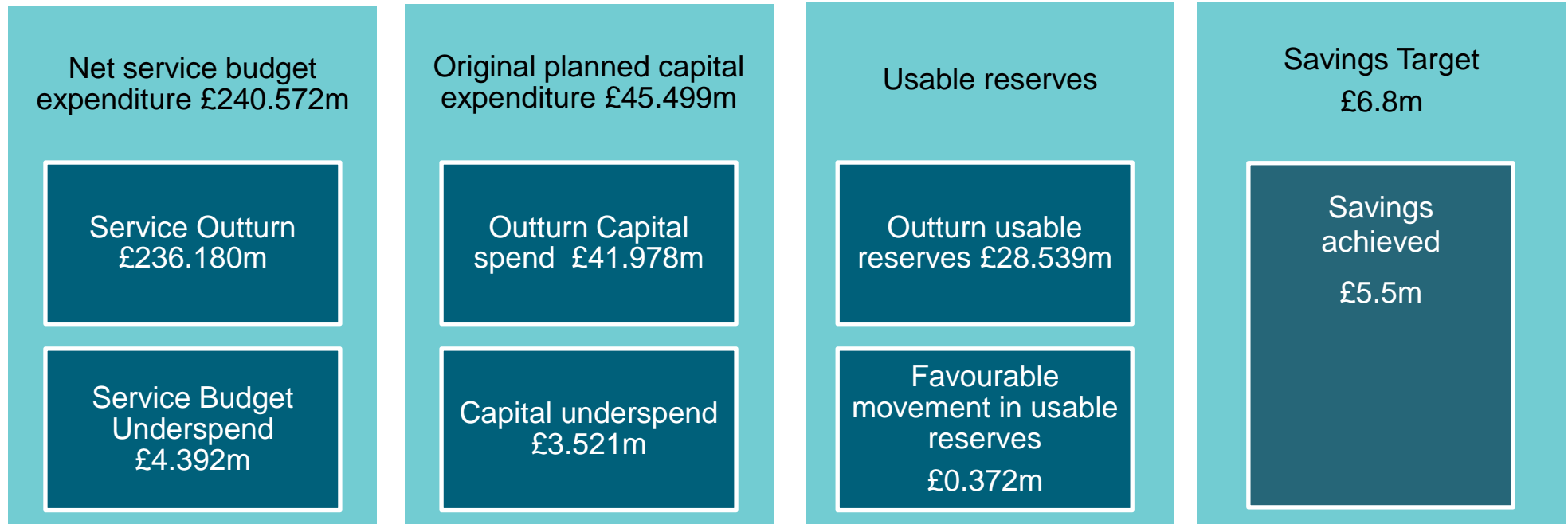
### Highways network assets

34. The 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) will adopt a new measurement requirement for the valuation of the highways network asset. It will be measured on a depreciated replacement costs basis. This will have a significant impact on the value of local authority balance sheets.

### Code of Audit Practice

35. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Financial sustainability
  - Financial management
  - Governance and transparency; and
  - Value for money
36. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

# Financial management and sustainability



## 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 £7.449 million on the provision of services in the 2015/16 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 £0.372 million.

40. Overall, the council reported an underspend of £4.392 million against budgeted general fund services net expenditure of £240.572 million. Specific variances against budget were noted in the following services/areas:
- Miscellaneous Services - £2.367 million overspend mainly due to redundancy costs related to the voluntary trawl funded from reserves.
  - Education and Children's Services – Underspend of £5.395 million mainly due to savings in placements for children with additional support needs, including those in hospital; staff and curriculum development underspend across the sector and a cumulative underspend in Early Years.
  - Debt Charges – Underspend of £1.335 million mainly due to forecasts based on borrowing assumptions within the revised 10 year capital programme and continuing low interest rates during the year.
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. 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 in 2015/16 was set at £12.205 million and was to be funded from council house rents. This resulted in a rent increase of 3.3%, and increased the average weekly rent based on a 48 week period from £70.74 to £73.07.

43. The council's current tenant arrears in 2015/16 were £0.589 million. This is an increase of 29% from the level recorded in 2014/15 (£0.457 million). As a consequence, the HRA bad debt provision was increased to £0.589 million in 2015/16 from £0.457 million in 2014/15. This represents a deteriorating position.

### **Action Plan No. 3**

44. In 2015/16, the council recorded a deficit on HRA services of £2.257 million. This represents a further deterioration from the prior year in which a deficit of £1.994 million was returned. However after applying statutory accounting adjustments there was an increase of £0.307 million on the HRA balance, resulting in a closing balance of £2.054 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**

45. 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.
46. 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.
47. We reviewed the council's financial regulations, which are revised annually, and concluded that they are adequate and current.
48. Financial monitoring reports (both revenue and capital) are submitted to the Policy & Resources Committee. Reports focus on projected outturn.
- Financial capacity**
49. The council have experienced staffing changes and reductions within the finance and revenue and benefits teams over recent years, including officers key to both the delivery of the financial statements and day to day financial management.
50. Throughout the course of the 2015/16 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.
51. At the end of July 2016 the Group Director – Finance & Corporate Assets left the council and was replaced by a Chief Finance Officer (CFO) who is now the Section 95 Officer responsible for the proper administration of the council's financial affairs. Whilst the previous Group Director was a member of the Corporate Management Team (CMT), the new CFO is a third tier officer reporting to the Depute Chief Executive – Education, People & Business and is not a member of CMT. The Accounts Commission, in a number of recent publications, has expressed the view that a council's Section 95 Officer should preferably be a member of a council's CMT, or equivalent, given the key nature of the role and the financial guidance that the postholder can offer. However, we note that the CFO is a member of the Strategic Management Team and regularly attends CMT meetings.
52. 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.

