

## The Accounts Commission for Scotland

### Agenda

Meeting on Thursday 12 December 2013,  
in the offices of Audit Scotland, 18 George Street, Edinburgh

The meeting will begin at 10:00 am

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 12 to 16 in private.
4. **Minutes of meeting of 14 November 2013.**
5. **Minutes of meeting of the Financial Audit and Assurance Committee of 28 November 2013**
6. **Minutes of meeting of the Performance Audit Committee of 28 November 2013**
7. **Chair's introduction:** The Chair will report on recent activity and issues of interest to the Commission.
8. **Update report by the Controller of Audit:** The Commission will consider a report from the Controller of Audit on significant recent activity in relation to the audit of local government.
9. **Statutory report: Follow-up: The Highland Council - Caithness Heat and Power:** The Commission will consider a report by the Controller of Audit.
10. **Statutory report: East Dunbartonshire Council:** The Commission will consider a report by the Controller of Audit.
11. **Any other business.**

*The following items are proposed to be considered in private:*

12. **Statutory report: Caithness Heat and Power:** The Commission will consider the action it wishes to take.
13. **Statutory report: East Dunbartonshire Council:** The Commission will consider the action it wishes to take.
14. **Statutory performance information: 2013 Direction:** The Commission will consider a report by the Controller of Audit.
15. **COSLA Commission on Strengthening Local Democracy: draft submission:** The Commission will consider a report by the Secretary and Business Manager.
16. **Formal authority for Audit Scotland staff to make VAT claims:** The Commission will consider a report by the Assistant Auditor General.

The following papers are enclosed for this meeting:

<b>Agenda Item</b>	<b>Paper number</b>
<b>Agenda Item 4:</b> Minutes of meeting of the Commission of 14 November 2013	AC.2013.11.1
<b>Agenda Item 5:</b> Minutes of meeting of the Financial Audit and Assurance Committee of 28 November 2013	AC.2013.11.2
<b>Agenda Item 6:</b> Minutes of meeting of the Performance Audit Committee of 28 November 2013	AC.2013.11.3
<b>Agenda Item 8:</b> Report by Controller of Audit	AC.2013.11.4
<b>Agenda Item 9:</b> Report by Controller of Audit	AC.2013.11.5
<b>Agenda Item 10:</b> Report by Controller of Audit	AC.2013.11.6
<b>Agenda Item 14:</b> Report by Controller of Audit	AC.2013.11.7
<b>Agenda Item 15:</b> Report by Secretary and Business Manager	AC.2013.11.8
<b>Agenda Item 16:</b> Report by Assistant Auditor General	AC.2013.11.9

**ACCOUNTS COMMISSION**

**MEETING 12 DECEMBER 2013**

**MINUTES OF PREVIOUS MEETING**

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Minutes of the meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 14 November 2013, at 10am

**PRESENT:** John Baillie (Chair)  
Michael Ash  
Alan Campbell  
Sandy Cumming  
Colin Duncan  
Christine May  
Bill McQueen  
Colin Peebles  
Graham Sharp  
Douglas Sinclair (Deputy Chair)

**IN ATTENDANCE:** Fraser McKinlay, Controller of Audit  
Paul Reilly, Secretary and Business Manager  
Angela Canning, Assistant Director, Performance Audit and Best Value (PABV) [Item 9]  
Antony Clark, Assistant Director, PABV [Item 7]  
Angela Cullen, Assistant Director, PABV [Item 11]  
John Lincoln, Project Manager, PABV [Item 11]  
Lynn Russell, Performance Auditor, PABV [Item 10]  
Fiona Selkirk, Project Manager, PABV [Item 10]  
Martin Walker, Assistant Director, PABV [Item 10]

<u>Item No</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 17 October 2013
5.	Chair's introduction
6.	Update report by the Controller of Audit
7.	Briefing – approach to shared risk assessment
8.	Any other business
9.	Performance audit: Reshaping care for older people – draft report
10.	How councils work: Options appraisal – draft report
11.	Procurement Reform Bill: Call for Views by Infrastructure and Capital Investment Committee

1. Apologies for absence

Apologies for absence were received from Linda Pollock.

2. Declarations of interest

The following declarations of interest were made:

- Mike Ash, in item 9, as a member of the board of NHS Lothian
- Christine May, in item 10, as Vice-Chairman of Fife Cultural Trust.

3. Decisions on taking business in private

It was agreed that items 9 to 11 should be taken in private as they contained draft reports and confidential issues.

4. Minutes of meeting of 14 November 2013

The minutes of the meeting of 14 November 2013 were submitted and approved.

In relation to items 10 and 15 (Statutory report: Argyll and Bute Council), the Chair advised that he would shortly conclude replying to all those from whom he had received correspondence in relation to the statutory report, copies of which he had available to members on the Commission's secure portal.

5. Chair's introduction

The Chair reported that:

- On 22 October, he, along with Douglas Sinclair and Christine May, met with the Leader, political group leaders and the Chief Executive of the City of Edinburgh Council to discuss the Best Value audit report of the Council, which was published on 30 May.
- On 24 October he attended a meeting of the Audit Scotland Board.
- On 25 October, Douglas Sinclair, Mike Ash and Linda Pollock met with representatives of Aberdeenshire Council to discuss the report of the targeted Best Value work in the Council, which was published on 27 September 2013.
- On 29 October, he undertook various media activities in relation to the publication of the statutory report on Argyll and Bute Council.
- On 31 October, he undertook various media activities in relation to the publication of the How councils work report on charging for services.

6. Update report by the Controller of Audit

The Commission considered a report by the Controller of Audit providing an update on significant recent activity in relation to the audit of local government.

During discussion the Commission agreed:

- In relation to paragraph 5, to note advice from the Controller of Audit that he intended reporting to the Commission at its next meeting on targeted Best Value work in East Dunbartonshire Council.
- In relation to paragraph 21, to note advice from the Controller of Audit that he would monitor the progress of the business rate retention scheme in England, and any implications thereof for Scottish councils.

*Actions: Controller of Audit*

Thereafter the Commission agreed to note the report.

#### 7. Briefing – approach to shared risk assessment

The Commission considered a report by the Controller of Audit advising of the proposed approach to and timetable for the 2014/15 shared risk assessment (SRA) process.

During discussion the Commission:

- Agreed to note advice from the Controller of Audit that he would report back on how to ensure an effective line of engagement between the SRA process and political structures in councils.
- Agreed to note that proposed future consideration by the Commission into making more prominent in its work the issue of pace of improvement may have implications for the future design of the shared risk assessment process.
- Noted the proposed approach to, and timetable for, the 2014/15 SRA process.
- Noted the planned further development of the SRA process during 2014/15, including further consideration of the merits and practicalities of moving towards a more partnership and place-based SRA process.

*Action: Controller of Audit*

#### 8. Any other business

The Chair reported that Douglas Sinclair had been appointed as Chair of the Commission for a period of four years from 1 December 2013. On behalf of the Commission, he congratulated Douglas on his appointment and wished him well for his term. He also thanked Douglas for his work in his term as Deputy Chair of the Commission.

The Chair advised that this meeting would be his last as Chair. He stated that he had enjoyed his time as Chair, and in particular working with other Commission members. He noted his pleasure about the sense of teamwork that he had experienced amongst Commission members during his term, particularly latterly.

The Deputy Chair then, on behalf of the members of the Commission, thanked John for his hard work, dedication and considerable achievement during his term. He wished him well for the future.

#### 9. Performance audit: Reshaping care for older people – draft report [in private]

The Commission agreed that this item be held in private to allow it to consider a draft performance audit report prepared jointly for the Accounts Commission and the Auditor General for Scotland, and proposed publication arrangements thereof.

The Commission considered a report by the Controller of Audit proposing a draft performance audit report, *Reshaping care for older people*, prepared on behalf of the Accounts Commission and the Auditor General for Scotland.

Following discussion, the Commission agreed:

- to approve the draft performance audit report *Reshaping care for older people*, subject to the audit team considering a number of points raised in discussion and consulting further with the sponsors of the performance audit, Linda Pollock and Bill McQueen.

*Action: Controller of Audit*

- that members of the Local Government and Regeneration Committee be also alerted to the publication of the report.
- to approve the other proposed methods of engaging with key stakeholders as set out in the Controller of Audit's report.

10. How councils work: Options appraisal – draft report [in private]

The Commission agreed that this item be held in private to allow it to consider and approve a draft report and proposed publication arrangements as presented in the report by the Controller of Audit.

The Commission considered a report by the Controller of Audit proposing a draft report in the *How Councils Work* series, *Options appraisal: are you getting it right?*

Following discussion, the Commission agreed that the Controller of Audit provide a revised draft to a future meeting of the Commission, and consult further with the sponsors of the report, Douglas Sinclair, Bill McQueen and Mike Ash, to this end.

*Action: Controller of Audit*

11. Procurement Reform Bill: Call for Views by Infrastructure and Capital Investment Committee [in private]

The Commission agreed that this item be held in private to allow it to consider a draft paper.

The Commission considered a report by the Secretary and Business Manager proposing a response, made jointly on behalf of the Accounts Commission and Auditor General for Scotland, to the call by the Scottish Parliament's Infrastructure and Capital Investment Committee for views on the general principles of the Procurement Reform (Scotland) Bill.

Following discussion, the Commission agreed the draft response, subject to the addressing of a number of points raised in discussion.

*Action: Controller of Audit*

**ACCOUNTS COMMISSION**

**MEETING 12 DECEMBER 2013**

**MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 28  
NOVEMBER 2013**

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Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 28 November 2013, at 10.30am.

**PRESENT:** Bill McQueen (Chair)  
John Baillie  
Sandy Cumming  
Graham Sharp  
Douglas Sinclair

**OTHER COMMISSION  
MEMBERS PRESENT:** Christine May

**IN ATTENDANCE:** Fiona Kordiak, Director, Audit Services  
Fraser McKinlay, Controller of Audit  
Paul Reilly, Secretary and Business Manager  
Gillian Battison, Project Manager, PABV [Item 7]  
Paul O'Brien, Senior Manager, Audit Strategy [Items 5 and 6]  
Gordon Smail, Senior Manager, PABV [Item 7]  
Gillian Woolman, Assistant Director, PABV [Items 4 and 5]  
Martin Walker, Assistant Director, PABV [Item 4]

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 26 September 2013
4. Current audit issues in councils
5. 2012/13 local government pension fund accounts
6. Accounting and auditing developments
7. Local government overview report - update
8. Any other business

1. Apologies

It was noted that apologies for absence had been received from Colin Duncan and Linda Pollock.

2. Declarations of interest

There were no declarations of interest.

3. Minutes of meeting of 26 September 2013

The minutes of the meeting of 26 September 2013 were approved.

Arising therefrom, the Committee:

- In relation to the first bullet point of item 3 (Staffing Watch initiative), noted advice from the Controller of Audit that the Staffing Watch initiative would be continuing.
- In relation to the third bullet point of item 3 (group of members to discuss ALEOs), noted advice from the Secretary and Business Manager that given that the Accounts Commission had considered a report on ALEOs at its meeting on 9 October, there was no need to convene a group of Commission members to examine the issue.
- In relation to the eighth bullet point of item 3 (Inverness Link Road), noted advice from the Director of Audit Services that development of the scheme was at a very early stage, and it would remain a matter of interest for the local audit team.
- In relation to the fourth bullet point of item 4 (Integrated health and social care – Highland), noted advice from the Controller of Audit that he intended updating the Commission on the issue at a future meeting [see also second bullet point in item 4 below].

*Action: Controller of Audit*

- In relation to the eighth bullet point of item 4 (Land transfer - Borders Railway), noted advice from the Director of Audit Services on the implications for Scottish Borders Council on the transaction, thus requiring no further investigation at this time.

4. Current audit issues in councils

The Committee considered a report by the Director of Audit Services outlining emerging issues, recurring themes and individual issues of interest in Scottish councils and joint boards.

During discussion it was agreed:

- In relation to paragraph 5 (annual audit reports), to note advice from the Director of Audit Services that all annual audit reports had now been received.
- In relation to paragraph 7 (integration of health and social care), to note advice from the Controller of Audit that he would provide an update report to the Commission at its meeting in January 2014.

*Action: Controller of Audit*

- In relation to paragraph 8 (off or on balance sheet liabilities), to note advice from the Director of Audit Services that extra work was being planned for the



annual audit in relation to environmental-related issues such as opencast or landfill sites.

- In relation to paragraph 13 (charitable trusts), to note advice from the Senior Manager, Audit Strategy that the Assistant Auditor General that he would provide an update report on the issue at a future meeting of the Commission.

*Action: Assistant Auditor General*

- In relation to the Appendix to the report:
  - In relation to East Dunbartonshire Council, to note advice from the Controller of Audit that he intended submitting a statutory report on the Council to the Commission at its meeting in December.

*Action: Controller of Audit*
  - In relation to City of Edinburgh Council, advice from the Director of Audit Services was noted that the progress of procurement savings remained under close monitoring as part of the annual audit.
  - In relation to North Lanarkshire Council, and in particular North Lanarkshire Leisure:
    - to note a correction in the text: delete “carry out” and replace with “consider” and add at the end of the sentence: “in the context of shared risk assessment work”.
    - to note advice from the Controller of Audit that the scope for the review work to be undertaken by North Lanarkshire Leisure’s external auditor had now been finalised.

Thereafter the Committee agreed to note the report.

#### 5. 2012/13 local government pension fund accounts

The Committee considered a report by the Director of Audit Services summarising information taken from the 2012/13 Local Government Pension Scheme annual reports and annual audit reports. This was supported by a summary of the main changes to the Local Government Pension Scheme taking effect from 1 April 2015.

During discussion the Committee:

- Noted advice from the Senior Manager, Audit Strategy that the vertical axis in Exhibit 1 showed total assets against total liabilities at the time of the last valuation (March 2011).
- Agreed a report be made to the Commission on possible options for publishing the information in the report and sharing with stakeholders such as citizens, pension authorities and trade unions.

*Action: Director of Audit Services*

- Agreed that the following be monitored and reported in future reports to the Committee:
  - pension fund member retention beyond auto-enrolment
  - numbers and proportions of contributing versus non-contributing members.

*Action: Director of Audit Services*

Thereafter the Committee agreed to note the report.

6. Accounting and auditing developments

The Committee considered a report by the Assistant Auditor General providing information on recent accounting and auditing developments affecting the public sector and, in particular, local government in Scotland.

Following discussion the Committee agreed to note the report.

7. Local government overview report - update

The Committee considered a report by the Controller of Audit providing an update on the local government overview report and emerging key messages.

During discussion the Committee:

- Agreed to ensure appropriate prominence for the following issues in the report:
  - Procurement
  - Ongoing and future impact of welfare reform
  - Reference to messages and themes in previous overview reports.
- Endorsed the proposed timeline for publication of the report.
- Endorsed the emerging key messages for more detailed drafting of the report.

*Action: Controller of Audit*

8. Any other business

The Chair asked the Committee to note that this would be the last meeting of the Committee attended by the Chair of the Accounts Commission John Baillie. He stated that he had appreciated the input and support of the Chair in the work of the Committee. He intimated his best wishes, and those of the Committee, to Mr Baillie for the future.

**ACCOUNTS COMMISSION**

**MEETING 12 DECEMBER 2013**

**MINUTES OF MEETING OF PERFORMANCE AUDIT COMMITTEE OF 28 NOVEMBER 2013**

Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 28 November 2013, at 2pm.

PRESENT: Douglas Sinclair (Chair)  
Mike Ash  
John Baillie  
Alan Campbell  
Christine May  
Colin Peebles

IN ATTENDANCE: Fraser McKinlay, Controller of Audit  
Paul Reilly, Secretary and Business Manager  
Angela Canning, Assistant Director, PABV [Item 5]  
Angela Cullen, Assistant Director, PABV [Item 6]  
Mark MacPherson, Senior Manager, PABV [Item 6]  
Cathy McGregor, Project Manager, PABV [Item 5]  
John Lincoln, Project Manager, PABV [Item 6]  
Claire Sweeney, Senior Manager, PABV [Item 5]

<u>Item no.</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 26 September 2013
4.	Performance audit programme and scrutiny work update
5.	Performance audit: draft project brief – Self-directed support
6.	Performance audit: emerging messages – Procurement in local government
7.	Any other business

1. Apologies for absence

It was noted that there were no apologies for absence.

