KPMG

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

East Dunbartonshire Council

Annual audit report to the members of East Dunbartonshire Council and the Controller of Audit

Year ended 31 March 2009

30 October 2009

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of only East Dunbartonshire Council and is made available to the Accounts Commission and Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other that the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

Financial statements

On 30 September 2009 we issued an unqualified opinion on the financial statements of East Dunbartonshire Council and its group.

The Council is undertaking legal proceedings against a debtor who was due to pay £16.9 million, which is included within debtors as at 31 March 2009 and was due to be received on 3 May 2009. A parcel of land is held as security against the debt. As a result of the debtors failure to pay, additional short term borrowing has been required to fund ongoing capital commitments. Whilst this is affordable in the short term, failure to receive payment represents a significant financial risk to the Council.

Implementation of the single status agreement was completed during the year. All staff had transferred to new pay and grading structures with revised terms and conditions by 22 December 2008. The provision in the accounts as at 31 March 2008 was released during the year as payments were made to those staff receiving back pay to 1 April 2006 as a result of their revised terms and conditions.

Use of resources

The Council faces significant financial pressures in the future. The result for the year is a decrease in the general fund balance of £1.456 million. After commitments the uncommitted general fund balance as at 31 March 2009 is £1.825 million. This is below the Council's target prudential reserves of £2.5 million. The most recent revenue monitoring report at 27 August 2009 highlights that the uncommitted general fund balance is forecast to reduce to a deficit of £0.431 million by 31 March 2010 unless appropriate action is taken. Officers have been required to review service budgets to ensure a balanced budget for 2009-10 is delivered.

Responding to the current economic climate, and other financial pressures, a medium term finance and resources strategy has been developed. This set out the significant savings, £8.0 million in 2010-11, which must be achieved in 2010-11 to 2012-13 and the Council's strategy for determining, monitoring and achieving those savings.

The Council approved an increase of £10.0 million to both the authorised limit and operational boundary for borrowing in 2009-10. This request was to ensure the Council has sufficient funds to meet contractual PPP payments due in 2009-10, particularly in light of delays in receipt of significant capital receipts. The 2009-10 capital plan assumes borrowing of £3.990 million which above the government supported level. A 10 year capital plan demonstrates this will be repaid through future under-programming.

Governance and accountability

Senior Council officers reviewed the way in which it conducts its business, delivers services to its customers and its structure. Subsequently a revised strategic operating model and senior management organisational structure was approved by Council on 3 March 2009. It takes account of the 15 national outcomes identified in the Council's single outcome agreement.

The statement on internal control does not disclose any significant weaknesses and the Council has prepared a corporate governance statement which provides assurance to stakeholders on how the Council directs and controls its functions. The content of these statements is consistent with our understanding of the Council.

Performance management

The Accounts Commission published their findings on the audit of Best Value and Community Planning of the Council in May 2009. The Commission reported positively on considerable improvement in a number of areas and good progress with aspects of Best Value. It also found, however, that many of the building blocks of Best Value were not yet well developed. Fourteen areas for improvement were included in the report's improvement agenda. The Council moved quickly to approve a strategic action plan to address the identified weaknesses, consolidating these actions into their existing corporate improvement plan.

Scope

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

The Accounts Commission appointed KPMG LLP as auditors of East Dunbartonshire Council ("the Council") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2006-07 to 2010-11, inclusive. This document summarises our responsibilities as external auditors for the year ended 31 March 2009 and our approach to issues impacting the Council's activities in that year.

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ("APB") and the wider responsibilities embodied in Audit Scotland's *Code of Audit Practice* ("the *Code*"). Under this *Code* auditors address and comment upon a number of objectives, together with complying with a number of obligations. The *Code* also places a number of obligations on the Council.

Auditors' objectives in relation to the *Code* are to:

- provide an opinion whether the financial statements present a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice ("SORP 2008") and whether the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- review and report on the Council's grant claims and other returns submitted by the Council, to the extent required by other authorities, and in accordance with any guidance issued by Audit Scotland.
- review and report on (as required by relevant legislation, the *Code* and any guidance issued by Audit Scotland):
  - the Council's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; their financial position.
  - other aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.
  - the Council's arrangements for preparing and publishing statutory performance indicators.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview discussed with the audit and risk sub-committee on 24 March 2009.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and significant accounting matters and decisions;
- **use of resources**, including financial outturn for the year ended 31 March 2009 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management, systems of internal control, partnership working and our consideration of the work of internal audit; and
- **performance management arrangements.**

Scope (continued)

This report is addressed to members and the Controller of Audit. It will be published on the Audit Scotland website after consideration by the Council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and is also presented to the Local Government and Communities Committee of the Scottish Parliament.

Best Value

The Local Government in Scotland Act 2003 introduced statutory duties for local authorities relating to Best Value and community planning. At the request of the Accounts Commission, the Council was the subject of a follow-up audit Best Value review during 2008-09 and we have reflected on its findings in this report.

Responsibilities of the Council and its auditors

External auditors do not act as a substitute for the Council's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the accountable officer, to make arrangements to secure Best Value.

Action plan

This report includes an action plan containing areas for development or improvement identified during our financial statements audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2008-09 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during the course of our work. In particular we wish to thank the head of finance and ICT, the principal accountant, and the corporate finance manager for their assistance during the audit.

Financial Statements

On 30 September 2009 we issued an unqualified opinion on the financial statements of East Dunbartonshire Council and its group.

The Council is undertaking legal proceedings against a debtor who was due to pay £16.9 million, which is included within debtors as at 31 March 2009 and was due to be received on 3 May 2009. A parcel of land is held as security against the debt. As a result of the debtors failure to pay, additional short term borrowing has been required to fund ongoing capital commitments. Whilst this is affordable in the short term, failure to receive payment represents a significant financial risk to the Council.