**Action Plan No. 4**

## Conclusion on financial management

53. We have concluded that the council's financial management arrangements are adequate overall but with control weaknesses in certain 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

54. 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.
55. 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.
56. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

## Reserves

57. The overall level of usable reserves held by the council increased by £0.372 million compared to the previous year and totalled £28.539 million, refer Exhibit 1 below.

### Exhibit 1: Usable reserves

Description	31 March 2016	31 March 2015
	£ million	£ million
General fund	19.694	12.558
Housing revenue balance	2.054	1.840
Capital fund	6.149	12.147
Other statutory funds	0.642	1.622
<b>Total usable reserves</b>	<b>28.539</b>	<b>28.167</b>

Source: East Dunbartonshire Council 2015/16 financial statements

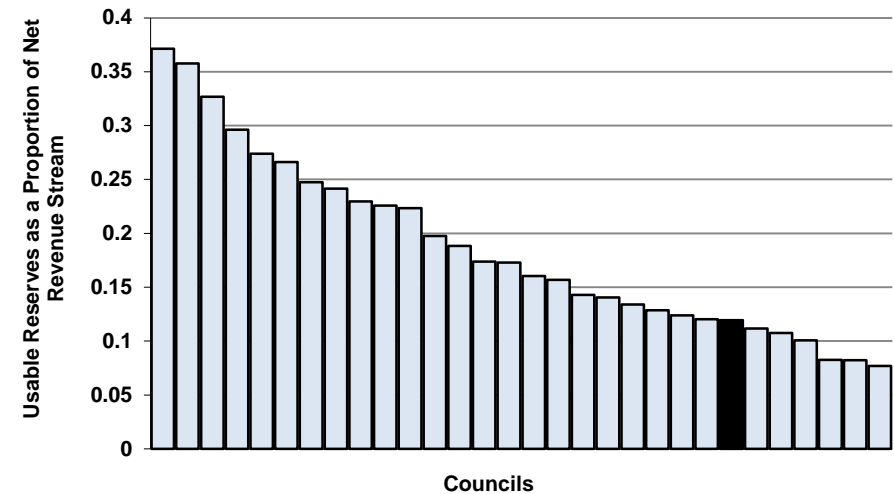
58. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows. The council's level of general fund reserves has risen from £12.558 million to £19.694 million. This indicates an improving position.
59. The General Fund balance includes £9.904 million of unallocated general fund reserves. This represents 4% of the 2015/16 net cost of services (£244.440 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 £9.790 million and include earmarked equal pay amounts, modernisation, efficiency and reform initiatives, contribution to repairs & renewals fund and miscellaneous budget pressures for 2016/17. Earmarked balances represent 50% (2014/15: 37%) of the total general fund balance.

60. Exhibit 2 below highlights 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).
61. The council's position is similar to 2014/15 and it 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 2015/16 (excluding Orkney and Shetland Island councils)

## Financial planning

62. The council set its 2016/17 budget in March 2016 at £241.180 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 around £27.6 million in the three years from 2017/18 to 2019/20, with almost £10 million of savings being required in 2016/17.

63. A number of efficiency measures have been agreed and are being implemented across the council through transformational change and budget reduction activities.

### Council specific transformational programme/efficiency strategy

64. The council plans to make significant savings through the delivery of its transformation programme. This includes completing a number of major asset developments, including the community hub project, office accommodation and the school improvement programme. However, important elements of the transformation programme are behind schedule, particularly those projects which have the potential to deliver more significant benefits and savings. The council updated its capital plan in November 2014 and re-profiled the budget. The transformation programme was also reprioritised in June 2016.
65. The council established a corporate Programme Management Office (PMO) in July 2014 which 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.
66. 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.

67. PMO oversight of the transformation programme has led to some improvements in process and greater consistency in the management of projects. However, it is essential that momentum in this area continues to ensure that improvements to process lead to more efficient delivery of projects. It is also vital that the council better understands the benefits it is generating from its transformation projects.

### Action Plan No. 5

### Capital programme 2015/16

68. Total capital expenditure for housing and general fund services during the year was £41.978 million. Housing capital expenditure was £9.313 million with general fund services capital expenditure £32.665 million. The housing capital budget of £8.096 million was approved at the Special Council meeting in February 2015. The general fund capital programme of £37.403 million was approved by Council in June 2015 as part of the review and approval of the ten year capital asset and investment programme.
69. Investment during the year included £9.5 million on the primary school improvement programme, £2.6 million on council house new builds, £4.4 million on roads and footpaths and £4.4 million on hubs/office development projects.
70. The council reported an underspend against the revised level of capital expenditure of £3.521 million or 8% of the total capital

budget for 2015/16 (39% in 2014/15). The general fund services capital programme accounts for £4.738 million of this slippage, which equates to 13% of the total general fund services capital budget and represents a significant improvement from 2014/15 which saw 31% of the general fund services capital budget unspent. The housing capital programme expenditure was £1.217 million higher than the February 2015 budget, which equates to 15% of the total housing capital budget and was mainly as a result of projects being carried forward from 2014/15.

## Asset Management

71. The council approved the Corporate Asset Management Plan and ten year capital investment plan in December 2013. These are updated on an annual basis and the capital plan re-phased. Throughout the year regular capital programme monitoring reports are presented to the bi-monthly meetings of the Council's Policy & Resources Committee.
72. In June 2016, Council received an update report on the Corporate Asset Management Plan, School Estate Investment and the Major Assets Programme. The capital plan includes an £80 million investment in the school estate. The council is currently progressing the planning, design and delivery stages for four new build primary schools at a budgeted cost of £42 million. A further £33 million is assigned to phase two of the primary school improvement programme from 2019/20 onwards.