2. Declarations of interest

There were no declarations of interest.

3. Minutes of meeting of 26 September 2013

The minutes of the meeting of 26 September 2013 were approved as a correct record.

Arising therefrom, the Committee, in relation to the first bullet point of item 3 (Modernising the planning system), noted advice from the Secretary and Business Manager that Heads of Planning Scotland and 16 planning authorities were piloting a system to aid understanding of planning authorities' costs, the results of were to be reported to the Scottish Government by the end of the year. Audit Scotland had been liaising with the parties in this regard and would assess its outcome and the implications for any future work.

4. Performance audit programme and scrutiny work update

The Committee considered a report by the Controller of Audit providing an update on the progress of performance audits; the *How Councils Work* series; and impact reports, as well giving an update on development of the performance audit rolling programme.

During discussion, the Committee agreed:

- To recommend to the Accounts Commission to consider further at its next Strategy Seminar the following:
  - The future of the *How Councils Work* series.
  - How to revisit and 'consolidate' as appropriate messages from previous work.
  - How to develop promotion and advocacy work in relation to Commission reports, involving bodies such as COSLA, SOLACE, Improvement Service, and professional associations.
  - How to most appropriately reflect policy context in published reports.

*Action: Secretary and Business Manager*

- That the marketing of the *Reshaping care for older people* report, due to be published on 30 January 2014, should be carefully considered in the context of ongoing work by shadow health and social care partnerships to develop implementation plans by summer 2014.
- To note advice from Christine May about a successful 'round table' event held with stakeholders and chaired by Douglas Sinclair on 21 November 2013 to promote the *Protecting consumers* report, which was published on 31 January 2013.
- That, further in this regard, the Controller of Audit consider the timing of the proposed impact report in this regard, with a view to allowing more time for progress to be made.
- That a similar consideration be given to the impact report for the Housing in Scotland report which was published on 11 July 2013.

- To note advice from the Controller of Audit that an impact report for the Health Inequalities report (which was published on 13 December 2012) would be produced in early 2014.

*Actions: Controller of Audit*

Thereafter the Committee agreed to note the updated report.

5. Performance audit: project brief – Self-directed support

The Committee considered a report by the Controller of Audit seeking approval on the approach to the performance audit on self-directed support as outlined in the project brief.

Following discussion, the Committee approved the approach outlined in the project brief and supporting issues and investigations matrix, subject to the audit team addressing the issues raised in discussion, in conjunction with the audit sponsors.

*Action: Controller of Audit*

6. Performance audit: emerging messages – Procurement in local government

The Committee considered a report by the Controller of Audit and additional information in a presentation from the audit team seeking consideration of emerging messages from the performance audit *Procurement in local government*.

Following discussion, the Committee agreed:

- To note advice from the Controller of Audit about the deliberations at, and outcome of, a meeting of the project advisory group that took place on 25 November 2013.
- To note advice from the Controller of Audit that the audit team remain in touch with the Scottish Government and Scottish Futures Trust.
- To note advice from the Controller of Audit that the audit team were anticipating receiving imminently the results of the 2013 Procurement Capability Assessment exercise, for inclusion in the final draft of the report.
- To note advice from the Controller of Audit that more work was to be done by the audit team in relation to comparative council spend on procurement services.
- That, for future audits, the timing of meetings of project advisory groups, particularly early meetings, should be considered appropriately to ensure opportunity for changes and refinement to the draft project brief before being considered by the Committee and Accounts Commission.
- That the ongoing review of auditing of Best Value should include how to feature the procurement issue.

*Action: Controller of Audit*

Thereafter the Committee endorsed the emerging messages and agreed that a draft audit report should be submitted to the Accounts Commission meeting in March prior to publication in April, subject to the audit team addressing the points raised in discussion, in conjunction with the audit sponsors, Sandy Cumming and Colin Peebles.

7. Any other business

The Chair asked the Committee to note that this would be the last meeting of the Committee attended by the Chair of the Accounts Commission John Baillie. He stated that he had appreciated the input and support of the Chair in the work of the Committee. He intimated his best wishes, and those of the Committee, to Mr Baillie for the future.

**ACCOUNTS COMMISSION**

**MEETING 12 DECEMBER 2013**

**REPORT BY CONTROLLER OF AUDIT**

**UPDATE REPORT**

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**Introduction**

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity in relation to the audit of local government.
2. It is intended to complement the intelligence reports to the Financial Audit and Assurance Committee, which provide a more detailed update on issues arising in local government.
3. The most recent such report was at the Committee meeting of 28 November.

**Local government issues**

4. I reported in October that all local authority accounts were signed off by the 30 September deadline.
5. In November I reported that annual audit reports had been finalised at 30 of Scotland's 32 local authorities by the 31 October deadline. The remaining two annual audit reports (East Dunbartonshire and City of Edinburgh) have now been finalised.
6. Matters arising from the audit are reported in the annual local government overview report and / or are the subject of separate reports as appropriate. The annual audit report on East Dunbartonshire Council is the subject of a separate report on today's agenda.

*Shared Risk Assessment*

7. The local government shared risk assessment process (SRA) for 2014/15 is now well under way. Local area network (LAN) lead and LAN member training has now concluded and 'round table meetings' are currently taking place. 27 of the 32 LANs will have met before the Christmas break.

*Scottish Parliament/ Scottish Government/ CoSLA/Improvement Service*

8. On 27 November the *Local Government and Regeneration Committee* considered and agreed a Committee Memorandum on the implications for local government of the Procurement Reform (Scotland) Bill. The committee also discussed its approach to its forthcoming evidence session with the Scottish Public Services Ombudsman on his 2011/12 annual report, which is scheduled for 11 December. The Committee then took evidence on the Delivery of Regeneration in Scotland from; George Black, Chief Executive, Glasgow City Council; John Mundell, Chief Executive, Inverclyde Council; Lindsay Freeland, Chief Executive, South Lanarkshire Council and Adrian Gillespie, Managing Director, Scottish Enterprise. The Committee also took evidence on the Model Code of Conduct for Members of Devolved Public Bodies from; John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Alison Douglas, Head of

Public Service Reform, and Gordon Quinn, Policy Officer Public Bodies Unit, Scottish Government. Papers for the meeting and the official report are available here:  
<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/29854.aspx>

9. The Cabinet Secretary for Education and Lifelong Learning has announced the outcome of consultation on the Amending the Schools (Consultation) (Scotland) Act 2010. The announcement covered six main areas, the presumption against closure of rural schools; provision of financial information on closure proposals; clarifying and expanding the role of Education Scotland in school closure proposals; the basis for determining school closure proposals - both on merits and process; the establishment of an independent referral mechanism to determine school closures; and the introduction of a 5 year moratorium between school closure proposals. COSLA president Councillor O'Neil is reported to have described the announcement as causing a lot of bad feelings within COSLA and characterised it as 'an issue of bad faith' and has stated 'it is for this reason that COSLA is in dispute with the Government on the rural commission.'
10. The *Improvement Service* is currently promoting its series of ten 'Elected Member Induction Notebooks' which cover a range of topics including corporate governance, ward responsibilities, the policy and legislative context and standards and ethics. The notebooks are available on the Improvement Service website:  
[http://www.improvementservice.org.uk/library/589-elected-members-development/866-elected-member-induction-notebooks-2012/13/view-category/?utm\\_source=newsletter1113&utm\\_medium=email&utm\\_campaign=em-induction](http://www.improvementservice.org.uk/library/589-elected-members-development/866-elected-member-induction-notebooks-2012/13/view-category/?utm_source=newsletter1113&utm_medium=email&utm_campaign=em-induction)

#### *Current activity in local government*

11. During November the leader of Midlothian Council, Councillor Bob Constable (SNP) resigned from his position. At a special meeting on 19 November he was replaced by Councillor Owen Thomson (SNP).
12. The Leader of Fife Council, Councillor Alex Rowley, has been selected as the Labour party candidate at the upcoming Cowdenbeath by-election.
13. Aberdeen City Council is currently recruiting to the post of Head of Finance.

#### **Other Agencies**

14. *The Audit Commission* published two reports in November. On 14 November it published 'Protecting the Public Purse 2013: Fighting Fraud against Local Government'. The report highlights that £178 million of fraud was detected by local government in England in the last year. Just over three quarters of that total was detected by one quarter of councils. On 28 November it published 'Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14'. The report shows that councils in England have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. The report also highlights that, with uncertainty ahead, councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people. Both reports are available on the Audit Commission website: <http://www.audit-commission.gov.uk/>

15. *The Northern Ireland Audit Office (NIAO)* published an overview report on 19 November. 'The exercise by local government auditors of their functions 2013' identifies areas of strength and areas for improvement within local councils in Northern Ireland. The full report is available on the NIAO website:

[http://www.niauditoffice.gov.uk/niao\\_local\\_government\\_audit\\_report\\_2013.pdf](http://www.niauditoffice.gov.uk/niao_local_government_audit_report_2013.pdf)

### **Conclusion**

16. The Commission is invited to consider and note this report.

**Fraser McKinlay  
Controller of Audit  
4 December 2013**



**ACCOUNTS COMMISSION**

**MEETING 12 DECEMBER 2013**

**COVER NOTE BY SECRETARY AND BUSINESS MANAGER**

**STATUTORY REPORT: FOLLOW-UP - THE HIGHLAND COUNCIL: CAITHNESS HEAT AND POWER**

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**Purpose**

1. The purpose of this report is to introduce a report by the Controller of Audit on The Highland Council: Caithness Heat and Power. The Commission is invited to consider the report and decide how it wishes to proceed.

**Background**

2. At its meeting on 15 July 2010, the Commission considered a report by the Controller of Audit on The Highland Council in respect of the Caithness Heat and Power project. At that meeting, in light of the issues raised in the report, the Commission agreed to direct the Controller of Audit to carry out further investigations.
3. Subsequently, at its meeting on 17 February 2011, the Commission considered a further report by the Controller of Audit. At that meeting, the Commission agreed to make findings, which were published on 2 March 2011. These are in Appendix 1.
4. The findings state that:

“The Commission notes that the external auditors will continue to keep matters under review and will report as appropriate. The Commission requests the Controller of Audit to provide it with a further report at an appropriate point, identifying for the Commission and the public the financial consequences of the project.”
5. The attached report in Appendix 2 is this further report by the Controller of Audit.

**The report**

6. The attached report to the Commission is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
7. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
  - a) the accounts of local authorities audited under the Act;
  - b) any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public.
  - c) the performance by a local authority of their statutory duties in relation to best value and community planning.
8. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.

**Procedure**

9. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:

- (a) direct the Controller of Audit to carry out further investigations;
  - (b) hold a hearing;
  - (c) state its findings.
10. If the Commission considers that it requires further information to proceed with its consideration of the report, it may direct the Controller of Audit to carry out further investigations. If the Commission is satisfied with the information which it has, it may wish to proceed to make findings unless members consider that a hearing is necessary.
11. The circumstances in which the Commission may wish to hold a hearing may include:
- where the Commission has serious concerns about the performance of a local authority as demonstrated in the audit report; or
  - where there is a strong difference of opinion between the Controller of Audit and the local authority.
12. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
13. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence presented in the report.

### **Conclusion**

14. The Commission is invited to:
- consider the report by the Controller of Audit on The Highland Council – Caithness Heat and Power; and
  - decide how it wishes to proceed.

**Paul Reilly**  
**Secretary and Business Manager**  
**4 December 2013**

## **APPENDIX 1:**

### **Accounts Commission Findings** **The Highland Council in respect of the Caithness Heat and Power project**

**2 March 2011**

Following consideration in June 2010 of a report by the Controller of Audit on The Highland Council in respect of the Caithness Heat and Power project, the Accounts Commission directed the Controller of Audit to undertake further investigations. The Commission accepts this report by the Controller of Audit as fulfilling that direction.

The Accounts Commission recognises that the Caithness Heat and Power project was established as the result of a commitment to deliver an innovative and sustainable energy system that was anticipated to bring benefits to the local community. The project appears to have gained strong local momentum and in 2004 the Council established the project as an arms-length community enterprise. The Commission notes that the Controller of Audit's report shows that the Council's total commitment to the project stands at around £13.8 million.

The Commission finds, however, that the Council failed to establish effective governance arrangements and clear lines of accountability for those officers involved in the project. The elected member on the Board of the project company was not sufficiently supported in his role - a role which required him to be clear about how to balance his responsibilities as a director of the arms-length company with the need to ensure that the Council had an accurate and comprehensive picture of the situation.

The Commission finds that there was a lack of appropriate risk management by the Council. This was the case from project inception in 2002 through to the formation in 2004 of the company set up to deliver the project and, crucially, at the point in 2006 when the company decided to procure gasification technology.

The Council did not monitor progress effectively and failed to ensure that appropriate control mechanisms were in place to manage potential risks. These should have been central to the oversight of the project, particularly as it involved exposure of significant public funds.

The failure to establish appropriate arrangements for governance of the Caithness Heat and Power project was a corporate failure by the Council. Ensuring that robust arrangements were in place to manage risks to the Council was particularly important given the way the Council's devolved structure operated during the early years of the project. Within that corporate responsibility, the Commission attaches considerable importance to the role that those officers who have specific statutory positions in councils have in promoting and enforcing good governance.

The Commission accepts the conclusions of the Controller of Audit that, in particular, the former chief executive and the director of finance should each have done more to ensure effective governance of the Caithness Heat and Power project in the period from its early years through to the time of reports to the Council in October 2006 and April 2007. This was particularly the case given the innovative nature of the project and the accompanying risks. The former chief executive was made aware of concerns but did not take sufficient action to ensure that these were effectively addressed. The director of finance should have pursued more vigorously the concerns that he had raised with the former chief executive. In these particular respects, the Commission finds that the performances of the former chief executive and the director of finance did not fulfil the responsibilities placed on them.

The Commission recognises that, since deciding in August 2008 to take ownership of the company, the Council has been addressing the difficulties in governance and financial stewardship and has taken action designed to avoid a similar position developing again.

The Commission notes that it is not, at this point, possible to determine how the project will progress or the extent of any loss of public funds. The Commission notes that the external auditors will continue to keep matters under review and will report as appropriate. The Commission requests the Controller of Audit to provide it with a further report at an appropriate point, identifying for the Commission and the public the financial consequences of the project.

# **The Highland Council - Caithness Heat and Power**

## **Follow-up statutory report**



Prepared for the Accounts Commission by the Controller of Audit  
November 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Introduction

1. The Controller of Audit reported to the Accounts Commission in June 2010<sup>1</sup> and February 2011<sup>2</sup> on The Highland Council's involvement in Caithness Heat and Power (CHaP), an innovative project aimed at providing heat and hot water to houses in Wick.
2. These reports considered events from the project's inception in 2002 through to 2008 when, faced with mounting financial and technical problems, the council decided to take control of the company it set up to deliver the project. The reports highlighted wide-ranging deficiencies in the council's involvement in the project, including serious weaknesses in governance and accountability.
3. When I reported in February 2011, the project was on-going and I was not in a position to identify overall costs or to quantify any losses the council may have incurred. In its findings<sup>3</sup>, the Accounts Commission requested that I provide a final report at an appropriate point, identifying for the Commission and the public the financial consequences of the project.
4. During 2012/13, the council reassessed the risks and financial assumptions relating to the CHaP project. Its decisions are reflected in the council's accounts for that year, the audit of which was completed in September 2013. Also in 2012/13, a private company started to provide a district heating system to some of the houses previously connected to the CHaP system. In view of these developments, I have decided that this is an appropriate point at which to fulfil the Commission's request for a final report on the financial position.