A number of adjustments were required to the treatment of fixed asset additions, impairments and revaluations at year end 2008-09. These resulted from amendments to the basis of capitalisation, the nature of the revaluation and receipt of updated valuations following discussion of the assets with the valuer. Management accepted a number of recommendations to improve the process.

Single status implementation has largely been completed within the Council, with the majority of payments now made. Of the total provision of £9.6 million, £8.6 million has been released as a result of payments which have been made to employees and £0.9 million was released that was not required and had a positive impact on the outturn.

The Council consolidates the results of Strathclyde Police and Strathclyde Fire Joint Board as associate entities within its group accounts. There is currently no statutory basis for reversing the impact of the FRS17 based costs on the Joint Board's general fund balances. We considered if a qualification was necessary based on an overstated general fund position. As the associates reserves are consolidated as a single line there is no impact or overstatement in the Council's group accounts and we confirmed with Audit Scotland that no qualification was necessary. However it was appropriate that a narrative disclosure be added to the accounts to explain the process and decisions taken by the Council to the readers.

CIPFA / LASAAC has now issued the IFRS-based code of practice on local authority accounting update and exposure draft. We have identified some key issues in preparing for IFRS which the Council should consider. Management has appointed advisers and put in place a timetable for the conversion to IFRS.

Recommendations

The action plan includes a recommendation to improve the following areas.

Area for development	Action plan reference
In 2009-10, it is expected that the Council will acquire a balance of shares in the East Dunbartonshire Development Company which will lead to this entity becoming a subsidiary undertaking within the group accounts. As the parent organisation, it is important that the Council ensures that the audit of the Development Company is completed earlier to allow prompt finalisation of the Council's group accounts.	One
The Council is currently at significant risk in relation to delays in realising significant capital receipts associated with a number of its major projects. The Council should continue to monitor its potential exposure to these delays in terms of the impact on revenue of additional borrowing costs.	Two

Audit opinions and key issues

Reporting arrangements and timetable

In accordance with statutory requirements unaudited accounts were available for audit by 30 June 2009. Management set a timetable for preparation of the unaudited accounts which allowed for their consideration at the meeting of Council on 24 June 2009, prior to their submission. This demonstrates best practice. We reported positively in our ISA 260 `Report to those charged with governance' on management's preparation for the audit, in terms of supporting working papers. There was no impact on the Council's general fund balance of any audit adjustments identified.

Audit opinion

We have given an unqualified opinion that the financial statements of the Council for 2008-09 give a true and fair view of the financial position of the Council and its group as at 31 March 2009 and its income and expenditure for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

In 2008-09 the wording in the audit opinion for local authorities in Scotland changed from a `presents fairly' to a `true and fair' basis. There was no impact on our work as a result of this change. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP). No major changes were introduced by the 2008 SORP.

We continue to work in partnership with the finance team to improve the efficiency of the process for the preparation and audit of the financial statements. In particular, it would be helpful to advance the timetable for receipt of audited information from group companies so that the consolidation of information in the council's group accounts can be completed earlier.

Recommendation one

Capital receipts

At the year end, the Council had a sum of £16.9 million included within debtors which related to the final instalment of a land sale agreement entered into by the Council with a developer. This sum was due to be received on 3 May 2009, however, the developer failed to settle the debt as at this date. The Council has entered into legal action to recover the amount outstanding. It is expected to take some time before the court action is resolved. The Council has retained security over the parcel of land to which the sale relates and so, in the event of the sum not being recovered, the Council will be able to call up this security over the parcel of land. Following discussions with the head of finance and ICT and the Council's legal team we agreed that a post balance sheet event note should be included in the financial statements to disclose the position. No adjustment was made to the accounts as it was not possible to quantify the potential financial impact of non-recovery at this time.

This transaction remains a significant risk to the Council. The Council has committed these funds into its PPP deal and so has been required to borrow in the short term. While interest rates are currently low, the cost of servicing this short-term borrowing is affordable, should the Council not receive the amount in full, there is potential exposure to a significant additional long-term borrowing requirement.

The current economic climate has also resulted in significant delays in realising capital receipts in respect of the Kirkintilloch Initiative. The Council is committed to this project, and is being required to provide cash flow support to the project. There is again a risk to the Council's revenue budget of the need to service the short-term borrowing associated with this.

Recommendation two

Audit opinions and key issues

Valuation of fixed assets and capital accounting

In response to the current economic climate, we held discussions with finance and the Council's internal valuer to discuss the year end valuations of operational fixed assets, as well as surplus assets held for sale and investment properties. A number of downward revaluations were recorded for assets which were subject to valuation, although these were for a variety of reasons depending on circumstance.

A number of adjustments were required to the treatment of fixed asset additions, impairments and revaluations at year end 2008-09. These resulted from amendments to the basis of capitalisation, the nature of the revaluation and receipt of updated valuations following discussion of the assets with the valuer. Adjustments were also required to ensure capitalisation of additions was in-line with the approach proposed and approved by the Council to apply from 2007-08. Management accepted a number of recommendations in respect of capital accounting in our report to those charged with governance dated 16 September 2009.

Single status and equal pay

Single status implementation has largely been completed within the Council, with the majority of payments now made. Of the total provision of £9.6 million which was in the balance sheet at 31 March 2008, £8.6 million was utilised through payments made to employees following their acceptance of the revised pay and grading structures with associated terms and conditions. £0.9 million of the provision which was not required was released back to the income and expenditure account. We reviewed the calculation of payments made and confirmed that payments were made only to employees who had signed revised terms and conditions of employment.

The Council has a remaining provision for £1.275 million for a number of equal pay claims which are still ongoing as they are subject to appeal.

Group accounts

The council has interests in seven other entities, one of these is Mugdock Country Park which is a subsidiary of the Council, the remaining entities are all treated as associates and therefore their results have also been included in the group accounts. Audit assurances were obtained through unaudited accounts supplemented by confirmation from audited bodies of adjustments to their accounts which had been agreed with their auditors. This provided useful context to enable us to conclude our audit of the group.