## Workforce Management

73. In June 2015, the council approved a new Workforce Strategy covering 2015 to 2018. The strategy outlines the council's high level principles relating to workforce planning, leadership, employee wellbeing and career development.
74. The Workforce Strategy is accompanied by a Workforce Improvement Plan, which sets out programmes and activity associated with the strategy. The improvement plan focuses on programmes and initiatives that the council has already delivered but does not indicate how they have helped deliver the council's priorities.
75. The Workforce Strategy does not include an organisation-wide workforce plan which forecasts what the council's workforce and skills needs are for the next 3 to 5 years to deliver its services and key priorities.
76. Previously the council lacked effective systems to provide complete and timely figures on staffing levels. As a result of implementing an integrated HR/payroll system during 2015/16 it knows that at March 2016 its staffing level was 3693.09 FTE (headcount of 4286).
77. During 2015/16 the council continued its voluntary trawl exercise and this resulted in 101 employees departing at a cost of £9.030 million (including £3.7 million relating to the capitalised cost of added years). As a result of an issue raised in our 2014/15 Annual Audit Report, since 1 October 2015 the costs approved by

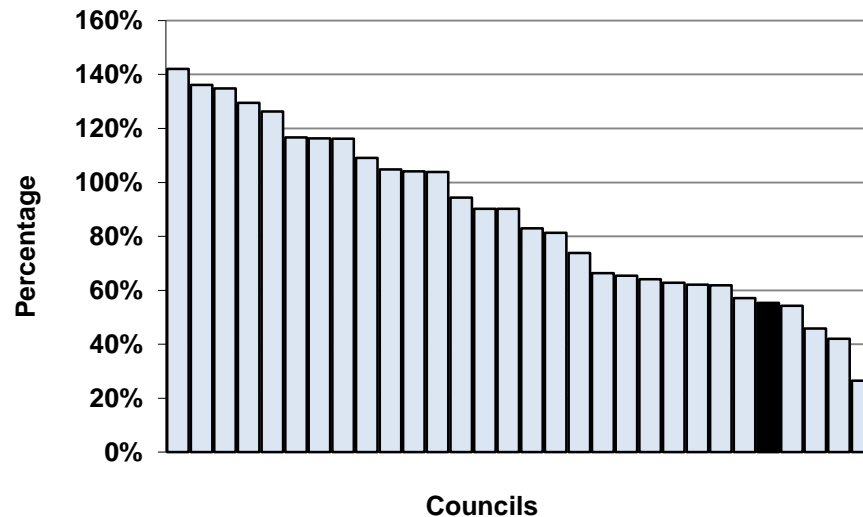
members include both the in year costs of the exit packages and the capitalised cost of added years.

78. The council has the second highest total cost of exit packages and the fourth highest average cost of exit packages in comparison with other Scottish local authorities in 2015/16.
79. As part of the financial statements audit we sought a clearer demonstration from the council that it is achieving value for money and realising anticipated savings from its voluntary severance scheme. This remains unclear. The council needs to develop more detailed monitoring reports on the actual savings achieved.
80. Sickness absence rate has improved over the past two years. In 2013/14, average absence was 13.07 days (highest in Scotland) but this has been reduced to 11.65 days in 2015/16. Over the past year, the council has worked in conjunction with trade unions to revise its wellbeing at work policy in order to further reduce absence.
81. Each year the local audit team provides 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.
82. In June 2016 a report was presented to the Strathclyde Pension Fund Committee providing details of the administration performance of the pension fund to 31 March 2016. This report identifies that for 2015/16 the council has provided the poorest quality data to the pension fund for the second year in a row, with 76 missing joiner and 59 missing leaver details at 31 March 2016.

## Treasury Management

83. In 2015/16 the council borrowed £11 million comprising a combination of short and long term loans of £6 million and £5 million respectively. The council reduced short term borrowing level from 2014/15 which, together with the repayment of market loans, resulted in a decrease of almost £7 million in the borrowing position. At 31 March 2016 the council has invested a total of £22 million on a short term basis across four different funds with £10 million maturing in August 2016 and £12 million maturing in January 2017.
84. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 3 shows long term borrowing as at 31 March 2016 as a percentage of net revenue stream for all mainland councils in Scotland. East Dunbartonshire Council is highlighted in Exhibit 3 as having the fifth lowest level of indebtedness across all mainland councils in Scotland.

### Exhibit 3: Scottish councils' long term borrowing as a percentage of net revenue streams



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils)

### Pension liability

85. The net liability on the council's balance sheet has decreased from £195.2 million in 2014/15 to £145.9 million in 2015/16, a decrease of £49.3 million. This is also reflected in the balance sheet for the group.
86. 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 2016 stated that the assets held were sufficient to cover only 76% 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