## The CHaP project

### Background

5. In 2002, the council initiated a project to deliver an innovative heating system in Wick. This was consistent with its commitment to support renewable energy and tackle fuel poverty. In 2004, the council approved the CHaP project and the formation of an arm's-length company to deliver it.
6. Initially, the project was to involve a wood-fuelled system that would produce heat and hot water to houses owned by the council, a housing association and private owners. A second phase would extend the service to other properties and, with the addition of specialist equipment, provide income from the sale of electricity to the national grid. In the event, the CHaP company decided in 2005 to combine these phases. The equipment was installed but by 2008 financial and technical difficulties became apparent and the project failed.

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<sup>1</sup> [http://www.audit-scotland.gov.uk/docs/local/2010/sr\\_100624\\_chaps.pdf](http://www.audit-scotland.gov.uk/docs/local/2010/sr_100624_chaps.pdf)

<sup>2</sup> [http://www.audit-scotland.gov.uk/docs/local/2010/sr\\_110201\\_chap\\_followup.pdf](http://www.audit-scotland.gov.uk/docs/local/2010/sr_110201_chap_followup.pdf)

<sup>3</sup> [http://www.audit-scotland.gov.uk/docs/local/2010/sr\\_110302\\_chap\\_findings.pdf](http://www.audit-scotland.gov.uk/docs/local/2010/sr_110302_chap_findings.pdf)

7. Between project approval in October 2004 and May 2008, when the scale of the problems became clear, only three reports were made to the council, in each case when the CHaP company was urgently seeking funds.
8. Overall, my report in February 2011 concluded that there was a lack of a co-ordinated, corporate response to governance and ultimately the project, service users and council finances were left exposed. At that time, the council estimated that its total commitment, including provisions, was £13.8 million.

## Developments since 2008

9. A summary of key events since 2008 is provided in Exhibit 1. The following paragraphs in this section of the report summarise the main developments at each stage.

### Exhibit 1 - KEY EVENTS SINCE 2008

August 2008	Council takes control of the CHaP company
October 2008	CHaP company arranges equipment trials by expert advisors
December 2008	Expert advisors report that system is not operational
May 2009	Council funds procurement exercise to appoint provider
April 2010	Preferred bidder appointed. Ignis appointed reserve bidder.
September 2010	Preferred bidder status terminated. Negotiations with Ignis start.
May 2011	Negotiations with Ignis cease. Council commences reinstatement.
November 2011	Ignis purchases equipment from the CHaP company
December 2011	CHaP company's remaining assets and liabilities transfer to council
May 2012	Ignis takes over district heating system and starts supply

10. In June 2008, the council considered a report from officers advising of the need to cap its financial support for the CHaP company. In August 2008, the council considered the costs, benefits and risks associated with options to protect its interests and agreed to take control of the CHaP company.
11. In October 2008, the CHaP company instructed technical advisors to test the existing combined heat and power system, which included the specialist equipment needed to generate electricity. In December 2008, the technical advisors reported that the trial had not achieved target outputs and that the equipment was unreliable.



12. In May 2009, the council considered the following options:
  - CHaP company or the council or a private company providing a sustainable district heating system
  - CHaP company or the council reinstating conventional heating systems
  - CHaP company continuing to provide a district heating system using an oil-fired boiler.
13. The council decided to seek bids from private contractors to run a sustainable district heating system. A preferred bidder was appointed in April 2010, but it was unable to provide the assurances required. The reserve bidder, Ignis Energy Ltd (Ignis), accepted preferred bidder status, but it too was unable to meet the council's conditions. The council terminated the procurement process in May 2011 and decided to dispose of the CHaP system and implement a reinstatement strategy.
14. At key stages between May 2009 and May 2011 the council considered the option to reinstate conventional heating systems, but chose to pursue a conclusion to the procurement exercise. The time taken reflects the complexity of the negotiations with bidders and the work required to investigate whether they could satisfy the council's conditions. The council was also keen to ensure proper governance of the process.
15. The reinstatement strategy agreed in May 2011 involved the installation of electric heating and the auction of the CHaP company's equipment. The auction, which was run by specialists with experience of disposing of equipment of this type, took place in November 2011. Ignis bought the equipment needed to provide a district heating system. The council is satisfied that, in the circumstances, the best prices were achieved from the auction.
16. Following public consultation and meetings, householders connected to the CHaP system were requested to choose whether to accept the council's offer to install electric heating or to enter into a contract with Ignis for the supply of heat and hot water. Exhibit 2 summarises the outcome as regards the 246 houses initially connected to CHaP.

#### Exhibit 2 - PROPERTIES CONNECTED TO THE CHaP SYSTEM

	<b>Initially connected to CHaP</b>	<b>Reinstated by council</b>	<b>Contracted to Ignis</b>	<b>Demolished</b>
Council houses	<b>163</b>	54	109	0
Private owners	<b>18</b>	2	16	0
Housing associations	<b>65</b>	14	39	12
<b>TOTAL</b>	<b>246</b>	<b>70</b>	<b>164</b>	<b>12</b>

17. The remaining assets and liabilities of the CHaP company were transferred to the council in December 2011, at which point the CHaP company ceased trading. In May 2012, Ignis started its district heating system and, since then, it has been supplying heat and hot water to its customers. Until the transfer to Ignis, the CHaP company, and then the council, supplied houses connected to the CHaP system using an oil-fired boiler. The system operated by Ignis uses sustainable woodchip.

## Governance

18. When the council took control of the CHaP company in August 2008<sup>4</sup>, it appointed six elected members as company directors who formed the company board. The board made decisions on the day-to-day running of the CHaP company, supported by senior officers of the council. The council also established a project team of senior officers from relevant departments who provided advice on technical, financial and legal matters.
19. The council maintained close oversight of the project from 2008. In contrast to the position before then, it considered regular reports on progress. When decisions were required, reports contained options and summaries of the associated costs, benefits and risks.
20. The Head of Internal Audit and Risk Management provided advice to the CHaP company on certain aspects, e.g. the sale of equipment, in the period following the council's decision to take control of the CHaP company. However, having been requested by the council to undertake an audit of the project, he recognised the need to be independent of operational aspects. His detailed, desk-based review highlighted fundamental failings in the way in which the project was initiated and authorised, and in risk management.
21. In response to the internal audit report, the council approved an action plan in March 2010 which set out steps aimed at preventing similar situations. Actions included training and awareness sessions for elected members and officers to highlight the implications of weak governance and to share the lessons learned more generally. In April 2012 internal audit reported to the council that the response to the action plan had been positive overall.
22. Internal audit used the Accounts Commission's 'How Councils Work' report on ALEOs<sup>5</sup> to review governance arrangements in council ALEOs. Internal audit's report to the Audit and Scrutiny Committee in November 2013 concluded that the council's larger ALEOs have well developed governance arrangements in place and largely comply with good practice set out in the Commission's report. Internal audit also identified scope to improve oversight of ALEOs, particularly in relation to those that were set up a number of years ago, to ensure compliance with current guidance. An action plan aimed at securing further improvements is in place.

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<sup>4</sup> CHaP Limited was formed in December 2004 as a company limited by guarantee, with three members: Inverhouse Distillers, the Pulteneytown People's Project and The Highland Council. In August 2008, with the agreement of the other parties, the council became the sole member of CHaP Limited.

<sup>5</sup> How councils work: an improvement series for councillors and officers 'Arm's-length external organisations (ALEOs): are you getting it right?', Accounts Commission, June 2011  
[http://www.audit-scotland.gov.uk/docs/local/2011/nr\\_110616\\_aleos.pdf](http://www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf)

# The cost of the CHaP project

23. Exhibit 3 summarises the financial consequences of the council's involvement in the CHaP project. It reflects:
- the estimated commitment at the time of my report in February 2011 (£13.8 million)
  - the estimated costs of reinstatement of traditional heating systems (£1.6 million), which the council calculated subsequent to my report in February 2011.
  - the main differences between the overall estimated cost of £15.4 million (£13.8 million plus £1.6 million) and the final cost to the council (£11.5 million).

## Exhibit 3 - COUNCIL EXPENDITURE ON THE CHaP PROJECT

	Estimate in Feb 2011 (£m)	Actual at Sept 2013 (£m)	Variance (£m)
Committed in November 2005	1.6	1.6	0.0
Advances to CHaP	5.0	5.3	0.3
Premature redemption of lease	4.0	3.4	(0.6)
Procurement costs	0.3	0.3	0.0
Other (net) costs	0	0.4	0.4
Provision for repayment of grants	2.9	0	(2.9)
<b>PROJECT EXPENDITURE</b>	<b>13.8</b>	<b>11.0</b>	<b>(2.8)</b>
Reinstatement costs	1.6	0.5	(1.1)
<b>TOTAL EXPENDITURE</b>	<b>15.4</b>	<b>11.5</b>	<b>(3.9)</b>

24. Total expenditure reflects external costs and does not include the time-cost of senior officers working on the project. The council continues to pursue amounts owed by former customers of the CHaP company, amounting to about £0.2 million, recovery of which would reduce the total expenditure.
25. There are three main reasons why the total cost to the council is £3.9 million less than previous estimates:
- The council informed the organisation that had provided sustainable energy related grants to the CHaP project about the changed circumstances, and recognised the potential for repayment by setting up a £2.9 million provision in its accounts. Based on the council's assessment of the likelihood of repayment, it decided to remove the

provision. The external auditors considered this during the audit of the council's 2012/13 accounts and, having reviewed the related documentation, concurred with the council's assessment and the accounting treatment.

- The cost of installation of electric heating in houses where householders opted for reinstatement was £1.1 million lower than forecast. This was because 164 householders decided to enter into contracts with Ignis.
  - The amount due on redemption of a lease taken out to finance the purchase of equipment was £0.6 million less than anticipated because of the recovery of VAT.
26. The council has an on-going obligation to council house tenants, and would need to provide an alternative source of heat and hot water to the 109 council-owned properties currently connected to the district heating system if for any reason the system is withdrawn. The council has no legal obligation to houses owned by registered social landlords or to private owners.
27. The council's Director of Finance reported the costs incurred on the CHaP project to the council's Audit and Scrutiny Committee in November 2013. His report shows the costs as at September 2013; the figures are consistent with those set out in Exhibit 3 of this report. The Director of Finance's report also identifies the risk to the council should the supplier discontinue its service to customers in council houses. The council currently assesses this risk as low but acknowledges that should the risk crystallise the council would have to meet the costs of reinstating heating supplies in council houses. The Director of Finance's report notes that to mitigate or partly mitigate the cost of this risk, £0.4 million is earmarked within the council's balances. This will be reassessed at the end of the current financial year.

## Conclusions

28. The primary purpose of this report is to meet the Accounts Commission's request for a final report identifying the financial consequences of the council's involvement in the CHaP project. Based on recent audit work, I conclude that the total cost to the council is £11.5 million. If for any reason the district heating system currently operating is withdrawn, the council will have responsibilities to tenants in council-owned houses. If it is required to reinstate traditional heating, the associated costs would add to that total.
29. Since 2008, the council has worked to minimise costs and to secure the best possible outcome for households connected to the CHaP system. The total cost of £11.5 million is £3.9 million (or about 25 per cent) less than estimated. Also, because the district heating system uses woodchip and provides heat and hot water at relatively low prices, the council has retrieved a contribution to its initial renewable energy and fuel poverty related objectives. However, as a result of its own actions between 2002 and 2008 and, in particular, the lack of good governance, the council has not secured value for money from the substantial amount of public money spent on this project.

30. It is clear that the council has taken this seriously and continues to approach matters in an open and transparent manner. Over four years, from August 2008 (when the council took control of the CHaP company) to May 2012 (when houses were reinstated or connected to the current district heating system) the council received regular reports and considered options with related information on costs, benefits and risks. In the circumstances, and in the face of an urgent need to protect its financial position and service users, it was appropriate to involve senior officers in supporting the CHaP company and advising the council.
31. The council also shows commitment to building on the learning from its experience with the CHaP project and continues to develop its approach to dealing with ALEOs and similar funding situations. Discussions with council officers indicate that the council is aware of the financial and reputational issues which can flow from poor decisions and weak oversight and that elected members now take a more robust approach when faced with funding requests from external organisations.
32. This and the two preceding Controller of Audit reports cover a range of matters concerning governance and accountability when councils are involved in ALEOs. This includes fundamental issues relating to the roles and responsibilities of elected members and senior officers. Taken together, the reports on The Highland Council's involvement in the CHaP project demonstrate the serious financial consequences of weak governance in dealings with ALEOs.

**ACCOUNTS COMMISSION**

**MEETING 12 DECEMBER 2013**

**COVER NOTE BY SECRETARY AND BUSINESS MANAGER**

**STATUTORY REPORT: EAST DUNBARTONSHIRE COUNCIL**

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**Purpose**

1. The purpose of this report is to introduce a report by the Controller of Audit on East Dunbartonshire Council. The Commission is invited to consider the report and decide how it wishes to proceed.

**The report**

2. The attached report to the Commission is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
3. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
  - a) the accounts of local authorities audited under the Act;
  - b) any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public.
  - c) the performance by a local authority of their statutory duties in relation to best value and community planning.
4. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.

**Procedure**

5. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:
  - (a) direct the Controller of Audit to carry out further investigations;
  - (b) hold a hearing;
  - (c) state its findings.
6. If the Commission considers that it requires further information to proceed with its consideration of the report, it may direct the Controller of Audit to carry out further investigations. If the Commission is satisfied with the information which it has, it may wish to proceed to make findings unless members consider that a hearing is necessary.
7. The circumstances in which the Commission may wish to hold a hearing may include:
  - where the Commission has serious concerns about the performance of a local authority as demonstrated in the audit report; or
  - where there is a strong difference of opinion between the Controller of Audit and the local authority.
8. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.

9. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence presented in the report.

### **Conclusion**

10. The Commission is invited to:
  - consider the report by the Controller of Audit on East Dunbartonshire Council; and
  - decide how it wishes to proceed.

**Paul Reilly**  
**Secretary and Business Manager**  
**4 December 2013**

**REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION UNDER  
SECTION 102(1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

**THE 2012/13 AUDIT OF EAST DUNBARTONSHIRE COUNCIL**

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**Purpose**

1. The purpose of this report is to bring the Commission's attention to the 2012/13 annual audit report for East Dunbartonshire Council. The annual audit report includes details of the outcome of Best Value audit work carried out in recent months at the council.
2. The Commission is invited to consider the report.

**Background**

3. At its meeting on 20 June 2013 the Commission considered a report on the Best Value audit activity flowing from the shared risk assessment (SRA) process.
4. The report reflected on the experience of undertaking and reporting targeted Best Value audit work since the introduction of SRA. The Commission agreed that in future the reporting of all Best Value audit work should be through the annual audit report to elected members of the council and the Controller of Audit, or through statutory reporting from the Controller of Audit to the Commission, or both.
5. In relation to East Dunbartonshire Council, the June report noted that the 2013-16 Assurance and Improvement Plan (AIP) highlighted some areas of scrutiny risk. As a result, the council's AIP included targeted Best Value work in four areas:
  - Asset management
  - Procurement
  - Workforce management
  - Performance information and management.
6. I recently received the annual audit report for East Dunbartonshire Council, which outlines the results of the annual financial audit and the targeted Best Value audit work. This provides a single, overall picture of the progress that the council has achieved in managing its resources, the improvement still needed and the challenges it faces in future.

**Annual audit report 2012/13**

7. The auditor's annual audit report on East Dunbartonshire Council is attached as Appendix 1. The report was considered by the council on 28 November 2013. In due course, and in accordance with usual practice, it will be published on Audit Scotland's website along with the annual audit reports for all other local authorities.
8. I would draw the Commission's attention to the following points:
  - The auditor's opinion on the financial statements is unqualified. (Paragraph 13).
  - Reconciliations and internal controls. The auditor identifies financial control issues. (Paragraph 30). The council's Director of Finance and Shared Services has indicated that improvements will be made. (Paragraph 31).
  - Reserves. The council's financial reserves are low compared with other councils, with associated risks to financial sustainability. (Paragraph 52).