We highlight the following issues:

- all bodies within the group received an unqualified audit opinion from their external auditors, with the exception of Strathclyde Police Joint Board. The qualification of the police accounts was in respect of a failure to comply with statutory provisions in respect of removing the FRS 17 based costs from the general fund in respect of the new police pension scheme established with effect from 6 April 2006 by The Police Pensions (Scotland) Regulations 2007. As the associates reserves are consolidated as a single line in the group accounts, however, there was no impact or overstatement in the Council's group accounts as a result of this technical qualification; and
- in accordance with recommended accounting practice it has been confirmed that key accounting policies for component bodies such as pension costs and the valuation of fixed assets have been aligned with the council.

The overall effect of inclusion of all of the Council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £116.8 million, mainly because of pension liabilities. All group bodies' accounts have, however, been prepared on a going concern basis as the long-term pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

Audit opinions and key issues (continued)

Trust funds and common good funds

Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010-11. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.

In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners on common good funds. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009. A separate account for the common good is disclosed in the Council's financial statements and a separate fixed asset register is also maintained.

Legality

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

Implementation of International Financial Reporting Standards

In our audit plan overview presented to the audit committee on 24 March 2009, we explained that in October 2008 CIPFA/LASAAC announced a new governance framework for the Code of Practice on Local Authority Accounting which will require financial statements to be prepared under International Financial Reporting Standards ("IFRS") for the first time in 2010-11.

CIPFA/LASAAC has now also issued the IFRS-based code of practice on local authority accounting – update 3 and an exposure draft for comment. On 23 April 2009, CIPFA/LAAP issued a bulletin which set out some key issues in respect of preparing for IFRS, which advised that bodies reporting under the local government framework:

- reassess their PFI schemes in time for the revised accounting treatment to be adopted in their 2009-10 financial statements. This will involve restating the 2008-09 financial statements, and authorities may find that collecting the required information in parallel with that required to close the 2008-09 financial statements simplifies the process.
- collect information on untaken annual leave and other short-term employee benefits at 31 March 2009 as part of their 2008-09 close-down arrangements.
- collect the necessary information to allow leases to be split between land and buildings as soon as possible, bearing in mind that non-finance staff (e.g. valuers and legal staff) are likely to have an essential role in this process.
- discuss with their valuers which assets are likely to have a material difference between their current carrying value and their fair value, and ensure a programme to identify those assets is in place. It should be noted that the draft Code of Practice on Local Authority Accounting does not require separate components to be identified in the opening IFRS balance sheet and comparative figures (except where authorities have already separately identified components under the SORP). Separate components will need to be identified, where these are significant and have a different asset life to the rest of the asset, as assets and components are acquired, enhanced and revalued from 1 April 2010 onwards.

Date	Publications
3 March 2009	CIPFA/LAAP bulletin 80 sets out a detailed project plan and timetable for the implementation of IFRS.
23 April 2009	CIPFA/LAAP bulletin 81 on closure of 2008-09 accounts includes advice on preparing for implementation of IFRS
11 May 2009	CIPFA/LASAAC issued IFRS-based code of practice on local authority accounting update 3 together with draft code in respect of a number of accounting areas.
16 July 2009	CIPFA/LASAAC issued IFRS-based code of practice on local authority accounting – exposure draft

Management have put in place a plan and timetable to ensure the Council is ready for the conversion to IFRS and that key accounting judgements are considered early.

Use of resources

The result for the year was a decrease in the general fund balance of £1.456 million. After commitments the uncommitted general fund balance as at 31 March 2009 is £1.825 million. This is below the Council's target of £2.5 million. The most recent revenue monitoring report notes that the uncommitted general fund balance is forecast to reduce to a deficit of £0.431 million by 31 March 2010 unless appropriate action is taken. Officers have been required to review service budgets to ensure a balanced budget for 2009-10 is delivered.

The outturn included £6.281 million underspends and slippage which were offset by additional costs of £3.872 million and commitments of £5.6 million are carried forward. Many of the in-year savings relate to one-off items or are committed at year end, such as the release of £0.903 million from the single status provision following settlement of the majority of cases and additional revenue support grant received in the year respectively. These one-off items will not contribute to a positive outturn in future years. The main additional costs were £2.850 million agreed following works compensation claims related to the PPP project, energy costs and additional debt charges resulting from delays in receipt of capital income. In the short term, additional debt charges are affordable at low interest rates and £488,000 has been committed to meet these costs for 2009-10.

The Council approved an increase to both the authorised limit and operational boundary within the annual report on the loans fund in 2008-09 of £10.0 million. This request was to ensure the Council has sufficient funds to meet contractual PPP payments in 2009-10, particularly since significant capital receipts have been delayed. The 2009-10 treasury strategy was approved by Council on 3 March 2009.

The Housing revenue account of the Council returned a surplus of £0.084 million in 2008-09 which was close to budget.

The remaining statutory trading operation, property maintenance, reported a surplus in the year and over the previous three year period.

The 2009-10 capital plan assumes borrowing of £3.990 million which is above the government supported level. A 10 year capital plan demonstrates this will be repaid through future under-programming.

Responding to the current economic climate, a medium term finance and resources strategy has been developed. This sets out the savings which must be achieved in 2010-11 to 2012-13 and strategy for determining, monitoring and achieving those savings.

Recommendations

The action plan includes recommendations to improve the following areas:

Area for development	Action plan reference
It is recommended that the Council considers monitoring key balance sheet balances as part of the monthly revenue monitoring reports. This would allow appropriate monitoring of debtors which is particularly important given the delays in receiving significant capital sums.	Three
The Council is currently forecasting a deficit balance on its uncommitted general reserves level at 31 March 2010, unless corrective action is taken quickly. In addition, the medium to long-term budget forecasts require the achievement of significant efficiencies during this period in order to balance the budget. We recognise that the Council has taken steps to address this situation, however, it remains essential for the Council to take forward the achievement of efficiencies through the strategic operating model as quickly as possible.	Four

Financial management

Financial position

The Council's general services budget was approved by elected members on 14 February 2008 when the administration group proposals to address the budget gap were approved. The result for the year was a decrease in the general fund balance of £1.456 million. After commitments, the un-earmarked general fund balance as at 31 March 2009 is reduced to £1.825 million. The factors contributing to the outturn compared to budget are detailed below. A number of these relate to one-off variances, project slippage or commitments carried forward and therefore will not contribute to a positive outturn in future years.