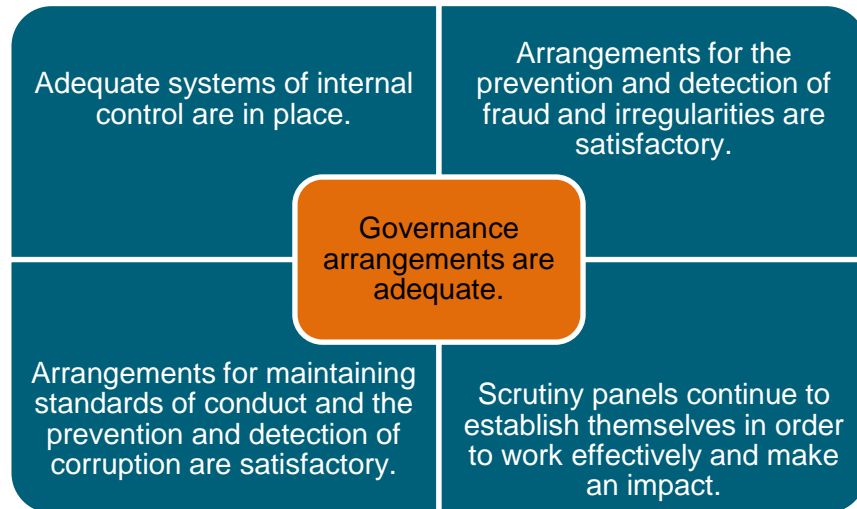
87. Overall we conclude that the financial position is currently sustainable although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels. We note also that the council holds reserves within CIPFA's best practice guidance levels of 2% - 4% of revenue expenditure. However, 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

88. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2016/17, Scottish Government funding for councils decreased by 11 per cent in real terms to almost £10 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.

89. 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.
90. The council's highway network assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highway network assets to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for these assets and will require the availability of complete and accurate management information on highway assets. The council were prepared for this change and staff across the council have been working collaboratively to ensure these assets will be measured accurately. The work carried out to date includes:
- A review of existing infrastructure assets to identify and reclassify these as highway network assets.
  - Calculating the historic cost of highway network assets.
  - Appointing an external survey company to assist in the compilation of the highway network assets inventory.
91. The council has also provided comment in note 2 to the 2015/16 financial statements in respect of the change to the valuation of highway network assets.

# Governance and transparency



- 92. 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.
- 93. 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

- 94. 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

- 95. In June 2015, the Accounts Commission made clear that, although scrutiny arrangements were in place, they were ineffective and that elected members needed to better fulfil their responsibility to challenge and scrutinise performance as well as rigorously appraise options for service improvements. This included officers providing them with reports which are accessible, understandable and jargon-free.



96. Since the last Best Value report the council has taken the decision to make the Audit and Risk Management Sub-Committee into a full Committee. This is a positive move, but as this change only came into effect in August 2016 it is too early to comment on the difference it will make.
97. More detailed findings on developments in scrutiny identified during the ongoing Best Value follow up audit will be reported to the Accounts Commission before the end of 2016.
98. 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 areas.

## Local code of corporate governance

99. 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.
100. 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 2015/16.

## Internal control

101. 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.
102. In our 2015/16 Review of Key Internal Controls Report, issued in June 2016, we identified no material weaknesses in the accounting and internal control systems. However, we made a number of recommendations to improve the controls in a number of areas, including authorisation of supplier invoices for payment and the controls over Carefirst system payments to care providers. As a result of these issues, additional audit testing was required prior to certification of the financial statements.

## Internal audit

103. 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.
104. Our review of internal audit concluded that it 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 no formal reliance on the work of internal audit during 2015/16 for those key



financial systems from which the annual financial statements are produced. However, as highlighted in paragraph 32 above, we were able to place reliance on the work of internal audit in respect of Carefirst system payments.

## ICT audit

105. Our ICT audit work during 2015/16 identified that a connection linking East Dunbartonshire Council's and West Dunbartonshire Council's (WDC) networks was tested in March 2016. This allows the council to use the WDC internet connection in the event of its own direct internet connection being unavailable. Currently, the council is unable to use the Scottish Education Electronic Management Information System (SEEMIS) on this second connection. However, a technical solution has been identified and will be tested in the near future.
106. Work is continuing to develop the council's ICT Business Continuity Plan. Management acknowledge that changes will be required in the areas of telephony and network switch recovery before a final review of the plan can be undertaken.
107. The council's ICT strategy is now due for revision and officers are currently examining options for reviewing the ICT strategy.

## Arrangements for the prevention and detection of fraud

108. 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

109. 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.
110. We concluded that the council takes a positive and proactive approach to the NFI exercise. Testing of matches is seen to prioritise on those that are recommended.

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

111. 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

112. During 2014 and 2015, Audit Scotland received correspondence from a number of individuals about the relationship between Celtic PLC (Celtic) and The Lennoxton Initiative (LI), a community regeneration company, and registered charity, supported by East Dunbartonshire Council, NHS Greater Glasgow & Clyde and Scottish Enterprise.
113. We carried out an investigation into the issues and questions raised by the correspondents during 2015. 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).
114. In our report, issued in November 2015, we concluded that, although there was no evidence of fraud or corruption, the arrangements for managing and monitoring the service level

agreement between the relevant partner bodies involved could have been more robust.

## Transparency

115. Since the previous Best Value follow up report published in June 2015, the council has made an effort to improve transparency by significantly reducing the proportion of committee reports being taken in private. The council now uses confidential briefing packs as an alternative to reports being taken in private. In conducting its business in the most open and accountable way, the council needs to ensure that information being provided to elected members in this way is minimised.
116. Council and committee reports continue to be long, placing significant demands on elected members. They also continue to be complex and written using bureaucratic language, making them difficult to understand. This is something the council should continue to improve.

## Freedom of Information requests

117. The council responded to 91.5% of freedom of information requests within statutory timescales as at March 2015 and this increased to 92.4% in March 2016.