- Asset management. The council has refined its approach to asset planning to reflect better the current financial environment and to support strategic objectives. (Paragraph 70). It has experienced recent and significant changes in capital projects and is reassessing its overall asset plan. (Paragraph 75). The council also recognises the need to improve the information it provides to elected members to support debate, scrutiny and decision-making on assets. (Paragraph 76).
  - Procurement. The council's 2012 procurement capability assessment was the lowest of any Scottish council. While the council is taking steps to address this, it faces significant challenges to deliver the necessary improvements within its planned timescale. (Paragraph 81).
  - Workforce management. The council has agreed a new workforce strategy and has taken a positive approach to engaging with staff. (Paragraph 87). Despite relatively large staff reductions to date, the council aims to reduce its workforce further. This is taking place alongside ongoing, inter-related changes in the financial position and in service delivery. (Paragraphs 88 and 89). The council has made significant changes to its senior management structure to reduce costs, but it is too early to assess the effect on organisational capacity and resilience. (Paragraph 85).
  - Performance information and management. The council recognises that there is scope to continue to improve performance information and to focus more clearly on the action it is taking to improve performance. (Paragraphs 143 and 144).
9. In relation to the four areas identified for targeted Best Value work, the council has plans in place to address areas that need to improve but it is too early to assess their impact or effectiveness. These areas are central to the achievement of Best Value and present significant challenges that will require strong leadership and management.
10. This points to the need for further Best Value audit work and reporting to the Commission in due course. Discussions with scrutiny partners during this year's SRA process will influence our approach and we will ensure Best Value audit work sits as part of a balanced programme of scrutiny work at the council during 2014/15.

## **Conclusion**

11. The Commission is invited to consider this report.

**Fraser McKinlay**  
**Controller of Audit**  
**4 December 2013**

# East Dunbartonshire Council

## Annual report on the 2012/13 audit



Prepared for Members of East Dunbartonshire Council and the Controller of Audit  
November 2013

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

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# Key messages

## 2012/13 Key Facts

### Introduction

This report summarises the findings from our 2012/13 financial audit of East Dunbartonshire Council. As part of the audit we assessed the key financial and strategic risks faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance.

The report also summarises the findings from our targeted Best Value audit work. The council's 2013-16 assurance and improvement plan<sup>1</sup> highlighted some areas of scrutiny risk and uncertainties in: performance information and management; asset management; workforce management; and procurement. These are important factors in supporting continuous improvement.

This report therefore provides an overall picture of the progress which the council has achieved in managing its resources and the challenges it faces in future.

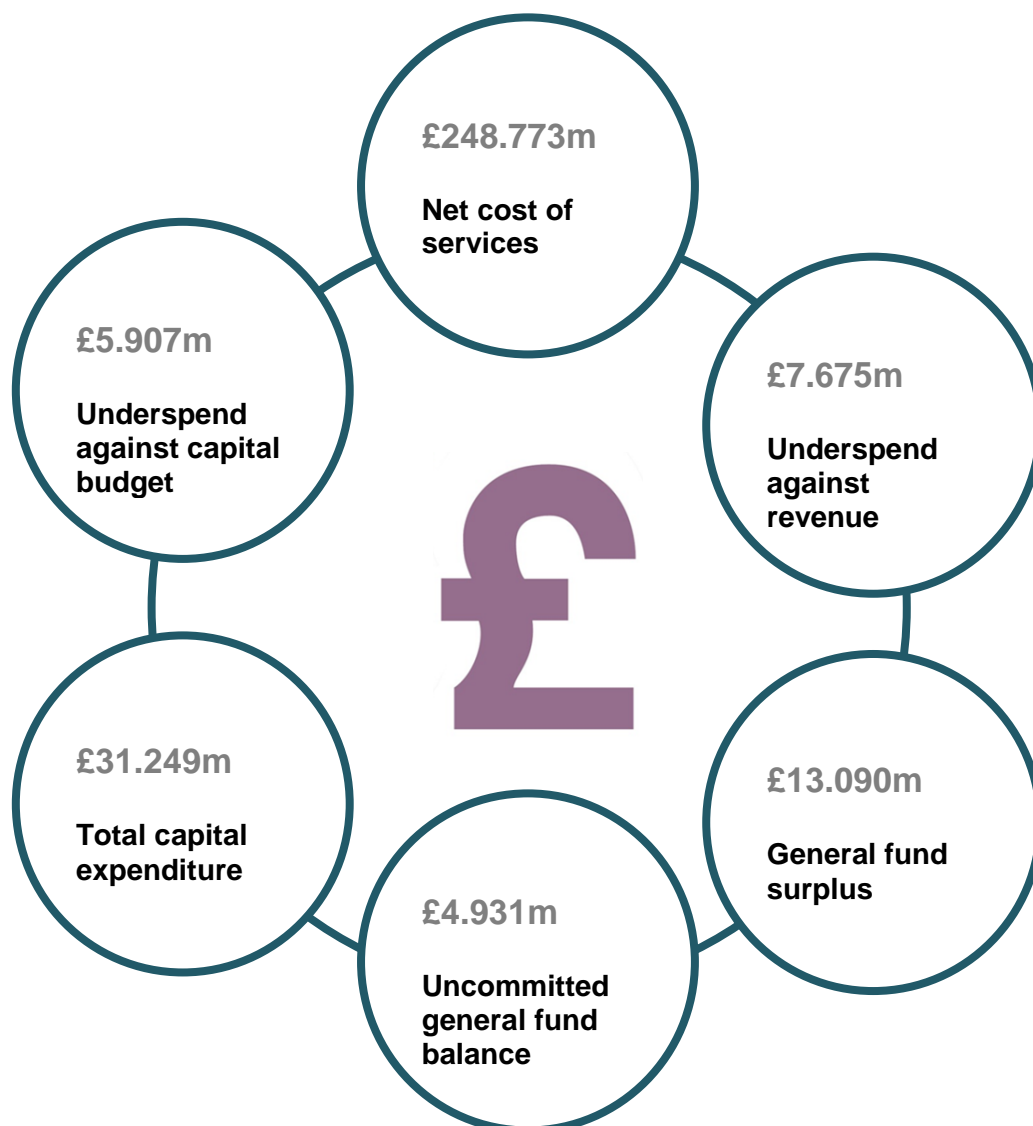
### Financial statements

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

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<sup>1</sup> For each council in Scotland, a shared risk assessment is carried out by a local area network made up of the main local government audit and inspection agencies. This results in an assurance and improvement plan (AIP) which sets out planned scrutiny activity over the next three years.

## Financial results



## Use of resources

The council reported favourable financial results in 2012/13. Spending was contained within budgets. The general fund, which accounts for most of the council's business activity, recorded an in year surplus of £2.091 million. Despite this, the council's uncommitted general fund balance of £4.931 million remains low in comparison to many other Scottish councils.

The council faces financial challenges from 2014/15 and plans to achieve savings through efficiencies in procurement and charging, coupled with the implementation of new organisational planning arrangements and its transformation programme. The current organisational delivery model was approved by the council in February 2013 and builds on the previous approach. Within that, the transformation programme sets out how organisational change, efficiencies and improvements will be achieved. However, key elements of the transformation programme such as internal shared services and locality based service delivery are scheduled for implementation from late 2013 onwards. Consequently, most of the potential benefits are yet to be realised.

The council has refined its approach to asset management to reflect strategic priorities and financial constraints. However, recent and significant changes to projects forming part of the capital programme mean that the council is reviewing its capital plans and related financing. A new corporate asset management plan will be considered by the council in December 2013. The council has also recently reassessed the quality of information provided to elected members to assist their consideration of asset-related matters e.g. the purchase and disposal of land and buildings. It is taking steps to ensure better information on options, costs and risks is available to elected members to support debate, scrutiny and decision-making.

The council needs to modernise its procurement practice to maximise value for money and to make efficiency savings. Its procurement capability assessment score has deteriorated and is now the lowest of all Scottish councils. While there are plans to make the improvements required within 12 months, the council faces significant challenges in achieving this due to the structural and cultural change needed.

As part its response to budget pressures, the council plans to further reduce its workforce by 250 posts by 2017. It is managing this through the workforce strategy element of its transformation programme. The pace of changes to the workforce is substantial and the council needs to ensure it engages effectively with all stakeholders on its proposals. It also needs to carefully manage inter-related changes in its financial position and service delivery through, for example, its community hubs initiative to achieve its workforce goals.

The council made significant changes to its senior management structure as part of the budget setting process in February 2013. This is designed to reduce costs. It is, as yet, too early to assess the effect on organisational capacity and resilience.

## Governance and accountability

During the audit we identified certain control areas where procedures require to be strengthened. These relate to internal control processes and year end closedown procedures for a number of the council's key financial systems. The council needs to develop these procedures further during 2013/14 to ensure that accurate financial management is clearly and timeously demonstrated. It is concerning that we reported issues with the same financial systems in last year's annual audit report.

The council monitors and manages its activity through a system of strategic service committees. Scrutiny functions are discharged by the audit and risk management sub-committee as well as three scrutiny panels that monitor the performance of council services. In June 2013, the council agreed revised arrangements for the functioning of scrutiny panels to align with changes to its organisational structure. We will continue to monitor the effectiveness of these arrangements.

As part of these changes, in June 2013 the leader of the opposition was appointed as convener of the audit and risk management sub-committee. This followed a 13 month period where there were no nominations from opposition members to chair the sub-committee. This is a positive development in governance arrangements and brings the council into line with recommended good practice.

## Performance information

The council monitors and reports a broad range of performance information. However there is scope for this information to be clearer, better targeted and more robust. The council is improving the methods for reporting information to elected members and other stakeholders and recognises the need to focus more clearly on using performance information to support improvement.

## Outlook

Scotland's public bodies will continue to face increasing demand and cost pressures for the foreseeable future. East Dunbartonshire and other councils will have to make increasingly difficult decisions to deliver its priorities and balance budgets in future years. This is reflected in the council's 2013/14 budget which includes savings plans totalling £1.8 million.

Looking further ahead, the council has projected the need for cumulative revenue budget savings of approximately £20 million over the four year period from 2014/15 to 2017/18. The council's uncommitted reserves may be required to meet future one-off costs and cannot be relied upon to cover budget shortfalls. The council aims to achieve recurring savings through its transformation programme to address future funding gaps.

Alongside its financial plans, the council has plans in place to manage its workforce, assets and procurement. It is too early to assess the full effectiveness of the council's wide-ranging improvement programme. The scale of the challenge it faces is substantial, and the council needs to ensure it has the right level of staff skills and capacity to support improvement.

In addition to the challenges of managing resources and service improvements, there is also the public reform agenda, particularly welfare reform, which is resulting in the biggest change in the UK welfare system in 60 years. There are early indications that welfare reform is leading to increased rent arrears while research groups such as the Rowntree Foundation are warning of increasing poverty and homelessness amongst the poorer sections of society.

The co-operation and assistance given to us by officers during the audit is gratefully acknowledged.



# Introduction

1. This report is the summary of our findings from the 2012/13 audit of East Dunbartonshire Council and the targeted Best Value audit work identified in the council's assurance and improvement plan. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising from the audit work. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit work. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Elected members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to elected members and the Controller of Audit and should form a key part of discussions with the audit committee, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and the Commission provides a briefing based on the report to the Public Audit Committee and the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The council is also responsible for securing Best Value.<sup>2</sup> The auditor is responsible for auditing and expressing an opinion on the financial statements and for assessing progress against the council's Best Value responsibilities. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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<sup>2</sup> As defined in the Local Government in Scotland Act 2003

7. The local area network (LAN) of scrutiny partners for the council, conducted a shared risk assessment (SRA) in November 2012, and produced an assurance and improvement plan (AIP) covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the council on 2 May 2013 for information and consideration by elected members.
8. The AIP identified four corporate areas to be subject to targeted Best Value audit work:
  - Performance information and management;
  - Asset management;
  - Workforce management; and
  - Procurement.
9. The targeted Best Value audit work was carried out in July and August 2013. The conclusions from the targeted Best Value audit work are included in this annual audit report to provide an overall picture of the progress the council has achieved in managing its resources and the challenges it faces in future.

# Financial statements

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

## Audit opinion

13. We have given an unqualified opinion that the financial statements of East Dunbartonshire Council for 2012/13 give a true and fair view of the state of affairs of the council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.

## Legality

14. Through our planned audit work we consider the legality of the council's financial transactions. In addition the director of finance and shared services has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Going concern and group accounts

15. The council has prepared the financial statements on the assumption that both the council and its group can continue to operate as a going concern in future.
16. 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. For the purpose of consolidation and incorporation within the group accounts the council has two subsidiary organisations (Mugdock Country Park Joint Management Committee and East Dunbartonshire Leisure and Culture Trust Ltd) and five associates (Strathclyde Police Joint Board, Strathclyde Fire and Rescue Joint Board, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme Joint Committee, and Dunbartonshire and Argyll and Bute Valuation Joint Board).

17. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce both reserves and net assets by £196.560 million. The group balance sheet as at 31 March 2013 discloses net assets of £127.836 million (2011/12 £190.831 million).
18. Police and Fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. The group balance sheet position will improve, in future years, as the council will no longer be required to accrue the pension liabilities of police and fire into its group accounts. By way of illustration, the group balance sheet as at 31 March 2013, without the inclusion of the Strathclyde police and fire financial statements, would disclose an excess of assets over liabilities of £332.334 million.

### Statement on the System of Internal Financial Control

19. As part of our annual audit we review the disclosures made in the Statement on the System of Internal Financial Control (SSIFC), included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement. We are satisfied that the disclosures in the SSIFC comply with The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
20. The SSIFC refers in outline to a number of areas where improvements are being progressed:
  - implementation of an action plan to address weaknesses in stock count controls
  - the development of additional key controls to support the reconciliation of operational systems to the financial ledger
  - integration of human resources and payroll systems to address the risks associated with separate systems and the reconciliation of underlying information.
21. The CIPFA publication *Delivering Good Governance in Local Government* recommends a structure to help local authorities develop and maintain a local code of governance and discharge accountability for the proper conduct of public business. It recommends the publication of an annual governance statement to make the adopted practice open and explicit. The council included an annual governance statement and SSIFC in last year's financial statements. However, following a review by the audit and risk manager it was concluded that the council's processes did not meet the requirements of an annual governance statement and therefore the statement was not included in the 2012/13 financial statements. The council should consider taking measures to reinstate an annual governance statement in 2013/14.

### Remuneration report

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

## Accounting issues

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

## Accounts submission

24. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. A good quality working papers package was made available to our audit team prior to this date. However a number of year end reconciliations of key financial systems within revenues and benefits were not provided until the end of August 2013. Despite this we were able us to conclude the audit and certify the financial statements prior to the target date of 30 September 2013. The financial statements are now available for presentation to elected members and publication.

## Presentational and monetary adjustments to the unaudited accounts

25. A small number of presentational and monetary adjustments were identified within the unaudited financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. As is normal practice the effect of the monetary adjustments was included in our *ISA 260 - Report to those charged with governance on the 2012/13 audit* submitted to the audit and risk management sub-committee on 23 September 2013. As a result there were no unadjusted misstatements requiring to be brought to the attention of the audit and risk management sub-committee.

## Pension costs

26. East Dunbartonshire Council is a member of Strathclyde Pension Fund which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation as at 31 March 2013 provided by the scheme's actuaries increased the council's share of the deficit from £85.1 million last year to £108.7 million this year.
27. It is important to note however that this additional liability does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

## Equal pay

28. At 31 March 2013, the council had a provision of £3.9 million in respect of 461 outstanding equal pay compensation claims. This included a number of duplicate and triplicate claims the validity of which has still to be assessed. We have been advised that the council is not likely to be in a position to settle any cases for some time, therefore the source information for estimating the likely value of claims is limited at present. Overall we have taken the view that

the council's approach, given the limited information available to it at this point, is not unreasonable. The council is continuing to work towards reaching settlement with employees, and thereby to refine its estimates of the likely liabilities.