Income and Expenditure account	£'000
Net operating expenditure	**237,195**
Income: funding from revenue support grant, council tax and non-domestic rates	(223,824)
(Surplus) / deficit to be met from balance brought forward	**13,371**
Net additional amount required by statute to be debited or credited to the general fund balance for the year	(11,915)
Result for the year: decrease in general fund balance for the year	**1,456**
General fund balance brought forward	(8,927)
General fund balance carried forward	**(7,471)**

General fund balance	£'000
As at 31 March 2008	3,654
Add commitments as at 31 March 2008 de-committed	1,408
Less commitments as at 31 March 2009	(5,646)
2008-09 budget overspends	(3,872)
2008-09 budget underspends	6,281
Un-earmarked balance at 31 March 2009	**1,825**

Cost reductions / savings / slippage

- savings within education budget on staff costs (£2.573 million)
- underspends in community directorate - mainly project slippage (£1.324 million)
- one-off release of unutilised provision for single status costs following settlement in-year (£0.903 million)
- one-off additional revenue support grant (£0.876 million)
- one-off release from repairs and renewals fund (£0.364 million)

£6.281 million

£3.872 million

- one-off compensation payment to a contractor following multiple works compensation events related to PPP project (£2.850 million)
- energy costs in excess of budget (£1.0 million)
- additional debt charges arising from short term borrowing (£0.644 million)
- other unbudgeted costs

Cost pressures / overspends

Summary of main commitments

- revenue support grant to support PPP charges (£1.669 million)
- debt charges as a result of delayed capital receipts and increased short term borrowing (£0.488 million)
- amounts set aside for restructuring and retirals (£0.460 million)
- New Deal Gateway projects (£0.349 million)
- support for equal pay claims (£0.307 million)
- other commitments

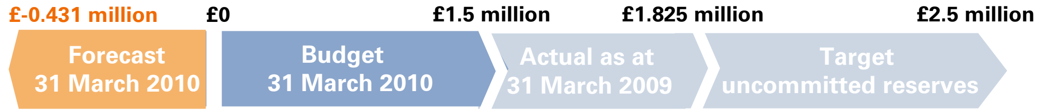
£5.646 million

Financial management

Reserves

The uncommitted balance within the general reserve is £1.825 million at 31 March 2009. This is now below the Council's target of £2.5 million. At the Council meeting on 12 February 2009, the administration group's 2009-10 budget was approved. At that time, it was agreed that the uncommitted reserves target was unchanged at £2.5 million, but noted that the approved budget will result in a reduction in the uncommitted reserve balance to £1.5 million as at 31 March 2010.

Per the budget monitoring reports to the policy and resources committee on 27 August 2009, the uncommitted general reserve balance is forecast to reduce to a deficit of £0.431 million by 31 March 2010. The main reason for this variance is within social work services. A review is being undertaken by Council officers of all budgets to ensure that a balanced 2009-10 budget is delivered in accordance with the Council's financial regulations. This includes a fundamental review of children's services placements within social work.



Housing revenue account

A balanced HRA budget was agreed at a special Council meeting on 14 February 2008. This assumed income and expenditure of £11.614 million. Income in 2008-09 was close to budget at £11.710 million. Expenditure in the year was £11.626 million. The Council's HRA balance therefore increased by £84,000. The balance on the HRA fund at 31 March 2009 was £0.523 million. Rent arrears as at 31 March 2009 totalled £0.716 million and represent 6.5% of gross rental income for the year. A bad debt provision of £0.581 million has been set.

Capital plan

Total expenditure in support of the capital programme amounted to £17.383 million (excluding HRA additions and match funded project costs). The programme was funded by capital receipts, government grants and contributions from revenue. Capital works undertaken in year include: schools refurbishment, payments to the University of Glasgow in respect of the purchase of the St. Andrew's Academy site, infrastructure works and meeting the shortfall between income from partner contributions and expenditure on the Kirkintilloch initiative.

At year end, a shortfall of £3.694 million in contributions due to the Council from partners in respect of the Kirkintilloch initiative was borne as a cost by the Council. Providing this cash-flow support contributed to the Council's need to increase short term borrowing and incur additional debt charges.

The capital plan for 2009-10 includes expenditure of £18.080 million and income of £14.090 million. The plan therefore assumes capital borrowing of £3.990 million above the government supported level in 2009-10. A 10 year capital programme has been proposed which eliminates this over-borrowing over the 10 year period to 2019-20.

Significant trading operations

Following a review of significant trading operations ("STOs") reported to the policy and resources committee on 31 January 2008, the committee approved the recommendation that only the property maintenance activity would be maintained from 1 April 2008 as a significant trading operation. Other trading operations would no longer be officially maintained and reported under the Local Government in Scotland Act 2003, however, a range of measures were identified to ensure that the Council could continue to demonstrate Best Value in the continuation of these activities.

Financial management

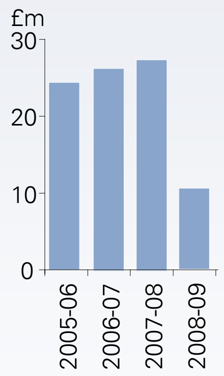
We completed a review of the the trading operation activity to ascertain the level to which the actions identified as necessary to demonstrate Best Value had been implemented. Our review identified that while the Council has identified the need for improved and revised arrangements for performance monitoring and reporting, there are a number of steps still required to fully implement these for former STOs in line with the policy and resources committee decision of 31 January 2008. A number of recommendations for improvement were accepted by management on 2 October 2009 and it was noted that a single performance management process across all services, including former STOs, is being pursued.