## Integration of health and social care

- 118.** 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.
- 119.** 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 East Dunbartonshire Health and Social Care Partnership (the Partnership) for the local area.
- 120.** The integration scheme for the Partnership 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 Partnership 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.
- 121.** The Partnership Board met first met on 3 September 2015 and approved the appointment of the Chief Officer and Chief Finance Officer, the Partnership Board membership and scheme. The Strategic Plan was approved and functions and budgets were delegated to the Partnership. The Partnership 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.

- 122.** The Partnership has produced financial statements for 2015/16 covering the period 3 September 2015 to 31 March 2016 which have been audited by Audit Scotland and will be reported to the Partnership Board in a separate Annual Audit Report for 2015/16 by 30 September 2016.
- 123.** Effective partnership working between the bodies involved in delivering joint services will be key in achieving targets set out in the future plans of the Partnership. Delivery and ongoing monitoring of the joint board strategic plan will be crucial in successful delivery of integrated services within East Dunbartonshire.

## Housing benefits performance audit

- 124.** An audit of the council's Housing Benefit (HB) service was carried out during 2014/15 and a Risk Assessment report was issued in May 2015. The report considered the combined challenges of welfare reform, office re-location, organisational restructures, and the implementation of a Document Imaging Process (DIP) & Workflow system. Audit Scotland also 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.
- 125.** As a consequence of this report, a performance improvement action plan was produced and progress against this plan was followed up by Audit Scotland during 2016. The follow up work included a review of the council's performance in processing new HB claims

with reference to the Department for Work and Pensions (DWP) performance data.

- 126.** Audit Scotland noted in August 2016 that the council's performance in respect of the average time taken to process new HB claims has improved continuously in April, May and June 2016, and that the council is now reporting performance at an average of 31 days for quarter one 2016/17. However, based on the DWP's latest published performance data, this level of performance remains worse than the Scottish average of 23 days for processing new HB claims in 2015/16. Therefore, Audit Scotland has requested a further performance update from the council in respect of the average time taken to process new HB claims for quarters two and three of 2016/17, by 31 January 2017.

## Local scrutiny plan

- 127.** The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to East Dunbartonshire Council in March 2016.
- 128.** The LAN considered the focused Best Value work that was planned for 2016/17 to follow up the findings of the previous Best Value report issued in June 2015. 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 follow up audit was scheduled to be carried out during 2016, no further specific scrutiny work was identified by the LAN.

- 129.** 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 2016/17.

## Outlook

- 130.** 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.
- 131.** Partnership, joint working and arm's 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

**132.** 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

**133.** Follow up Best Value audit work was carried out between May and August 2016 following on from the Accounts Commission recommendations in June 2015. We expect the findings from the ongoing Best Value follow-up audit to be considered by the Accounts Commission before the end of 2016 and published shortly thereafter.

## Procurement

**134.** 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.

**135.** Since 2013, the council has made considerable progress in improving its procurement function as a result of an updated procurement strategy and improvement plan, increased staffing levels in its corporate procurement unit, the appointment of a new

procurement manager and the implementation of an e-procurement system. This progress resulted in a PCA score of 60 in 2014.

**136.** The annual PCA was replaced by the Procurement & Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP introduced a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results are not comparable with the previous PCA scores. Scotland Excel began undertaking PCIP assessments for local authorities in May 2016, and the cycle will continue until November 2016.

**137.** The council achieved £0.930 million of its £1 million savings target in 2015/16. It aims to make a total of £5 million of procurement savings between 2015/16 and 2017/18 to address its projected funding gap. However the council's plans to meet this target remain unclear.

## Shared services

**138.** In June 2016 the council agreed that officers would continue to work with colleagues in Inverclyde and West Dunbartonshire councils to develop an outline business case for a shared services joint committee governance model. Reported timescales indicate that a Minute of Agreement will be presented for the Council's consideration prior to the end of September progressing towards having plans in place by Spring 2017.

## Following the public pound

- 139.** Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance and funding external bodies and following the public pound. During 2015/16 we identified that the council does not have formal arrangements in place to ensure compliance with European Commission State Aid Regulations. We would recommend that the council establishes procedures to ensure that it does not breach the requirements of these regulations.
- 140.** During 2017 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.

## Performance management

- 141.** 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.
- 142.** In accordance with the revised governance and scrutiny arrangements relevant to the council's Strategic Planning and Performance Framework, scrutiny of Directorate performance is undertaken by the relevant Strategic Committee.

- 143.** 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 2015/16

- 144.** 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.
- 145.** 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 for 2015/16.

**Exhibit 4: Performance information for 2015/16**

Directorates	On target	2-5% off target	Off- target
Customer Service & Transformation	33	4	7
Development and Regeneration	9	1	4
Education & Social Work	20	-	1
Finance & Shared Services	9	3	6



Directorates	On target	2-5% off target	Off- target
Neighbourhood Services	12	4	5
<b>Total</b>	<b>83</b>	<b>12</b>	<b>23</b>

Source: *How Good Is Our Service Directorate Reports 2015/16*

146. Areas of good or improving performance include:

- Attendance at sports and leisure facilities and museums has again exceeded the annual target.
- 9.99 days lost to sickness absence on average per employee against a target of 10 days.

147. Areas identified for improvement:

- Current tenant arrears as a percentage of net rent due were 8.9% against a target of 5.5%.
- 73% of voids properties were returned within timescales, against an annual target of 85%.

148. 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.

149. Overall the council has achieved 70% of performance targets, with a further 10% being within 5% of the target. This is similar to the 2014/15 results.

## Statutory performance indicators (SPIs)

150. 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.

151. For 2015/16 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.

152. Overall we concluded that the council's arrangements for publication were satisfactory.

## Local audit reports

153. A summary of all local external audit reports issued to the council during the year is provided at [appendix II](#).