29. The council acknowledges that it remains possible that further equal pay claims may be lodged by employees, but has not created an additional provision due to the uncertainty around future claims and tribunal outcomes. The council has disclosed an unquantified contingent liability in the financial statements in respect of future unknown equal pay claims.

## Reconciliations and internal control processes

30. During the course of the audit we identified a number of issues in relation to the council's internal control processes and year end closedown procedures. These had also been highlighted in the prior year. These include:
- The non domestic rates, council tax, cash imprests and debtors systems have not been reconciled to the financial ledger on a regular and timely basis throughout the year. Year end reconciliations were not provided until the end of August and these included unidentified variances totalling £0.031 million;
  - Issues were identified in relation to the accuracy and completeness of stock records completed for the year-end stock take;
  - The council made overpayments of approximately £0.1 million to care homes for providing personal care. To a degree, the payment pattern for these transactions, which involves payment in advance, is susceptible to overpayment as residents' situations may change suddenly. The council was already aware of the overpayments that arose, is pursuing recovery, and is considering its arrangements going forward.
31. These issues have arisen mainly due to staff absences but also because of limitations in the council's current systems. The council took measures to address the control issues to ensure the accuracy of the reported values in the financial statements. We have received assurances from the Director of Finance and Shared Services that procedures will be improved in 2013/14. The council should undertake this action as a priority.

**Refer to Action Point No. 1**

## Council tax rebanding

32. Towards the end of the audit an emerging issue was brought to our attention by council staff. This relates to the potential rebanding of around 1,000 houses within the council's area. A number of successful appeals indicate that the financial implications for the council are potentially significant. Given the council's relatively low level of uncommitted reserves, meeting the costs of the rebanding could have a significant impact on the delivery of council services. The council has disclosed a contingent liability in the financial statements for the council tax rebanding and disclosed it as an event after the balance sheet date. Dunbartonshire and Argyll and Bute Valuation Joint Board is planning to conduct a survey of the affected properties to assess the appropriateness of their banding.

## Annual leave accrual

33. The council has reflected a material prior year adjustment to the financial statements of £3.978 million. This arises because in 2011/12 the council calculated its annual leave accrual in relation to teachers based on the revised pay and conditions set at the Scottish Negotiating Committee for Teachers in May 2011. However due to difficulties in implementing the proposed changes to teachers' pay and conditions, the council has reverted back to the previous basis for calculating the accrual. The current annual leave calculation reflects the actual teachers' working pattern in the council area. The council plans to revisit the basis of the annual leave accrual once the difficulties in implementing the proposed changes to teachers' pay and conditions have been resolved.

## Asset decommissioning costs

34. In April 2013, Scottish Coal Company Limited which operated a number of open cast mine sites across Scotland, went into liquidation. On 11 July 2013, the Court of Session in Edinburgh ruled that the liquidated company could abandon the sites and therefore was not liable for the cost of restoring these sites to their original condition. As a result of this ruling, potential costs may eventually fall to the relevant public sector bodies including Scottish Environmental Protection Agency, Scottish Natural Heritage, East Ayrshire Council and South Lanarkshire Council. The estimated cost of restoration of the sites at September 2013 was £161 million.
35. East Dunbartonshire Council has several landfill sites located within the local area, none of which it operates. Based on the Court of Session ruling the council could be liable for the costs of restoring these sites to their original condition. The council believes that this risk is mitigated by conditions attached to the operation of the sites. For this reason it does not believe they have a requirement to make provision for asset decommissioning costs.

## Whole of government accounts

36. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack to support its 2012/13 WGA return to the Scottish Government prior to the deadline of 30 August 2013. This has now been audited and the audited return submitted.

## Outlook

37. A full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations. In 2013/14 we will require to audit and report on eight charities.
38. The Assistant Auditor General (AAG) wrote out to Local Government Directors of Finance in June 2013 advising them of these new arrangements and the Accounts Commission's

decision to appoint the auditor of each council as the auditor of its relevant charities. This is likely to result in an increase in audit costs and will form part of the fee discussions as part of the 2013/14 audit planning process.

39. Also, the AAG has indicated that councils that have not made any progress in reducing the number of registered charities using the reorganisation provisions of the charities legislation might want to consider doing so in order to reduce the number of separate audits required. Furthermore, the AAG also suggested that councils might also like to consider whether they can use the connected charities provisions in the regulations to reduce the number of separate reports and accounts required to be submitted to OSCR.
40. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 local authorities, if they do not already do so, will require an audit committee or similar to approve the accounts of charities by 30 September 2014.
41. The Scottish Government has been carrying out a consultation on the amendment of the Local Authority Accounts (Scotland) Regulations 1985, to be effective from 2013/14. Possible changes could affect the period of public notice for accounts, signing and consideration of audited accounts, and their publication. We will liaise with the council as and when these developments emerge.



# Use of resources

42. The Local Government in Scotland Act 2003 placed a statutory duty of Best Value on local authorities. Also, local authorities are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based. This year we co-ordinated our financial audit and targeted Best Value audit work to give an overall view on the council's progress in managing its resources and the challenges it faces.

## Financial results

43. In 2012/13, as recorded in the comprehensive income and expenditure statement, the council spent £310.732 million on the provision of public services and had an accounting deficit of £28.680 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. These adjustments resulted in an increase in the general fund balance of £2.091 million.

## Budgetary control

44. The council reported net service expenditure of £235.201 million in 2012/13, representing a total underspend of £7.634 million (3.1 per cent) against service budgets.
45. Key factors contributing to the overall underspend were as follows:
- Education reported an underspend of £2.344 million which resulted from savings in staffing budgets and lower than expected payments to private providers for after school care. The remaining £0.634 million related to underspends across a number of budget headings which will be carried forward to 2013/14.
  - The Roads and neighbourhood underspend was £1.353 million. This was due to the service receiving additional income from recharges for work carried out on capital projects. A number of capital projects not in the original programme of works were undertaken in the last three months of the financial year resulting in unanticipated income for the service.
  - An underspend of £3.802 million was reported for miscellaneous services and joint boards due to unspent contingency budget and the return of £0.830 million of Police and Fire Board reserves to constituent councils.
46. The Housing Revenue Account (HRA) reported an in year surplus of £0.071 million. This resulted from additional income from a scheme to retain income generated from a reduction in council tax discount on long term empty properties and second homes. The income will be earmarked for affordable housing. The closing surplus for the HRA was £1.554 million, with £0.588 million earmarked, leaving a contingency balance of £0.966 million.

## Financial position

47. The general fund, which accounts for most of the council's business activity, recorded a net surplus for 2012/13 of £2.091 million, increasing the general fund balance to £13.090 million as at 31 March 2013. This balance is made up of earmarked commitments of £8.159 million leaving an uncommitted surplus of £4.931 million, which has increased from £3.043 million in 2011/12. This maintains the council's prudential reserve of £2.500 million, meeting its target level, and leaves a contingency reserve of £2.431 million to assist with budget pressure in 2013/14.
48. Earmarked balances, which reflect commitments to fund a range of future projects, represent 62.3 per cent (2011/12: 72.3 per cent) of the general fund. The balances of reserves held by the council are discussed by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed with members.
49. Exhibit 1 shows the balances in the council's funds at 31 March 2013 compared to the previous year. The council's funds at 31 March 2013 totalled £30.918 million, a reduction of £1.990 million on the previous year. The overall decrease in reserves was due to £4.061 million of the capital fund being utilised for capital and revenue expenditure in 2012/13 (including £2.061 million to meet one off costs associated with the council's transformation programme). Other reserves are in effect the council's renewal and repair fund, which is a statutory fund established to provide for infrastructure investment.

### Exhibit 1: Usable reserves

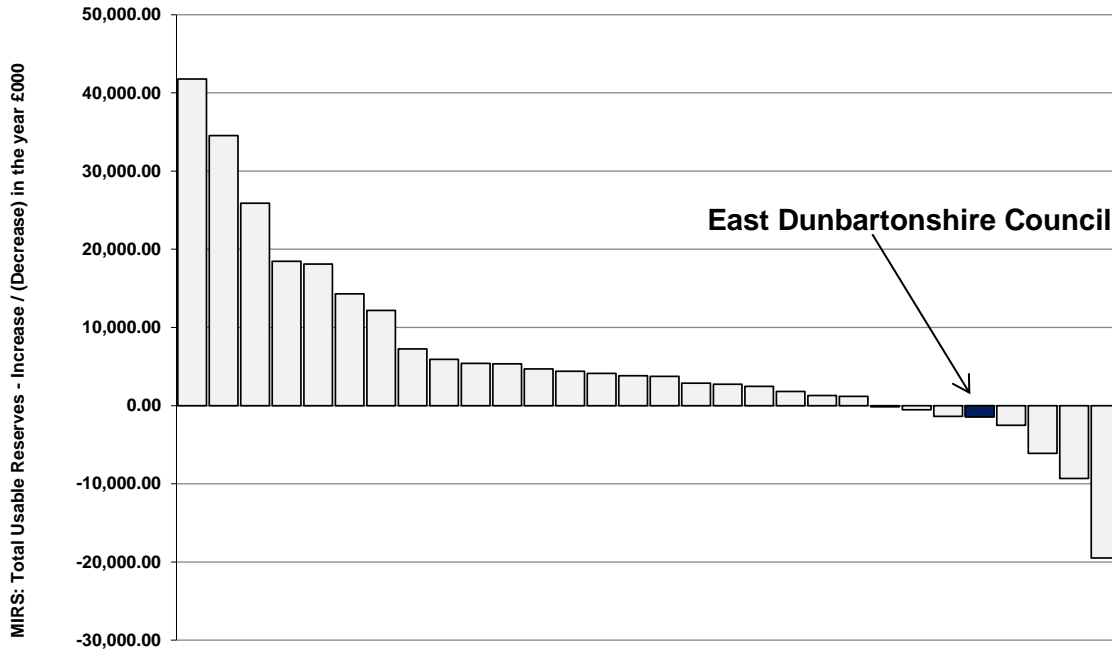
Description	31 March 2012	31 March 2013
	£ million	£ million
General Fund	10.999	13.090
Housing Revenue Account	1.483	1.554
Capital Receipts Reserve and Capital Fund	19.423	15.362
Other Reserves	0.283	0.912
<b>Total Usable Reserves</b>	<b>32.188</b>	<b>30.918</b>

Source: East Dunbartonshire Council 2012/13 financial statements

50. There are a number of key financial ratios which can be considered as measures of the financial health of the council. Some of these ratios are presented in chart form below, showing where the council lies in relation to other councils in Scotland.
51. The overall reduction in total usable reserves in 2012/13 is not consistent with the picture across the majority of Scottish councils, as shown by Exhibit 2 below. East Dunbartonshire Council's usable reserves have decreased by 4.1 per cent on the previous year, whereas most Scottish local authorities have reported an increase in usable reserves in their unaudited

accounts. As explained in paragraph 49 this is due to a decrease in the balance of the capital receipts reserve and capital fund.

**Exhibit 2: Movement in total usable reserves including earmarked, uncommitted and capital funds**

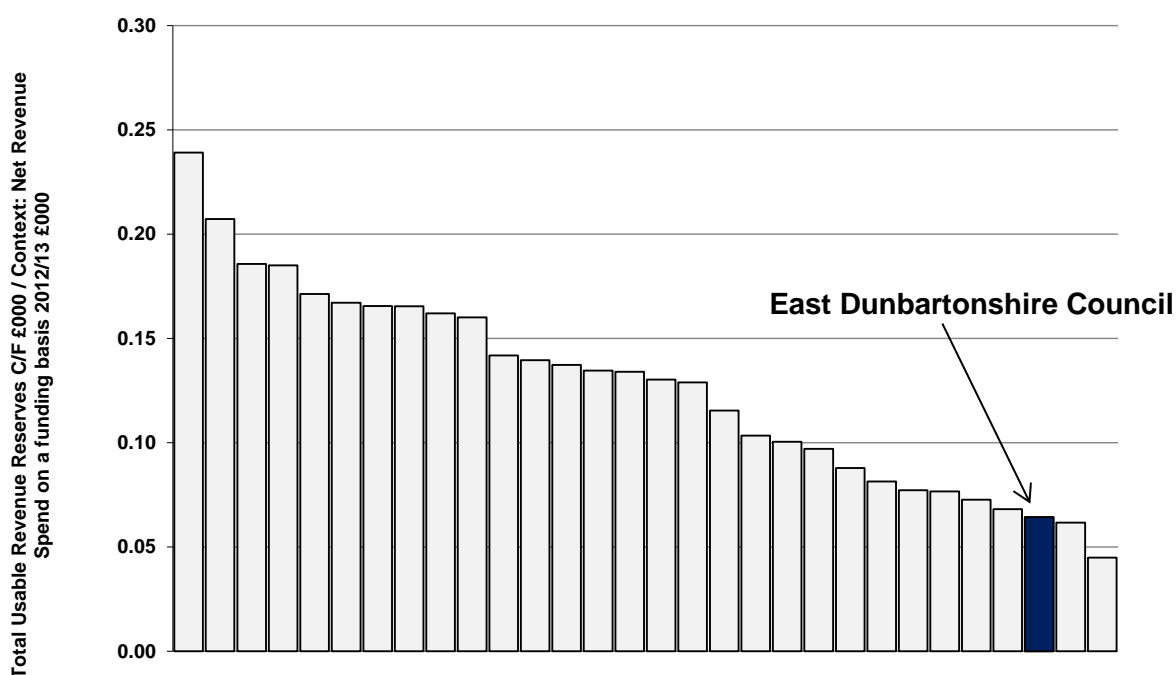


Source: Local Government, Unaudited Financial Statements

52. Exhibit 3 below presents the council's usable revenue reserves position in relation to net revenue spend for the year in comparison to other Scottish councils. The graph shows that the council continues to maintain a low level of revenue reserves compared with other Scottish councils despite recording a general fund surplus in 2012/13. The council acknowledges this and is taking measures to retain the uncommitted general fund balance at its current level. Despite this there remains a risk to financial sustainability of the council from holding such a low level of reserves, particularly given its requirement to make savings in 2013/14 and beyond and its ambitious transformation programme. In addition, there is the risk of reserves being required to cover previously unforeseen costs, such as those associated with a potential council tax rebanding (see paragraph 32).

**Refer to Action Point No. 3**

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



Source: Local Government, Unaudited Financial Statements

## Financial planning to support priority setting and cost reductions

53. In August 2011, Audit Scotland published a national report entitled 'Scotland's public finances: Addressing the challenges'. This report provided an overview of the scale of the budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure.
54. In 2012/13, we carried out a targeted follow-up review to assess what progress had been made since publication of the 2011 report. This work considered how the council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability. Our main findings are included in this section of the report.

### Financial planning

55. The latest Medium Term Finance and Resources Strategy (MTFRS) was presented to the full council in June 2013. This outlines the council's budget strategy over a five year period to 2017/18 and highlights areas of significant risk. A range of assumptions underpin the MTFRS and it is updated annually to reflect any changes in policy and funding levels.
56. The council has an established budget setting process with widespread engagement between the corporate management team and the political parties. Stakeholder engagement and consultation is broad and includes local residents, community and voluntary sector organisations and trade unions.

## Savings

57. Savings totalling £1.814 million have been built into the council's 2013/14 budget, approved at a meeting of the full council in February 2013. The council aims to achieve savings through efficiencies in procurement and charging, coupled with the implementation of the new organisational planning arrangements and the transformation programme. The savings are designed to help the council achieve a balanced budget for 2013/14.
58. The council is forecasting a cumulative funding gap of £20 million over the four year period from 2014/15 to 2017/18. The organisational planning arrangements and the transformation programme, when implemented fully, are designed to address the funding gap. The council needs to develop more detailed plans which show the timing of the proposed savings and the specific areas in which they will be achieved. Should the funding gap widen, or if the savings plans are not fully achieved, the council faces difficult choices on how services are delivered and paid for in future.