Councils have a statutory target of generating revenues not less than expenditure over a rolling three year period for each significant trading operation. The remaining significant trading operation, property maintenance, achieved this statutory objective. The surplus in 2008-09 was £77,000.

Treasury management

In 2008-09 the Council continued to experience more frequent periods of surplus cash which was available to invest, however, the temporary investments as at 31 March 2009 have reduced significantly compared with previous years. This reduction is mainly the result of meeting the cost of single status payments in 2008-09 and from slippage in land receipts resulting in the Council having to use existing cash resources to temporarily support capital expenditure projects until the receipts are achieved.

Temporary investments



Source: annual accounts

The approved counterparty list was updated and approved at a meeting of the policy and resources committee on 9 December 2008, it is used for placing short-term deposits. Deposits in 2008-09 were typically very short term due to the low interest rates available in the current economic climate.

The Icelandic banking system failed during the year with a significant impact on a number of local authorities in Scotland. The Council did not have any deposits with Icelandic banks at the time of the banking failure.

In accordance with The Prudential Code for Capital Finance in local authorities ("the Prudential Code"), management ensures that their borrowing does not exceed the authorised limit or operational boundary which is approved by Council. The annual report on the loans fund presented to the policy and resources committee 27 August 2009, requested approval to increase both these limits by £10.0 million to £138.0 million and £130.0 million respectively. This request was approved and helps ensure the Council has sufficient funds to meet contractual PPP payments in 2009-10.

In addition to monitoring compliance with the Prudential Code, the Council approved a set of treasury management indicators at the Council meeting on 1 April 2004. These set limits on:

- fixed and variable rate exposures;
- the maturity of fixed rate borrowing; and
- total principal sums invested for periods longer than 364 days.

These limits were not breached during the year.

The 2009-10 treasury management strategy was approved by Council on 3 March 2009. It included the annual treasury strategy and the mandatory prudential indicators required for compliance with the Prudential Code.

Financial management (continued)

Financial planning

The administration's general fund revenue budget of £251.683 million has been agreed for 2009-10 and performance is monitored monthly by the policy and resources committee. Revisions have been made to the corporate directorate reporting format to ensure it is aligned with the strategic operating model.

It is recommended that the Council considers monitoring key balance sheet balances as part of the monthly revenue monitoring reports. This would allow appropriate monitoring of debtors which is particularly important given the delays in receiving significant capital sums.

Recommendation three

Current economic climate and financial planning

The Council has considered the impact of the current economic climate and presented a report to Council on 12 February 2009 which began to consider the need for a financial strategy in the medium term. It identified the financial challenges facing the Council from 2010-11 and indicative savings which would be required in each year as shown below.

Source: Council minutes

Strategies identified by all party resources group to achieve savings at their meeting on 12 February 2009:

- a review of non-secondary school estate;
- considering alternative delivery models for leisure and cultural services;
- property rationalisation and asset management;
- review of organisational structure;
- opportunities for efficiency through shared services; and
- improved procurement arrangements.

Medium term finance and resources strategy

There has been significant progress on these proposals during the year. We have outlined within this report the development to date of the strategic operating model which provides opportunities for the Council to consider service delivery and organisational structure and a corporate asset management plan has also been approved during the year.

A further report was presented to Council on 27 August 2009, the medium term finance and resources strategy. This report sets out a summary of the financial model which identifies the savings required in 2010-11 to 2012-13 above, together with a sensitivity analysis of the model. It also includes the approach being taken by officers to implement to the strategic operating model. By implementing the medium term finance and resources strategy, members have approved a reporting timetable and process which ensures that all savings will be identified by management in respect of 2010-11 onwards. The report requires that the savings be monitored as part of the revenue monitoring process and that all savings will have an accountable officer responsible for delivering them.

Recommendation four

Governance and accountability

As part of the corporate improvement plan, a review of the committee and administrative structure was undertaken during 2009. The new arrangements approved are hoped to better integrate the political and service structures to allow better focus on priorities, improve member involvement in scrutiny and drive improvement activity.

During 2008-09 a detailed review of the way in which the Council conducts its business, delivers services to its customers and its structure has been conducted by senior officers. This resulted in a revised strategic operating model and senior management organisational structure being approved by Council on 3 March 2009. It has been developed taking account of the 15 national outcomes identified in the Council's single outcome agreement.

Following changes to the strategic operating model, a review of the administration scheme was undertaken in May 2009. Four new service delivery committees were approved.

The statement on internal control does not disclose any significant weaknesses and the Council has prepared a corporate governance statement which provides assurance to stakeholders on how the Council directs and controls its functions. The content of these statements is consistent with our understanding of the Council.

Internal audit has completed their agreed plan for the year and concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year to 31 March 2009. We reported that the majority of key financial controls are designed appropriately and operating effectively.

The Council's financial regulations and anti-fraud and corruption strategy were updated in September 2008, there is also a whistle blowing hotline which staff can use to report concern.

Internal audit reported on their investigation into a number of National Fraud Initiative matches in the year and a fraud group has been established, chaired by the head of finance and ICT which considers the progress of the NFI matches quarterly.

Recommendations

The action plan includes recommendations to improve the following areas:

Area for development	Action plan reference
It is recommended that an officer is given responsibility for receiving national reports and that a summary be prepared for a relevant committee in respect of each report.	Five

Corporate governance arrangements

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Entities are responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on corporate governance arrangements as they relate to:

- the Council's review of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Governance framework

As part of the corporate improvement plan, a review of the committee and administrative structure was undertaken during 2009 and new arrangements were subsequently approved which are hoped to better integrate the political and service structures to allow a better focus on priorities, improve member involvement in scrutiny and drive improvement activity.

Strategic operating model

During 2008-09, a detailed review of the way in which the Council conducts its business, delivers services to its customers and is structured has been conducted by senior officers. This resulted in a revised strategic operating model and senior management organisational structure being approved by Council on 3 March 2009.