## Local performance audit work

154. During 2015/16 we carried out follow-up audit work on behalf of Audit Scotland to identify the progress the council has made in relation to the recommendations made in Audit Scotland's national

performance report *Scotland's Public Sector Workforce* which was published in November 2013. As part of our audit we provided an information return to Audit Scotland which highlighted the following points:

- In June 2015, the council approved a new Workforce Strategy covering 2015 to 2018. The strategy outlines the council's high level principles relating to workforce planning, leadership, employee wellbeing and career development.
- The Workforce Strategy does not include an organisation-wide workforce plan which forecasts what the council's workforce and skills needs are for the medium term to deliver its services and key priorities.

## National performance audit reports

155. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, 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.

## Equalities

156. 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.
157. We noted that the council presented its Equality Outcomes and Mainstreaming Report to Council in April 2015. This report included employment monitoring information.

## Outlook

158. 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.

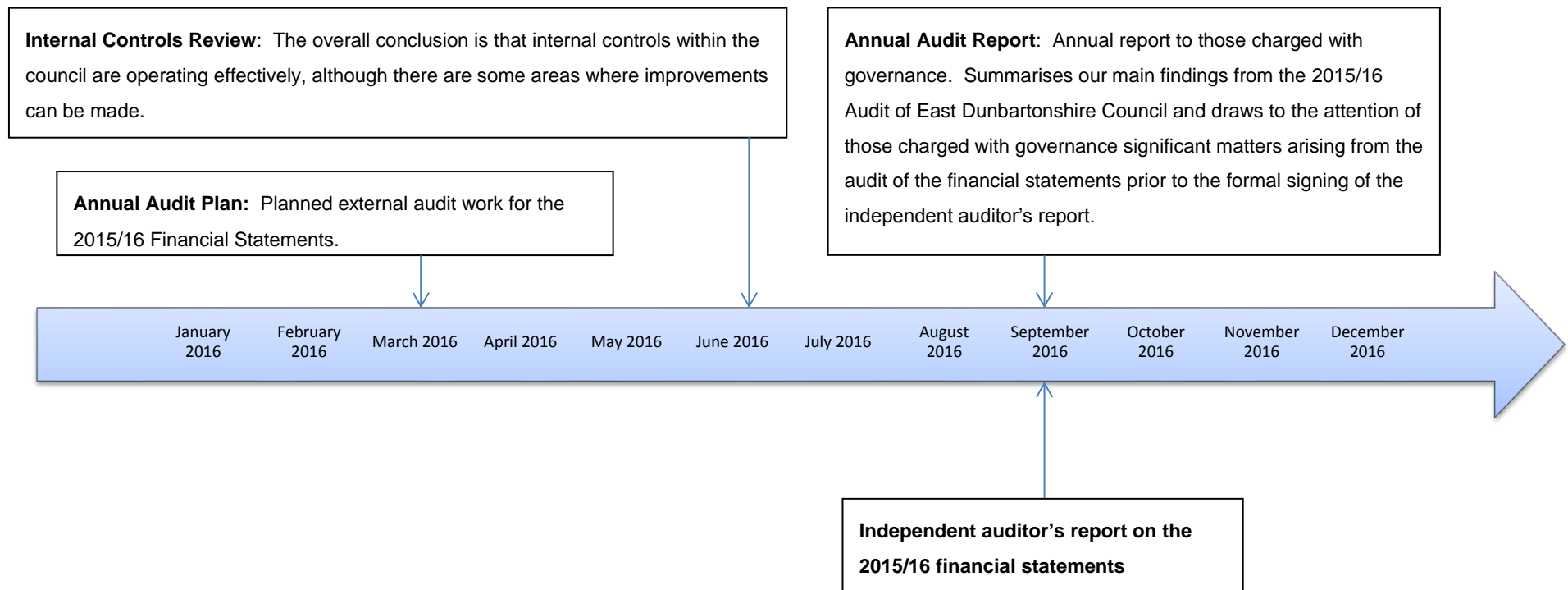
Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Risk of material misstatement due to fraud in revenue recognition</b></p> <p>ISA 240 presumes an inherent risk of fraud where income streams are significant.</p> <p><b>Risk</b></p> <p>The council receives 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.</p>	<ul style="list-style-type: none"> <li>• Evaluation of accounting policies for income and expenditure.</li> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income.</li> <li>• Substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements.</li> </ul>	<p>We undertook detailed testing of income streams.</p> <p>No frauds were identified.</p>
<p><b>Risk of management override of control</b></p> <p>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.</p> <p><b>Risk</b></p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Evaluating significant transactions that are outside the normal course of business.</li> <li>• Focused testing of accruals and prepayments.</li> </ul>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>		
<p><b>Estimation and judgement</b> The financial statements of East Dunbartonshire Council include valuations which rely on significant assumptions and estimates.</p> <p><b>Risk</b> The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of an expert' for the professional valuer.</li> <li>• Focused substantive testing of key areas.</li> </ul>	<p>We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts.</p> <p>No material misstatements were identified.</p>
<p><b>Capacity of Finance Team</b> As a result of staff turnover within the Finance Team, there is a risk that the council fail to deliver unaudited financial statements and a comprehensive working paper package within agreed timescales.</p>	<ul style="list-style-type: none"> <li>• Meetings with finance staff throughout the preparation of the financial statements preparation and thereafter throughout the course of the audit.</li> <li>• Issue a working paper checklist to finance to outline requirements and agree timescales for the receipt of unaudited accounts and working papers.</li> </ul>	<p>Regular meetings with finance officers took place throughout the year. Weekly meetings were held during the financial statements audit.</p> <p>A working paper checklist was issued to finance officers on 9 February 2016 outlining financial statements working paper requirements.</p> <p>The unaudited accounts were provided to audit on 22 June 2016. Working papers were also delivered within agreed timescales.</p>