**Refer to Action Point No. 4**

## Benchmarking

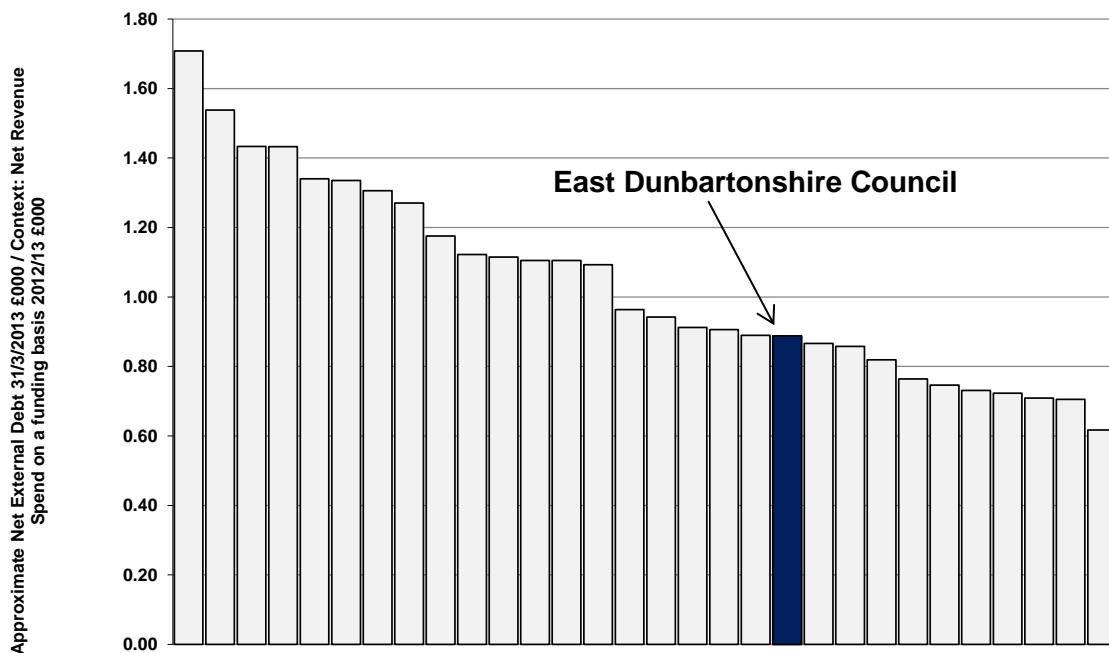
59. Through the implementation of the SOLACE benchmarking indicators, the council is improving its benchmarking of costs. During this period of increased financial restraint, it should give consideration to broadening its benchmarking activity to help identify alternative approaches for delivering savings.

## Treasury management

60. The council's borrowing to fund capital expenditure has increased markedly since 2010/11 (see exhibit 5). The council's total level of borrowing has also increased slightly to £133.751 million (2011/12: £131.969 million). Exhibit 4 below shows however that the council's net external debt as a proportion of net revenue spend continues to remain low relative to other Scottish local authorities.
61. The council borrowed £3 million in 2012/13 partly to fund the purchase of land for its proposed office accommodation and depot at Westerhill, albeit also in the context of its overall borrowing position. Following the decision by the council in June 2013 that the site is no longer viable, the council is looking at alternative options for relocating its back office functions and operational depot. There is likely to be a considerable delay before any alternative solution gets underway. One impact of this has been that, the council has incurred accelerated borrowing costs, although Director of Finance has also indicated that it does partially address the council's long term exposure to interest rate fluctuations. It is important that borrowing decisions are thoroughly planned, particularly given the savings the council will require to make going forward.

**Refer to Action Point No. 5**

#### Exhibit 4: Net external debt as a proportion of net revenue spend



Source: Local Government, Unaudited Financial Statements

62. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. Members receive regular reports on treasury management. These include the annual treasury management and investment strategy and a mid-year report which covers any significant changes to the strategy and updated prudential indicators. The performance against these indicators is reported to council through an annual treasury report and to the public via the financial statements. This helps the council to plan its capital investment prudently and to demonstrate to the public that it is doing so.
63. In the continuing period of economic instability interest rates on investments remain low. For this reason the council has kept investments very short term, mainly in instant access call accounts with major banks. As a result, the council has received only £0.077 million on temporary investments this year (2011/12: £0.048 million). The situation is unlikely to change in the near future.

### Capital investment and performance 2012/13

64. The 2012/13 financial statements report capital expenditure of £31.249 million split between the housing services (£10.024 million) and general fund services (£21.225 million) programmes. The final position was a £5.907 million (15.9 per cent) underspend against the council's original capital budget.

65. Slippage of £4.541 million against the general fund services programme made up the majority of the capital budget underspend. The main cause of slippage was the acquisition of the council's proposed office accommodation and depot at Westerhill not proceeding and work on establishing community hubs being delayed. This is further discussed in the Asset Management section below. These major capital projects had budgets of £3.268 million and £0.714 million respectively. The council managed to accelerate other capital projects in response to these delays to minimise overall programme slippage. As a result of the Westerhill project not proceeding £0.092 million of capital expenditure on site acquisition costs was transferred to revenue spend.
66. The council's capital receipts of £1.184 million (£4.621 million in 2011/12) were £4.893 million less than budgeted. The main reason for this considerable shortfall was the planned sales of two council buildings not being achieved. The anticipated receipts from these buildings totalled £3.7 million. The shortfall had no overall impact on the achievement of the capital programme for the year due to capital expenditure being lower than originally budgeted. It is important, however, that going forward the council is realistic about the timing and value of capital receipts as part of its new corporate asset management plan.
67. Exhibit 5 shows the sources of finance for capital expenditure for the years 2010/11 to 2012/13. The table highlights the council's reliance on government grants to help fund the capital programme. Grants totalled £9.663 million in 2012/13 which was a significant increase on the original budget and higher than the £8.927 million received in 2011/12. Increases in government grant funding cannot be relied upon to continue as the Scottish Government faces the challenges of reducing its own budget. In this context, it should be noted that the council returned funding of £1.750 million to the Scottish Futures Trust which was to contribute to the cost of the proposed development at Westerhill and community hubs, it has been confirmed that this money is being retained by the Scottish Futures Trust. The council have subsequently been successful in their application for £0.5m to fund the conversion of Bearsden Burgh Hall into a community hub.

**Exhibit 5: Sources of finance for capital expenditure 2010/11 - 2012/13**

Description	2010/11	2011/12	2012/13
	£ million	£ million	£ million
Government Grants and Other Contributions	15.374	11.115	13.957
Capital Receipts	1.292	4.621	1.184
Borrowing	7.744	15.401	16.108
<b>Total</b>	<b>24.410</b>	<b>31.137</b>	<b>31.249</b>

Source: East Dunbartonshire Council 2010/11, 2011/12 and 2012/13 financial statements

68. In February 2013, the council approved a five year capital programme for 2013/14 to 2017/18 with £143.738 million of investment. This will be principally funded by borrowing, government

grants and capital receipts. The council has also developed a longer term, ten year programme covering the period up to 2022/23.

69. In June 2013, the council approved a review of the five year capital programme. This was due to the impact of changes and delays to a number of major capital projects. The review involves updating the cost and timetables of current projects and identifying potential new commitments. Projects that have the potential to contribute to the council's single outcome agreement priorities, organisational transformation programme and medium term finance and resource strategy will be specifically identified.

## Asset management

70. The council has refined its asset planning to reflect better the current financial environment. Its current corporate asset management plan and capital investment plan, developed in 2009 and 2011 respectively, prioritise a small number of strategically important projects in support of its strategic objectives. This includes the council's own operational accommodation, the creation of community hubs to deliver frontline customer services and options for its primary schools estate.
71. The council has set out its vision for the number, type and location of its key assets, with the aim of improving access for communities, providing a more integrated working environment for staff and reducing operating costs. This includes: a joint civic centre, for elected members, its senior management team and support teams, together with office accommodation for back office support services, a centralised operational depot and a network of integrated community hubs.
72. The council has experienced recent and significant changes in projects forming part of its overall asset plans. For example, it is now reassessing its plans for the development of integrated office accommodation and an operational depot due to the significantly increased costs involved in making the preferred Westerhill site suitable for building. As a result, the council has no clear, long term plan on how to accommodate its back-office staff. Furthermore, significant delays have occurred in progressing this development which will have a negative impact on the long term savings achievable. Since vacating its former headquarters office in August 2012, back-office staff have operated from temporary accommodation which the council acknowledges is not sustainable. Implementing a longer term solution will have cost implications that the council will need to take into account in revising its asset plans.
73. Another key element of the council's overall asset plan is the development of five community hubs across its area to deliver integrated local customer services. Changes to working practices and opportunities to reduce staffing through the hubs arrangements are critical to the success of the council's wider transformation agenda. The council started the hub initiative in 2009 and aims to have a full network of five hubs in operation by 2017/18. To date, it has completed a hub in Kirkintilloch. A second hub in Lennoxton currently in the planning and assembly stage has been delayed and is expected to be completed in 2015, around two years later than planned. Setting aside the possibility of further delays in the hub



initiative, there is a risk that the initiative's contribution to the savings the council requires to make in the next three years may be lower than the council anticipates.

74. The services provided through hubs will vary according to local needs, although it is not always clear how community views on these services have been balanced with the costs of assembling the buildings required to establish the hubs. The council is also consulting on other proposals that will affect its asset base, most notably around the future provision of primary schools. The outcome of this consultation and subsequent council decisions could have a potentially significant effect on its capital programme and finances.
75. The council acknowledges that known and potential changes to projects require reassessment of the overall asset plan. It intends introducing a new corporate asset management plan in December 2013 which will reflect changes in individual projects to provide a clear picture of how it aims to use, develop and dispose of assets in support of the council's service and spending priorities.
76. The council also recognised that information provided by officers to elected members to support debate, scrutiny and decision-making on assets needs to improve. This includes better information on options as well as the costs and risks for each option, especially when dealing with large, complex projects and programmes. It has recently developed new project documentation to support this.

**Refer to Action Point No. 6**

## Procurement

77. The council's procurement capability assessment (PCA) score for 2012 was 25, down from 31 in 2011<sup>3</sup>. This indicates it is only just meeting recognised basic procurement standards. It was the lowest score of any Scottish council and well below the national average of 48. East Dunbartonshire was also one of only two Scottish councils where performance deteriorated.
78. The council invited Scotland Excel to review its corporate procurement unit (CPU) in June 2013. This review highlighted that procurement processes had fallen behind practices in other councils where, for example, there is more focus on working with services and promoting a strategic approach to purchasing. The CPU provides a traditional purchasing administration function, focusing on data entry and order/invoice management, such as processing tenders and entering orders and receipts into the relevant system.
79. Associated with this, Scotland Excel reported that corporate visibility, control and analysis of core spending are severely limited. The procurement manager and advisors are Chartered Institute of Purchasing and Supply (CIPS) qualified, and therefore have the potential to make

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<sup>3</sup> The Procurement Capability Assessment (PCA) was introduced by the Scottish Government in 2009 to assist organisations to improve their structure, capability, processes and, ultimately, procurement performance. The PCA assesses a council's procurement capability against common criteria and standards. Local authorities are given a percentage score which will place them in one of four categories: non-conformance (up to 25 per cent); conformance (25 to 49 per cent); improved performance (50 to 74 per cent); and superior performance (75 per cent and above).

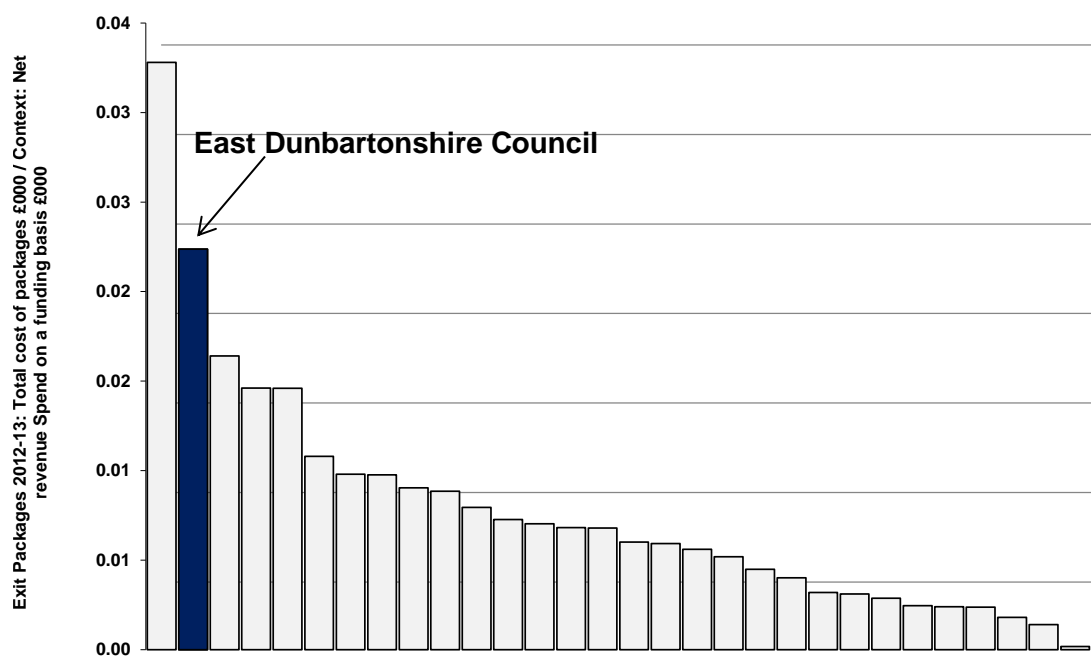
a significant contribution to improving procurement. However, current practices mean that staff were not deployed on more value added and strategic procurement activities. The council has recently increased staffing levels in its CPU, appointing a new procurement manager along with two additional administrative staff on a temporary basis pending a comprehensive review of its CPU structure. It is too early to assess the impact of additional resources in supporting improvement.

80. Scotland Excel also reported that due to the focus on administrative tasks, the CPU does not have the capacity to make use of data from the council's systems or the Scottish data hub to analyse whether procurement is operating effectively.
81. The council recognises the need to modernise its procurement function and the potential, although as yet un-quantified, savings available from better procurement. It has recently started to address this, by approving an updated corporate procurement strategy and improvement plan in June 2013 and appointing a technical expert to support implementation of an e-procurement system. The council plans to manage the necessary improvements to procurement as part of its corporate transformation agenda over the next 12 months. However, in view of the current position and the required scale of improvement the council faces significant challenges to deliver the necessary improvements within this timescale.

**Refer to Action Point No. 7**

## Workforce management

82. The council has been going through significant organisational change and restructuring in recent years. Since 2009 it has been developing its organisational delivery model, its blueprint for how the council will work in future. Proportionally, it experienced one of the largest staffing reductions of any Scottish council during this period. In March 2013, it employed 4,466 full-time equivalent staff (FTE), a reduction of 600 FTEs or 11.8 per cent since 2009.
83. With a reducing workforce it is important that the council maximises the value and contribution made by its remaining staff. At present, the council loses on average 13.8 days per member of staff to sickness absence, the second highest level of any Scottish council and well above the national average of 10.9 days. However, the council has seen positive results from its efforts to reduce sickness absence.
84. Exhibit 6 highlights the monetary cost of managing staff reductions. The exhibit shows that the council's total cost of exit packages in 2012/13 as a proportion of net revenue spend was among the highest of Scottish councils. It is expected that the cost of exit packages will remain high as the council works towards its staff reduction targets.