The strategic operation model has been developed to provide opportunity for:

- quality of service and performance improvement;
- enhanced efficiency, removal of duplication and service sustainability;
- better alignment of services and resources; and
- decision making aligned to reflect the key themes within the East Dunbartonshire Community Plan to optimise improved, best value service delivery.

It has been developed taking account of the 15 national outcomes which are identified in the Council's single outcome agreement 2008-09 and included a process of testing the proposed strategic operating model for service delivery against the single outcome agreement, corporate development plan and the Council's strategic plan.

The model proposes a reduction in strategic service delivery groupings from 13 to 10 together with revisions to management arrangements. It is expected that there will a combination of staff redeployment, vacant post deletion, retraining and reduction in staffing.

It is too early in the process for us to comment on the effectiveness of the strategic operating model.

Corporate governance arrangements (continued)

Review of administration scheme

Following changes arising from implementation of the strategic operating model and to align the Council's administrative scheme and related decision making processes to the corporate objectives and priorities in the single outcome agreement, the Council approved a revised administrative scheme at their meeting on 21 May 2009. This included the establishment of four new committees responsible for service delivery as follows:

- development and infrastructure committee;
- housing and community services committee;
- education committee; and
- social work services committee.

The Council also agreed that proposals for service performance scrutiny and involvement by elected members in the community planning structures should be developed. This will address some of the recommendations made in the best value report in May 2009. We understand that the community planning partnership board is scheduled to hold a development seminar in mid-September which will address governance structures and the issues of scrutiny and challenge of community planning activity. The deliberations and conclusions of this event will provide a basis for developing Member involvement and would allow a fully integrated report to be presented to the Council in October around the scrutiny of (Council) services and community planning.

Proposals for the development of an elected member training programme were approved by the policy and resources committee on 1 May 2008 following identification of a risk arising from the Council's review of the priorities and risks framework. An elected member development framework was subsequently approved by Council on 24 June 2008 which included a timetable of actions including consideration of training needs, meetings with members and a number of workshops. An update was presented at the Council meeting on 7 May 2009 when the continuation of the elected member development framework was agreed along with a development training planner and some other actions to improve member development such as role profiles.

Corporate management team

The Council has a recent history of senior management leaving to take up senior posts elsewhere. The entire CMT changed in the period March 2008 to 31 March 2009. The successful applicants for the vacant posts all came from within the Council. The Council operates a rota system of acting up and deputising amongst directors and heads of service, as well as between heads of service and third tier managers. The purpose of this is to minimise the risk to service delivery of changes in senior management by establishing the continuity of key relationships.

Corporate governance arrangements (continued)

Systems of internal control

Statement of systems of internal financial control

The statement for 2008-09 provides details of the internal control environment and risk management and control framework. Management highlights that the system of internal control is based on a framework of guidance and regular management information, financial regulations, administrative and authorisation procedures, management supervision and a system of delegation and accountability. The statement identifies that it is informed by officers throughout the Council and the audit and risk management sub-committee as the scrutiny committee and by the work of internal and external audit.

Corporate governance statement

The Council has included a wider governance statement covering its overall internal control environment and corporate governance structures in the 2008-09 annual accounts. It provides assurance to stakeholders on how the Council directs and controls its functions and how it relates to communities. The corporate governance statement provides information on:

- strategic arrangements;
- managing the Council;
- community engagement; and
- stewardship, conduct and ethics.

This statement has been signed by the Leader of the Council and the Chief Executive.

Internal audit

Our planned audit approach seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. In accordance with our audit plan overview we placed reliance on the following areas of internal audit work.

- regularity audits;
- national non-domestic rates;
- housing rent arrears;
- authorised signatories; and
- statutory performance indicators.

Internal audit's annual report, submitted to the audit risk management sub-committee at their meeting on 18 June 2009 concluded that in respect of the Council's control environment, *'reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year to 31 March 2009'.*

In 2008-09 the internal audit function reporting line was to the head of finance and ICT. From 2009-10, following a review of the administration scheme internal audit operationally report to the head of finance and ICT but continue to have a right of access to the director of corporate and customer services to maintain their status and independence within the Council.

Corporate governance arrangements (continued)

Internal controls

Our interim management report submitted to the audit and risk management sub-committee on 26 May 2009 reported that

- in respect of organisation-wide controls:
  - six previously made IT recommendations were either partially implemented or had yet to be implemented;
  - four new IT recommendations were made; and
  - one new organisation-wide recommendation was made.
- in respect of key financial controls:
  - we made 12 recommendations, including one grade one recommendation made in respect of segregation of duties.

Our testing, combined with that of internal audit, over the design and operation of controls over significant risk points confirms that, with the exception of some minor weaknesses, controls are designed appropriately and operating effectively.

Corporate risk register

The corporate risk register was developed in September 2008 and forms part of the corporate risk management strategy. It identified 11 key risks and 18 other risks. We considered the impact of the top risks on our audit as part of the planning process.

The risk register is required to be continuously updated and a detailed review of the top risks should be carried out by the corporate management team every six months. A full review is required annually from January 2009. The most significant risk identified is a failure to achieve the financial efficiencies and savings required in the short to medium term. Each risk is assigned a risk owner who is responsible for developing actions to address and manage the risk.

Prevention and detection of fraud and irregularity

The Council's financial regulations and anti-fraud and anti-corruption strategy which were updated in September 2008 require any instances of suspected fraud or corruption to be reported to internal audit for investigation. During the year, a number of investigations were carried out by internal audit.

The Council has a whistle blowing hotline, with calls received by internal audit. Any significant frauds arising are reported to the audit and risk management sub-committee, as well as reporting to the corporate management team.

Corporate governance arrangements (continued)

National Fraud Initiative

NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The Council provided payroll data for the exercise. NFI has generated significant savings for Scottish public bodies, but if fraud or overpayments are not identified, assurances may be taken about internal arrangements for preventing and detecting fraud. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application.