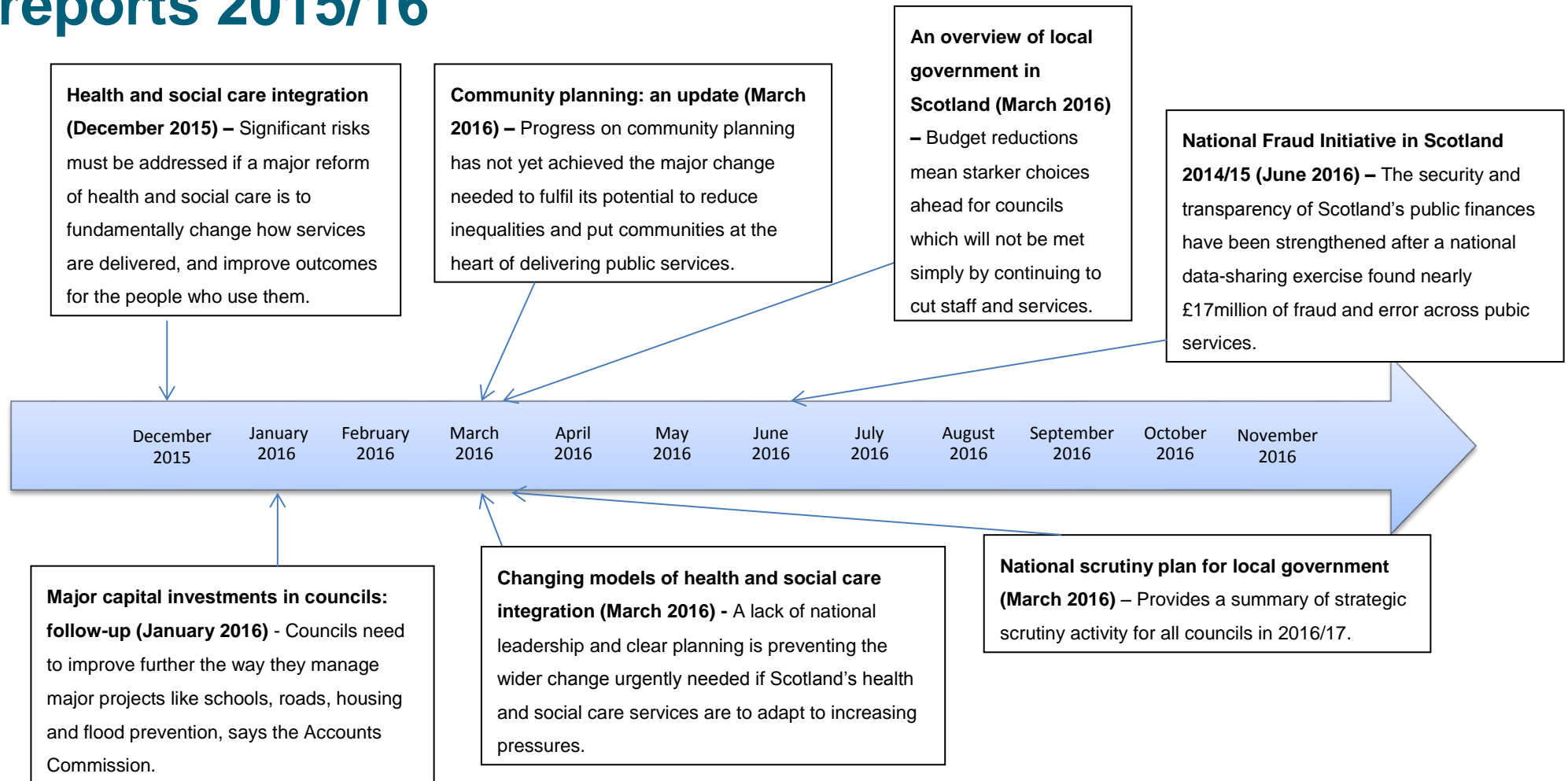
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Implementation of HR and Payroll system</b></p> <p>There is a risk that the new HR/Payroll system is not fully operational by the financial year end resulting in the council having to operate two separate payroll systems to ensure the all appropriate information is processed and collated.</p>	<ul style="list-style-type: none"> <li>• Completion of an 'Initial System Review' of the integrated HR and payroll system.</li> <li>• Detailed controls testing of both payroll systems in operation during 2015/16.</li> <li>• Review of staff cost disclosures within the financial statements.</li> </ul>	<p>Our controls testing of both payroll systems did not identify any significant issues.</p> <p>No issues were identified from our review of staff costs disclosed in the financial statements.</p>
<p><b>Equal pay</b></p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Review the equal pay provision as part of the financial statements audit work.</li> </ul>	<p>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.</p>
<p><b>Health and Social Care Partnership</b></p> <p>The East Dunbartonshire Health and Social Care Partnership is now operational and the council will need to make appropriate disclosures in the 2015/16 single entity and group financial statements.</p>	<ul style="list-style-type: none"> <li>• Review the Health and Social Care Partnership disclosures during the audit of the council's 2015/16 financial statements.</li> </ul>	<p>No significant issues were identified from our review of the Health and Social Care Partnership disclosures in the 2015/16 single entity and group financial statements.</p>