**Exhibit 6: Total cost of exit packages as a proportion of net revenue spend**

*Source: Local Government, Unaudited Financial Statements*

85. As part of its budget-setting process in February 2013 the council agreed a major change in its organisational structure, designed to support greater operating efficiency. At senior management level, this resulted in the creation of three additional director posts and the removal of seven heads of service posts. While this delivers the council's overriding aim of reducing costs, it is too early to assess the effect on organisational capacity and resilience.
86. The new management structure was designed, approved and implemented quickly as part of the 2013/14 budget-setting process, with limited consultation with elected members and trade unions. Also, due to the speed of implementation, senior staff were matched into director posts without role descriptions in place or formal job evaluations. The council could have done more to explain to relevant stakeholders the rationale for the approach and the benefits anticipated.
87. The council subsequently agreed a new workforce strategy in April 2013. This builds on previous strategies and plans, to produce an overarching framework aligned to its wider transformation programme. It has taken a positive approach to engaging with staff, with leadership conferences for all managers and team leaders, leadership packs to help managers and team leaders better communicate workforce changes with their staff, and a range of intranet resources and theme based workshops open to all staff. Engagement and consultation with the trade unions is working less well and should be strengthened given the degree of organisational change the council is striving to achieve.

88. Despite its relatively large staffing reductions to date, the council aims to reduce its workforce by a further 250 posts by 2017. It plans to achieve this by rationalising and streamlining support functions, such as service-based administration and HR functions, and through better use of technology.
89. In order to achieve its workforce reductions and deliver its transformation programme, the council needs to establish its network of community hubs for service delivery, invest in new technology to support new ways of working and invest in training and development for staff redeployed through service transformation. However, completion of its community hub programme is still some years away and the investment required for these and for new technology and training may be at risk because of changes in the council's overall financial position.

**Refer to Action Point No. 8**

## Outlook

### 2013/14 budget and beyond

90. In setting its 2013/14 budget the council agreed to freeze its council tax. The council approved budget for 2013/14 of £231.1 million is 2.6% less than that set for 2012/13 (£237.223 million). This decrease relates to the fact that Police and Fire joint boards are excluded from 2013/14 onwards. The council has identified savings plans of £1.8 million to balance the budget in 2013/14.
91. Looking further ahead, the council has projected that cumulative revenue budget savings of approximately £20 million will be required over the four year period from 2014/15 to 2017/18. The council's uncommitted general fund balance of £4.9 million is low in comparison to many other Scottish local authorities. The council's uncommitted reserves may be required to meet future one-off costs and cannot be relied upon to cover budget shortfalls.
92. The council will need to achieve recurring savings through its transformation programme to address future funding gaps. However, the investment required to achieve the transformation programme may be at risk because of changes in the council's overall financial position. The transformation programme is challenging and the inter-relationships between finances, workforce and assets will need to be managed carefully if the council is to achieve its overall aims.
93. It is clear that the outlook for public spending remains challenging for the foreseeable future. At the same time the demand for public services is rising as the economy feels the effects of uncertainties in the world's financial markets, questions about the sustainability of the eurozone and Scotland's changing population demographic. Continuing to deliver vital public services with a reducing budget will remain a significant challenge for the council.

# Governance and accountability

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

## Corporate governance

### Processes and committees

98. East Dunbartonshire Council monitors and manages the activity of the council via a system of strategic service committees. Scrutiny functions are discharged by the audit and risk management sub-committee, as well as three scrutiny panels that monitor the performance of council services. These arrangements are intended to integrate political and service structures to allow a better focus on priorities, improve member involvement in scrutiny and drive improvement.
99. In June 2013, the council agreed revised arrangements for the functioning of scrutiny panels to align with changes to its organisational structure. We will continue to monitor the effectiveness of these arrangements.
100. The policy and resources committee is also a key part of the council's governance framework. Its remit covers strategic policy making within the prescribed resources outlined in the budget. Operationally it covers a variety of topics across all services and all functions of the Chief Executive and the Director of Governance and Regulation.
101. In June 2013, the leader of the opposition was appointed as convener of the audit and risk management sub-committee, a position previously occupied by a member of the administration. This followed a 13 month period where there were no nominations from

opposition members to chair the sub-committee. This is a positive development in governance arrangements and brings the council into line with recommended good practice.

### Internal control

102. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by their assessment of risk and the activities of internal audit.
103. Our 2011/12 *Review of Internal Control Systems Report* highlighted a number of weaknesses in the Council's key control processes. Of the 21 action points raised in 2011/12, 11 were reported again in 2012/13. In addition, three new overarching control issues were raised.
104. We reviewed the high level controls in a number of the council's financial systems. Our work covered several systems including general ledger, treasury management, council tax and non domestic rates. The findings from this work were reported to management in June 2013 and an action plan of improvements agreed.
105. A number of areas for improvement within the accounting and internal control systems were identified during the audit. These could adversely affect the council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. See paragraphs 30 and 31 for further details.
106. Also, the *Review of Internal Financial Controls* report presented by the audit and risk manager to the audit and risk management sub-committee identified a number of weaknesses where controls were not operating as expected. However, the report noted that audit testing confirmed that the internal control systems are generally adequate.

### Internal audit

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

### Public Services Network

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

Pensions while social work and education departments exchange information with the police, criminal justice partnership and children's' hearings.

- 110. The Government Secure Intranet (GSI) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
- 111. From November 2012 all applicants have to apply to connect to PSN which means complying with the stricter PSN code of connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations.
- 112. The council's initial application was not successful and it continues to work with Cabinet Officer assessors to progress the transition to PSN. As there is a risk of interruption to the existing data-sharing arrangements, we suggest that the council considers business continuity and the reversion to paper transfer for a period.

**Refer to Action Point No. 9**

## **Prevention and detection of fraud and irregularities**

- 113. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
- 114. The council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements are detailed in the council's anti-fraud and anti-corruption strategy. This document sets out how council members and employees are expected to behave; arrangements for preventing fraud and corruption; arrangements for detecting and investigating fraud and corruption, and provides details of relevant training available. The strategy also includes as appendices the council's fraud response plan, whistleblowing policy, prosecution policy, and benefit and prosecution policy.
- 115. Overall, we have concluded that the council's arrangements are adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely. We also note that work has commenced to update relevant policies.

## **NFI in Scotland**

- 116. East Dunbartonshire Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
- 117. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess

the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

118. These exercises are undertaken every two years with the most recent findings reported in May 2012. The current round of NFI commenced in June 2012, and will look to expand the range of data sets and bodies reporting in full in May 2014.
119. As at 8 October 2013, 3,910 matched items were provided to the Council with 642 of these classified as "recommended filter matches". Seven cases of fraud worth £0.031 million have been identified. Of these seven cases, one individual has been prosecuted and one has been cautioned. The others have repayment plans in place with no further action taken by the council.
120. Overall, we have concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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

121. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
122. The council has a code of conduct for both members and officers with specific sections for each group. This code covers a number of areas including gifts and hospitality, expenses and allowances, use of council resources and tendering.
123. The council also has an anti-fraud and anti-corruption policy which includes reference to all relevant policies and procedures aimed at preventing fraud and corruption.
124. We have concluded that the arrangements in East Dunbartonshire Council are satisfactory and we are not aware of any specific issues that we need to report.

## **Welfare Reform**

125. The Welfare Reform Act 2012, as reported last year, represents the biggest reform of the UK welfare system for 60 years. As reported to the policy and resources committee on 20 December 2012, the council has created a welfare reform group, chaired by the Director of Customer Services and Transformation. The group contains representatives from various council teams. The Department for Work and Pensions are also represented.
126. The council has also appointed a dedicated officer to coordinate communication of the changes to benefit recipients.



## Partnership working

127. The Scottish Government and Convention of Scottish Local Authorities reviewed community planning and Single Outcome Agreements in 2012 following which they published their 'Statement of Ambition'. It makes clear that significant changes to improve community planning are needed to respond to the challenges of reducing public finances while demand for services increases.
128. East Dunbartonshire Community Planning Partnership (CPP) consists of 11 partner organisations. Its partnership board is chaired by the leader of the council and comprises leaders from other party groupings, and senior managers from the council and partner organisations. The role of the board is to provide strategic direction for the work of the CPP and ensure effective implementation of the East Dunbartonshire Single Outcome Agreement (SOA). The board meets twice a year as a minimum.
129. The refreshed SOA 2013-2016 was submitted to the Scottish Government by the 30 June 2013 deadline. This sets out the CPP's vision for East Dunbartonshire of "Working together to achieve the best with the people of East Dunbartonshire" and its long-term (five to ten year) outcomes. These are:
- We have reduced inequality and disadvantage across East Dunbartonshire
  - Our communities are more engaged in the design and delivery of services.
130. Six shorter term (three year) outcomes underpin the long term outcomes. Progress towards achieving these will be measured through a range of high level performance indicators.
131. Audit Scotland carried out CPP audits at Aberdeen City, North Ayrshire and Scottish Borders in 2012/13. The resulting Audit Scotland report *Improving community planning in Scotland (March 2013)* concluded that partnerships have not been able to show that they have had a significant impact on delivering improved outcomes across Scotland.

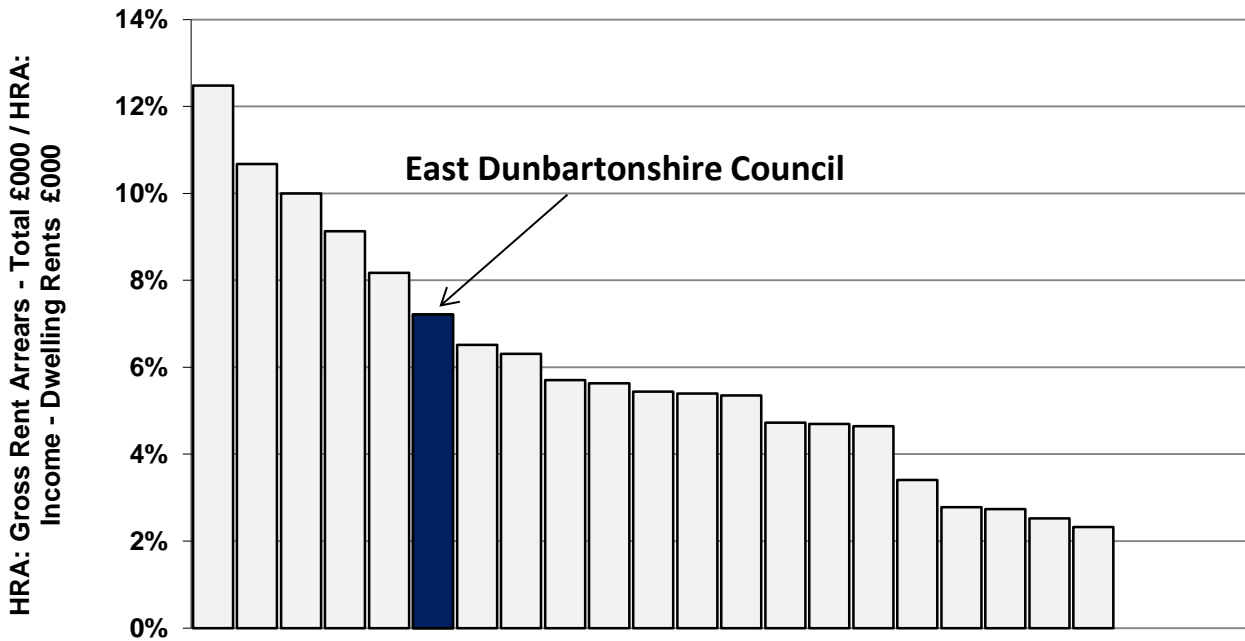
## Outlook

132. Welfare reform will continue for several years to come and from October 2013 the universal credit will start to be rolled-out nationally. This will replace a range of existing means-tested benefits and tax credits for people of working age. It is important that the council continues to monitor the impact of these reforms closely and develop efficient and effective strategies that address the welfare reform agenda.
133. East Dunbartonshire Council has allocated additional funding from the Scottish Government to add to their discretionary housing payment budget. This could mitigate some of the impacts of these changes. The additional Scottish Government funding allocated to the council is £0.160 million.
134. Rent arrears have been increasing in East Dunbartonshire. In 2011/12 arrears totalled £0.784m and these had increased to £0.881m in the current year (an increase of 12.4 per cent). Revenue officers anticipate that welfare reform will bring significant risks to rent collection rates in 2013/14.

Refer to Action Point No. 10

135. As demonstrated in Exhibit 7 the council have the sixth highest gross rent arrears as a proportion of HRA dwelling rents in Scotland.

**Exhibit 7: Gross rent arrears as a proportion of HRA dwelling rents**



Source: Local Government, Unaudited Financial Statements

# Performance

136. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors are also required to review and report on the audited body's progress against its Best Value improvement plan.
137. Additionally, auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
138. Furthermore, as part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
139. This section includes a commentary on the performance management arrangements within the council. It also reflects the performance information and management elements of the targeted Best Value audit work carried out in 2013. In addition we note any headline performance outcomes and measures used by the council and comment on any relevant national reports and the council's response to these.

## Performance information and management

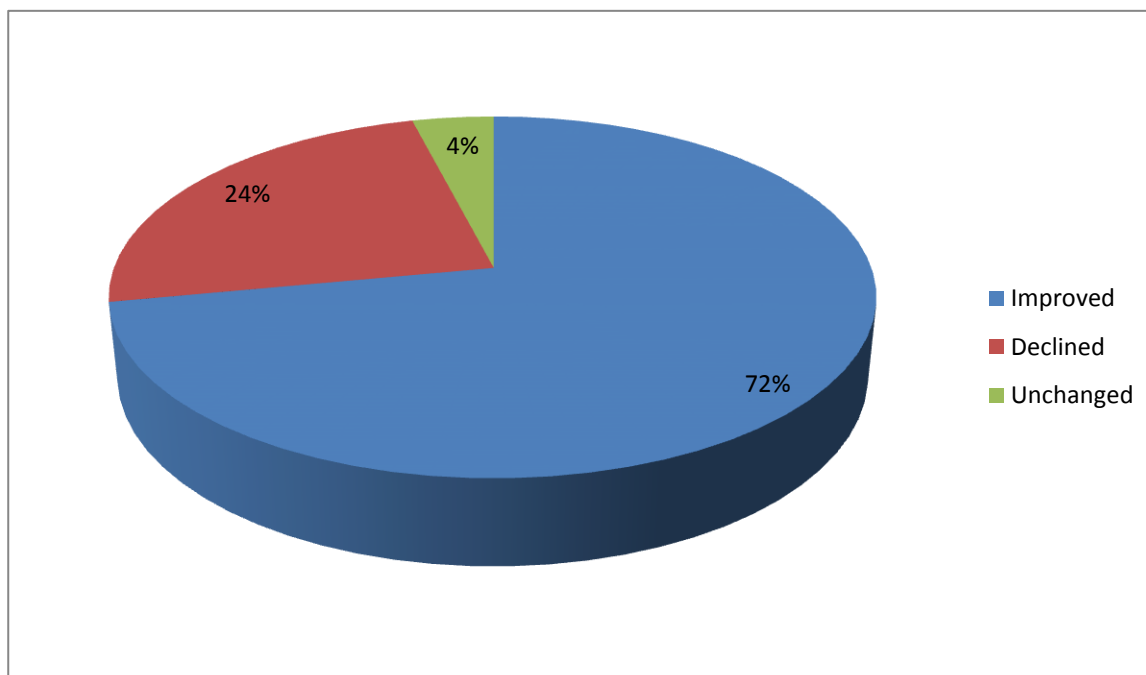
140. The council produces a large volume of performance information. It collates service based performance information through "How Good Is Our Service (HGIOS)" self-evaluation exercises and reports this to the corporate management team and to the policy and resources committee and scrutiny panels.
141. The council recognises that it needs to take a more strategic view of performance. Senior officers and elected members receive a substantial amount of detailed performance information. HGIOS reports, for example, in some cases exceed 50 pages. Information needs to be better targeted to meet the different needs of those reviewing performance and also to support clearer accountability for performance improvement.