We monitored the Council's involvement in NFI during the course of the 2008-09 audit, and updated our understanding of the status of investigations into data matches as part of our interim audit visit in early 2009.

We understand that during 2008-09 the head of finance & ICT set up, and chaired, a fraud group within which NFI is the significant agenda item. Meetings are attended by the chief internal auditor, fraud investigation officer, and principal revenues and benefits officer. A summary report of the outcomes of the NFI matches is presented to the group quarterly.

Housing Benefits

Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Their team are carrying out a programme of risk assessments of benefits services in all councils over a two year period.

Audit Scotland national reports

Audit Scotland National Reports

Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at Council level, as appropriate.

We have provided information to Audit Scotland based on a standard questionnaire which considers how the Council has acted on the findings of the national reports. During 2008-09, in conjunction with Council officers, we have provided an update in respect of the following national reports:

- impact of the race equality duty;
- impact of the local authority overview report;
- energy efficiency in the public sector; and
- asset management in councils;

Two further reports have now been issued by Audit Scotland which have not been considered by the Council to date. These are:

- drug and alcohol services in Scotland; and
- improving civil contingencies planning.

However, whilst specific reports have been considered by meetings of the corporate management team and committees during the year, there is no process in place for receiving and acting on the national reports. It is recommended that an officer is given responsibility for receiving these reports and that summary reports be prepared for a relevant committee. Such committee reports should include consideration of the content of the national report, the implications of the report's findings on the Council together with a proposed management action plan and monitoring process if appropriate.

Recommendation five

Asset Management

One of the national reports published in 2009 by Audit Scotland was *Asset Management in Councils*. The study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them, the Council assets were reported to be in better condition that average with 5% of buildings reported as being in poor condition and with poor suitability. The asset management report also criticises the expenditure on property maintenance, over £136 million, as being reactive rather than planned.

The Council's best value report issued by Audit Scotland in May 2009 commented that asset management required further development in a number of areas and that an asset management plan had not yet been developed. It also noted that the Council had not yet completed a survey of the suitability of it's assets to their operational requirements or proportion of floor area that was in satisfactory condition.

A paper was presented to Council at their meeting on 24 June which summarised the findings of the Audit Scotland national report. It also set out the actions the Council has taken to date and proposals for future development in respect of asset management. The Council approved its corporate asset management plan and a 10 year capital plan in April 2009.

Performance management

We audited the Council's 2008-09 statutory performance indicators submission against the Direction during August 2009. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return. The Accounts Commission Performance Indicator Direction for 2009-10 was issued in December 2008. It is no longer prescriptive in the specific indicators or basis of calculation which a local authority must follow. The Council already has in place a number indicators across the Council however the level of reporting on these currently varies.

During September and October 2008, the Accounts Commission and Audit Scotland conducted a review of Best Value and Community Planning at the Council. Their report was published in May 2009. It recommended that elected members need to improve their leadership of Best Value by identifying priorities for improvement and scrutinising improvement activity and that they should be more involved in the scrutiny and challenge of community planning activity. It highlighted the need to increase the pace of development in relation to customer services following the recent approval of Customer Service Strategy and improve access to Council services. Finally it noted a need to demonstrate that strategic resources, including finance, ICT, assets and the workforce are used more effectively to support the delivery of the Single Outcome Agreement.

The Council approved a strategic action plan shortly thereafter to address the weaknesses identified in the report. These actions were consolidated into the existing corporate improvement plan. Progress is monitored every 6 months against this plan.

Recommendations

The action plan includes recommendations to improve the following areas:

Area for development	Action plan reference
It is recommended that the Council develop a consolidated range of performance indicators which will be reported under the revised direction issued by the Accounts Commission, based on the indicators identified within the corporate development plan and at service level.	Six
It is recommended that more frequent reporting against the corporate improvement plan is introduced against the corporate improvement plan to ensure action is taken in a timely manner to address any indication that targets set will not be met.	Seven
It is recommended that the Council adopt a target of 10 days for the payment of supplier invoices and that monitoring reports continue to be produced at a departmental level to identify areas where improvement is required.	Eight

Performance management

Performance management

The *Code* requires that, in accordance with guidance provided by Audit Scotland, we consider the Council's arrangements in relation to Best Value and other aspects of the arrangements to manage performance in relation to economy, efficiency and effectiveness in the use of resources.

The responsibility to ensure that the Council has appropriate arrangements in place to manage and monitor performance lies with management and the members of the Council.

Statutory performance indicators

The Local Government Act 1992 requires the Council to publish information relating to their activities in any financial year which will facilitate the making of appropriate comparisons (by reference to the criteria of cost, economy and efficiency) between the standards of performance achieved by different authorities in that financial year; and the standards of performance achieved by such bodies in different financial years.

The Accounts Commission issues a Direction each year establishing the performance indicators to be published. The Council provide responsible officers with appropriate guidance and a completion timetable in advance of the year end. We received the draft performance indicators within the timetabled deadlines. We audited the Council's 2008-09 statutory performance indicators submission against this Direction during August 2009. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return.

The Accounts Commission Performance Indicator Direction for 2009-10, ("the Direction) was issued in December 2008. This has significantly reduced the range of information which it requires councils to report. Instead it seeks to align SPI arrangements with the responsibility authorities have under Best Value for selecting and using performance information to drive continuous improvement in services, and for reporting on those aspects of performance that are of most importance to local communities, to service users and to citizens.

For the period ending 31 March 2010, the Council is required to publish a greater range of information on:

- corporate issues, such as equalities and asset management, and how these impact on overall service delivery;
- service cost and overhead management and how this drives more efficient performance; and
- the impact made by front line services and how this relates to the service user and local Communities.

In particular, the Commission wants to see a greater understanding of cost information by councils and this being used in performance management and reporting to improve services.

The Council already has a set of fifty performance indicators which are incorporated into the Corporate Development Plan together with a number of indicators which are in place at service level, the reporting of performance against these indicators varies across the Council.