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>Financial Position</b></p> <p>The council continues to face a significant challenge in bridging a funding gap of £10.9m by 2016/17. The Council may be unable to generate the required savings to bridge the funding gap.</p>	<ul style="list-style-type: none"> <li>• Monitor the council's financial position via revenue budget monitoring reports presented to Policy and Resources committee and meetings with officers.</li> <li>• Ongoing review of Council's progress towards delivering savings options.</li> </ul>	<p>The audit team regularly attended council committee meetings and reviewed all capital and revenue budget papers and monitoring reports.</p> <p>We concluded that financial management arrangements are adequate. We also concluded 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.</p>
<p><b>Capital slippage</b></p> <p>Slippage in the capital programme may mean that associated service improvements and planned efficiency savings are not achieved within required timescales.</p>	<ul style="list-style-type: none"> <li>• Monitor capital expenditure through review of capital monitoring reports presented to the Policy and Resources committee.</li> <li>• Review delivery of the annual capital programme during the audit of the council's 2015/16 financial statements.</li> </ul>	<p>Throughout the year the audit team attended council committee meetings and reviewed all capital budget papers and monitoring reports.</p> <p>The council reported an underspend against the revised level of capital expenditure of £3.521 million or 8% of the total capital budget for 2015/16 (39% in 2014/15). This demonstrates improved management of capital projects from the prior year.</p>

# Appendix II: Summary of East Dunbartonshire Council local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16



## Appendix IV: Action plan

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1	22	<p><b>East Dunbartonshire Leisure &amp; Culture Trust Debt Owed to Council</b></p> <p>The council's financial statements disclose a debtor balance of £0.774 million at 31 March 2016 owed by the Trust. This debtor balance increased to £0.781 million by mid-June 2016 and relates to outstanding utility bills.</p> <p><b>Recommendation</b></p> <p>Given that 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, the council should ensure that money owed by the Trust to the council is paid promptly.</p>	<p>Officers of East Dunbartonshire Council and East Dunbartonshire Leisure and Culture Trust have agreed a enhanced process for raising invoices promptly, and authorising these for payment in a timely manner. This process has been introduced and will be monitored during 2016/17 to ascertain whether further remedial controls are required to ensure that such balances are well managed.</p>	<p>Depute Chief Executive, Education, People &amp; Business.</p> <p>Control in place, however balances will continue to be monitored.</p>

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2	32	<p><b>Payments to Social Care Providers</b></p> <p>Existing controls and procedures relating to Carefirst system payments to private care providers need to be further enhanced to ensure that payments are fully aligned with the care provided.</p> <p><b>Recommendation</b></p> <p>The council should undertake a detailed review of the identified risks in relation to the Carefirst system with a view to providing additional assurance regarding current processes as well as considering the need to introduce additional controls that may be required.</p>	<p>The Council will present this as a topic for scrutiny at the September 2016 Scrutiny Panel meeting. This will consider the process, concerns raised by auditors, embedded controls and progress in implementing additional requirements.</p>	<p>Depute Chief Executive, Education, People &amp; Business.</p> <p>Scrutiny Panel to meet on the 27 September 2016.</p>



No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3	43	<p><b>Housing rent arrears</b></p> <p>The council's current tenant arrears in 2015/16 were £0.589 million. This is an increase of 29% from the level recorded in 2013/14 (£0.457 million). Rent arrears may continue to rise. The bad debt provision in respect of uncollectable rents may then become insufficient.</p> <p><b>Recommendation</b></p> <p>Action should be taken to ensure that debts are followed up in a timeous manner.</p>	<p>The level of housing rent arrears continues to be reported as part of our suite of performance indicators. Housing officers continue to work with tenants to mitigate arrears arising through encouraging rent to be paid, maximise tenants income through referrals to CABs. Housing officers also mitigate arrears arising through ensuring that Housing Benefit or Universal Credit is applied for along with Discretionary Housing Payments. Legal action is taken as a last resort where tenants either refuse, engage, or maintain agreements. This situation has been exacerbated as a result of the impact of Welfare Reform and is an area that the council continues to proactively manage. It is acknowledged that rent arrears have risen in recent years and housing officers prioritise this area of work while bad debt provision has increased in response.</p>	<p>Depute Chief Executive, Place, Neighbourhood &amp; Corporate Assets</p> <p>Ongoing interventions will continue with housing tenants to ensure that rent arrears are well controlled.</p>

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4	52	<p><b>Financial Capacity</b></p> <p>The finance section has limited capacity and resilience. The finance section may not have sufficient capacity to deliver key outputs.</p> <p><b>Recommendation</b></p> <p>The council ensure the finance section is sufficiently resourced and has the required skills, knowledge and experience to support council business.</p>	The need to ensure financial capacity is a key deliverable included within the Finance Review.	Depute Chief Executive, Education, People & Business.  September/October 2016.
5	67	<p><b>Budget Pressures</b></p> <p>The council is facing a significant challenge in bridging a funding gap of almost £10 million in 2016/17 and £27.6 million in the three years to 2019/20. The council may not be able to generate sufficient efficiencies and cost savings from its transformation programme to bridge the funding gap.</p> <p><b>Recommendation</b></p> <p>The council should monitor the achievement of savings generated from its transformation programme and take appropriate action to address existing and emerging budget pressures.</p>	The council acknowledges the scale and scope of budget pressures and has set out a Strategic Planning & Performance Framework that includes the need to transform and innovate the delivery of services to meet ongoing demands, service pressures and future financial settlements.	Depute Chief Executive, Education, People & Business.  Further SPPF reporting due by December 2016.