**Refer to Action Point No. 11**

142. To support more effective performance management, the council continues to strengthen links between the Single Outcome Agreement (SOA) and business improvement plans for services (BIPs), with an emphasis on improving the consistency in measures and availability of information. For example, as part of quarterly reviews of the SOA and BIPs, managers are required to monitor information on the performance of their service quarterly. The council is looking to further develop its reporting through the inclusion of relevant proxy measures for indicators that are not available quarterly, such as, educational attainment data.
143. The council is also further developing its performance management system to produce clearer performance reports. For example, it is currently developing clearer performance reporting in 'dashboard' form, making it easier for senior managers and elected members to see direction of travel in relation to performance. This will help shift the focus of scrutiny from the presentation of data to actual performance.
144. The council recognises the need to focus more clearly on the action it is taking to improve performance results. It is developing a performance toolkit for managers to strengthen the relationship between their actions, interventions and their accountability for performance. This is critical to the success of its broad corporate transformation strategy.
145. In the 2011/12 Annual Audit Report we highlighted significant errors in the council's performance data on staff absence. In response, the council is working to strengthen its processes for ensuring the quality of performance data to ensure reported information is accurate. In particular, internal audit will have a more involved role in providing assurance on the quality of performance information. .

### **Statutory performance indicators**

146. In 2012/13, a total of 25 SPIs were required and overall these indicate an improvement in performance from the previous year as shown in Exhibit 8 below:

**Exhibit 8: Improvements demonstrated by SPIs between 2011/12 and 2012/13**

Source: East Dunbartonshire Council SPI data returns

**Areas of strong performance and improvement**

- *SPI 1 - Number of working days per Local Government Workers lost through sickness absence:* this indicator has improved from the prior year. A 14.4 per cent reduction in sickness absence reflects the implementation of the absence management plan, promotion of Healthy Working Lives and an increase in activity of service management in monitoring and acting on absence levels. In addition, the calculation methodology has been reviewed and amended as a result of audit work carried out in 2011/12.
- *SPI3 - The percentage of council buildings from which the council delivers services that are suitable for, and accessible to, disabled people:* The Council implemented a DDA capital investment programme in 2012/13 and reduced the number of properties being used for the delivery of services to the public. New properties were added to replace those that were previously non-compliant.
- *SPI12 - Use of libraries:* The introduction of William Patrick Library as a community hub has led to an increase in the footfall into the library. This has contributed to the 44.5 per cent increase in attendance levels.

**Areas for focus**

- *SPI4 - Administration Costs:* During 2012/13, the gross administration costs per benefit case increased from £45.46 to £48.48. The contributable factor for this increase is due to additional workload for the impending impact of welfare reform.

- *SPI11 - Museum Services*: This indicator shows a reduction in the number of museum visits per 1000 of the population. This is as a result of this year's local history week taking place in April 2013 rather than in March 2013.
- *SPI16 - Managing Tenancy Charges*: This indicator covers the percentage of rent due in the year that was lost due to voids. The indicator has shown a downturn in performance and reflects the increased number of void properties becoming available. This is the highest number the Council have recorded in eight years.

## National performance reporting

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

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

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Responding to challenge and change - An overview of local government in Scotland 2013</li> <li>• Improving community planning in Scotland</li> <li>• Major capital investment in councils.</li> </ul> | <ul style="list-style-type: none"> <li>• Protecting consumers</li> <li>• Using cost information to improve performance: are you getting it right?</li> <li>• Health inequalities in Scotland</li> <li>• Reducing reoffending in Scotland.</li> </ul> |
|--|--|

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

148. Audit Scotland encourages local authorities to review national reports, consider key findings and assess local performance against them, and identify local improvement actions where appropriate. The national reports are accompanied by a checklist which officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's performance reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.
149. During 2012/13 intelligence was gathered in relation to the action taken by the council and the impact of the following Audit Scotland reports:
- *Using cost information to improve performance: are you getting it right?* - The report was presented to the policy and resources committee in August 2012 and identified the need for councils to make better use of cost information to inform policy decisions and assess the effectiveness and efficiency of services. The recommendations included within the report were noted. Work on these issues took place at national level through the Society of Local Authority Chief Executives (SOLACE) whilst working towards the development of more effective cost based performance indicators for use by councils.
  - *Improving community planning in Scotland* - The report was considered by the policy and resources committee in April 2013. Results and recommendations were based on recent audits of the work of Community Planning Partnerships (CPPs) undertaken by Audit Scotland. A self evaluation template was completed which set out the current

performance of the East Dunbartonshire CPP. It was agreed that progress on implementation of recommendations would be reviewed on a regular basis by council and the CPP board.

- *Protecting consumers* - The report was considered by the housing and community services committee in March 2013. The council were seen to be broadly supportive of the recommendations contained in the report, particularly those around joined up working, workforce planning, the use of intelligence systems, and national priorities and performance reporting.
- *Responding to challenge and change* - An overview of local government in Scotland 2013 - This report was considered by full council in June 2013 and focused on the resource and demand pressures facing local government and the potential impact of public service reform. It also identified the importance of the councillor role in achieving performance improvement and effective governance. A self evaluation template was completed which set out the current performance of East Dunbartonshire Council and its work with partners in relation to the Audit Scotland recommendations. It also identifies the improvement activity which the council will implement to accord with the recommendations.

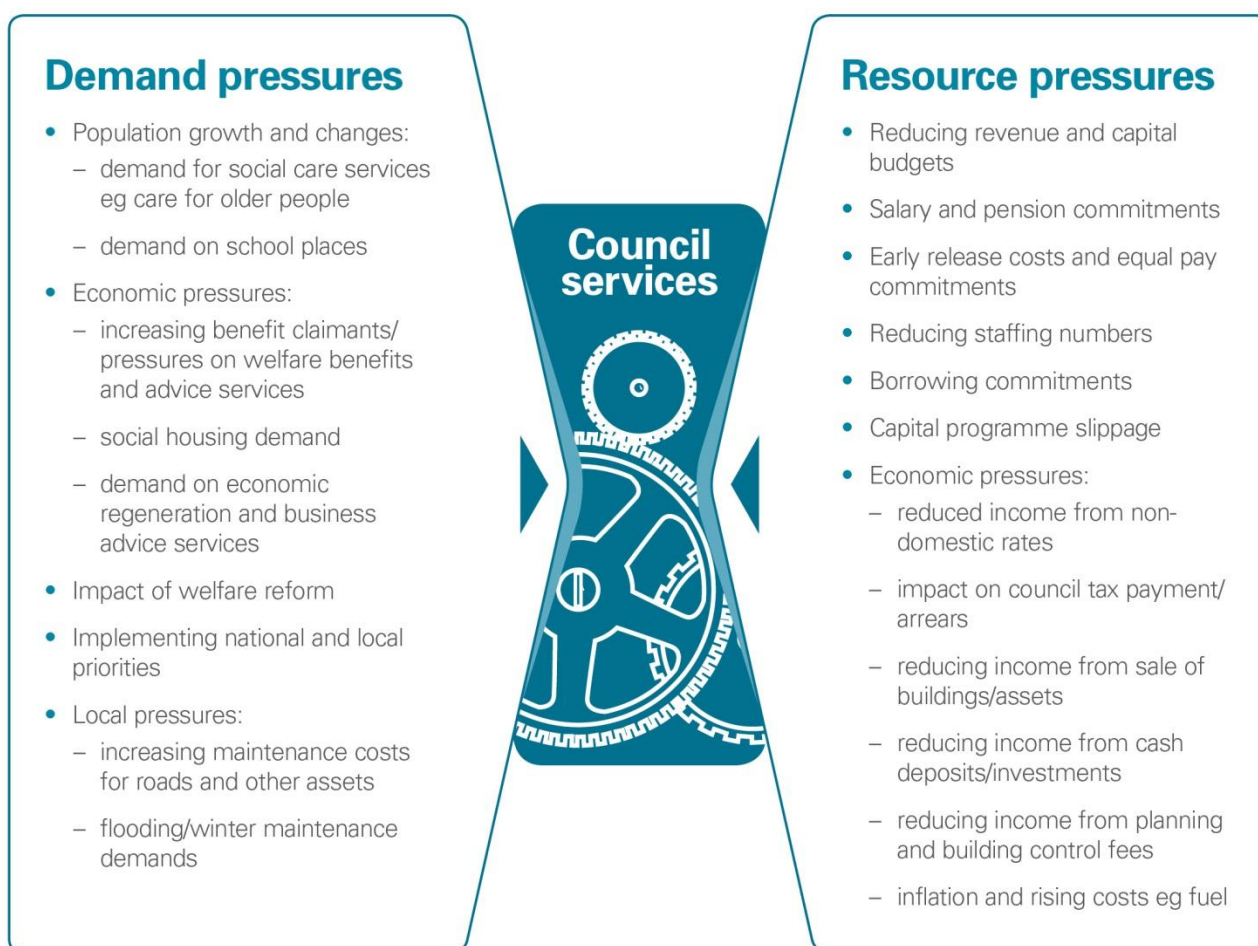
## Equality Act 2010

150. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. One of the key requirements of the legislation is for public bodies to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.
151. The council's equality and human rights policy was launched in July 2011. This is an overarching document, setting out the council's commitment to equality and human rights issues and provides information on work being undertaken across the council. The policy is linked closely to council plans including the SOA and strategic improvement plan.
152. The Equality Outcomes and Mainstreaming Report 2013-2017 sets out the council's approach to mainstreaming equality as set out by the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012. The report also sets out background information on equality legislation and steps being taken by the council to reduce unlawful discrimination, advancing equality of opportunity and fostering good relations between different groups. An action plan was developed to ensure that the council can meet the requirements of the Act. This was approved by the policy and resources committee in September 2012.
153. The East Dunbartonshire equality engagement group acts as a first point of contact between the council, planning partners and local equality groups and helps influence the development of policies in relation to equality. Meetings take place on a quarterly basis.
154. The council is proactive in promoting the equality agenda and is well placed to mainstream equality within everyday work.

## Outlook

155. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by CPPs. A number of CPPs will be audited in 2013/14. These include Falkirk, Moray, West Lothian, Orkney and Glasgow City. There is no specific timetable for a CPP audit in East Dunbartonshire.
156. The Audit Scotland report *Responding to Challenges and Change - an overview of local government in Scotland 2013* (March 2013) highlights the pressures faced by councils in terms of resources and demands on services (see exhibit below). These pressures are not going to abate and this means that councils may have to consider decisions, which they had previously ruled out to balance their budgets.

### Exhibit 10



Source: Audit Scotland



# Appendix A: audit reports

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

Title of report or opinion	Date of issue	Date presented to Audit Committee
Review of the Adequacy of Internal Audit	27 March 2013	7 June 2013
Annual Audit Plan	14 February 2013	21 February 2013
Assurance and Improvement Plan	25 April 2013	30 April 2013
Internal controls management letter	6 June 2013	13 June 2013
Report on financial statements to those charged with governance	19 September 2013	23 September 2013
Audit opinion on the 2012/13 financial statements	19 September 2013	23 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	26 October 2013	N/A
Report to Members on the 2012/13 audit	tbc	5 December 2013

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	31	<p><b>Reconciliations and internal control processes</b></p> <p>The council needs to strengthen internal control processes and year-end closedown procedures for a number of main financial systems.</p> <p><b>Risk:</b> the council may not be able to accurately record, process, summarise and report accurate financial and other relevant data.</p>	A focused review of action points and progress is being undertaken. Changes through organisational planning and new systems will address this longer-term along with short-term improvements	Director of Finance & Shared Services	Ongoing
2	32	<p><b>Council tax rebanding</b></p> <p>The council faces potentially significant costs associated with the possible rebanding of around 1,000 houses within the local area.</p> <p><b>Risk:</b> meeting the costs of rebanding could impact on the delivery of council priorities.</p>	The financial impact will be considered and included within the Revenue Budget 2014/15.	Director of Finance & Shared Services	February 2014
3	52	<p><b>Usable reserves</b></p> <p>The council continues to have a low level of usable reserves in percentage terms compared to many other Scottish local authorities.</p> <p><b>Risk:</b> the council's</p>	The Council's strategy for reserves and balances has been effective in previous years. This will be reviewed in the context of the Revenue Budget 2014/15.	Director of Finance & Shared Services	February 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		uncommitted reserves may be insufficient to fund future unforeseen costs.			
4	58	<p><b>Funding gap</b></p> <p>The council is facing a significant challenge in bridging a funding gap of £20 million over the next five years.</p> <p><b>Risk:</b> the council may not be able to generate sufficient efficiencies and cost savings to bridge the funding gap.</p>	A strategy for areas to achieve financial savings will be established which will develop areas of efficiency through organisational planning and, in future, any impact on service activity.	Director of Finance & Shared Services	Ongoing
5	61	<p><b>Borrowing</b></p> <p>The council borrowed to fund the purchase of land for the proposed office accommodation and depot at Westerhill. As the initial costs of the Westerhill site have increased significantly further options are being considered.</p> <p><b>Risk:</b> the council incurs unnecessary borrowing costs which impact on its ability to make savings.</p>	The treasury management strategy considers the council's overall borrowing and investment arrangements matching this against planned capital expenditure.	Director of Finance and Shared Services	Ongoing
6	76	<p><b>Reporting on major capital projects</b></p> <p>Information provided by officers to elected members on capital projects needs to include all possible options and the associated costs and risks.</p> <p><b>Risk:</b> the council makes decisions with negative</p>	The council has developed new project management processes and introduced new staffing resources into this area. The system for reporting to elected members has been updated and agreed through council in	Director of Development and Regeneration	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		financial and/or reputational consequences.	September 2013 and will be implemented on all future major projects.		
7	81	<p><b>Procurement</b></p> <p>The council needs to modernise its procurement practices. It faces significant challenges in achieving this due to the scale of improvements involved.</p> <p><b>Risk:</b> spending decisions do not represent value for money and the council is unable to make efficiency savings.</p>	A procurement improvement plan has been developed to support the updated corporate procurement strategy approved by council in June 2013.	Director of Finance and Shared Services	Ongoing
8	89	<p><b>Workforce management</b></p> <p>The council needs to carefully manage changes in service delivery to achieve its goals of workforce reduction and deliver its transformational programme.</p> <p><b>Risk:</b> the investment required for the community hub programme, new technology and training may not be available.</p>	<p>The Council has been successfully developing its transformation programme since 2008/9.</p> <p>Strategic reports to be considered by the Council on 17th December will provide specific detail on the next stages of the programme. An integral element of these reports will be fully integrated resource plans identifying the necessary investment to deliver on all aspects of the</p>	Director of Customer Services & Transformation	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			transformation programme including community hubs, technology and employee development.		
9	112	<p><b>Public Services Network (PSN)</b></p> <p>The council has yet to have its application to connect to PSN approved.</p> <p><b>Risk:</b> the council may not be able to share or access data held by other public sector bodies.</p>	<p>The Council like all local authorities is currently engaged with the Government's CESG (Communications Electronic Security Group) regarding PSN compliance. The Council is now ready to submit its response to CESG on the two remaining outstanding issues for future compliance.</p> <p>These involve confirmation that no unmanaged devices are able to access the Council's network and clarification of our risk management processes. After recent dialogue with our CESG Account Manager, the Council is confident that our latest response will meet the PSN security compliance criteria</p> <p>It is also worth noting that CESG has agreed with SOCITM that there will be no threat</p>	Director of Customer Services & Transformation.	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			of disconnection for Council's who are actively working towards achieving compliance.		
10	134	<p><b>Rent arrears</b></p> <p>Council rent arrears are continuing to rise and this is likely to be further impacted by welfare reform.</p> <p><b>Risk:</b> the council may not be able to prevent arrears from increasing further leading to a loss of income.</p>	<p>Loss of income has been experienced and bad debt provision increased accordingly.</p> <p>Arrears procedures are being followed and mitigating action put in place to minimise the impact of welfare reforms.</p> <p>Additional employees are in place to assist with face to face contact and assisting tenants with DWP applications</p>	Director of Neighbourhood Services	March 2014
11	141	<p><b>Performance management</b></p> <p>Performance information needs to be better targeted to meet the different needs of those reviewing performance.</p> <p><b>Risk:</b> There is no clear management of and accountability for performance improvement.</p>	<p>Revised corporate guidance issued to Directorates relevant to performance management and reporting will enable more tailored reporting</p>	Director of Customer Services and Transformation	April 2014