Performance management

It is recommended that the Council develop a consolidated range of indicators which will be monitored and reported under this Direction. These indicators should be aligned with the Council's internal operational targets and achievement of the aims of the single outcome agreement rather than being compiled as a stand alone exercise at the year end. Whilst we are aware a single performance management and reporting framework is already being developed it is important that publically reportable indicators are identified.

Recommendation six

Best Value

The Local Government in Scotland Act (2003) established Best Value and Community Planning as statutory duties for local authorities. In response to these duties, the Accounts Commission introduced specific arrangements for the audit of Best Value and Community Planning.

During September and October 2008, the Accounts Commission and Audit Scotland conducted a review of the Best Value and Community Planning with their report published in May 2009. The key positive conclusions from that report were:

- the Council has concentrated on improving its key services from a low baseline in 2001;
- there has been considerable improvement in areas such as education, social work and housing;
- the Council has positive leadership, with elected members and officers working well together;
- the Council has good working relationships with its partners;
- in areas where there is room for improvement the Council has an open, 'can-do' attitude;

However, the report noted that there had been slow progress in many significant areas including performance management, competiveness, the strategic use of resources, customer service and workforce development. It recommended that elected members need to improve their leadership of Best Value by identifying priorities for improvement and scrutinising improvement activity and that they should be more involved in the scrutiny and challenge of community planning activity. It highlighted the need to increase the pace of development in relation to customer services following the recent approval of Customer Service Strategy and improve access to Council services. Finally it noted a need to demonstrate that strategic resources, including finance, ICT, assets and the workforce are used more effectively to support the delivery of the Single Outcome Agreement.

The Council considered the Best Value report at their meeting on 21 May 2009 and agreed a strategic action plan which was submitted to the Accounts Commission. The action plan sets out the Council's response to the weaknesses and recommendations made. A number of these actions had previously been identified by the Council and included in the corporate improvement plan.

The corporate improvement plan was updated to include the recommendations arising from the Best Value report and actions in the strategic action plan to avoid duplication. A progress report was made to Council on 24 June 2009 in line with the six monthly review schedule.

It is recommended that more frequent reporting is introduced against the corporate improvement plan to ensure action is taken in a timely manner to address any indication that targets set will not be met. This is particularly important given the findings of the Best Value report which indicated a need to increase the pace of development and since the Council is undertaking a number of developments through the implementation of the Single Outcome Agreement 2009-10, and the strategic operating model.

Recommendation seven

Performance management

Annual efficiency statement

The annual efficiency statement prepared by the Council demonstrates the progress towards best value in maximising efficient working processes.

Cash efficiencies of £4.056 million were achieved in 2008-09 together with non cash savings arising from management of staff absences and overtime, reduced time processing service applications and increasing the use of the customer contact centre.

Performance management was improved though implementation of the corporate asset management plan and strategic operating model.

Long term efficiencies from 2009-10 and onwards will be delivered through the continued implementation of the strategic operating model including application of efficiency work streams and through efficiencies identified during budget setting in order to deliver a balanced budget.

Payment of invoices

The Council currently monitors payment of invoices against a 30 day target. A report to the policy and resources committee on 11 June noted that there has been marginal improvement in the percentage paid within the target but that the Council remains in the lowest quartile for all Scottish authorities.

The Scottish Government has set out a target in the Scottish Public Finance Manual to pay supplier invoices within 10 days. Whilst this does not apply directly to the Council, the Scottish Government has encouraged public sector bodies including local authorities to adopt this target. On 10 September, in response to parliamentary questions, the Scottish secretary of finance confirmed that all public bodies are being encouraged to adopt this target in as short a timescale as possible.

It is therefore recommended that the Council adopt a target of 10 days for the payment of supplier invoices and that monitoring reports continue to be produced at a departmental level to identify areas where improvement is required.

Recommendation eight

Single outcome agreement

The policy and resources committee agreed the single outcome agreement 2008-09 on 5 June 2008. It includes details of how the agreement fits with the other plans within the Council and the Council's contribution to achievement of the 15 national outcomes which were determined by the Scottish Government. The Council's Best Value report issued by Audit Scotland in May 2009 comments that, *"The SOA strongly reflects the community plan and contains a clear analysis of local context and issues. In line with approximately half of Scottish councils, the first SOA was developed jointly with community planning partners, one year ahead of schedule."*

As part of the arrangements for monitoring performance against the single outcome agreement and the corporate development plan, a framework for performance management and reporting was agreed with effect from November 2008. A corporate guidance note was issued to all directorates on performance management and reporting.

We have discussed as part of our review of governance arrangements how the strategic operating model and revised administration scheme have been aligned to the single outcome agreement.

Members approved the development process for the 2009-10 single outcome agreement at their meeting on 11 December 2008 and subsequently approved the 2009-10 single outcome agreement on 21 May 2009. Six monthly reviews of progress in implementation are to be submitted to Council meetings commencing in October 2009.

Appendix one – action plan

Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weakness may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	In 2009-10, it is expected that the Council will acquire a balance of shares in the East Dunbartonshire Development Company which will lead to this entity becoming a subsidiary undertaking within the group accounts. As the parent organisation, it is important that the Council ensures that the audit of the Development Company is completed earlier to allow prompt finalisation of the Council's group accounts. *(Grade two)*	Agreed. The importance of EDDC finalising its audit process timeously will be raised again with that company's management, regardless of the outcome of the share transfer.	Head of Finance & ICT 30 November 2009
2	The Council is currently at significant risk in relation to delays in realising significant capital receipts associated with a number of its major projects. The Council should continue to monitor its potential exposure to these delays in terms of the impact on revenue of additional borrowing costs. *(Grade one)*	Agreed. Updates will continue to be reported to elected members through the committee process.	Head of Finance & ICT Ongoing until resolution.
3	It is recommended that the Council considers monitoring key balance sheet balances as part of the monthly revenue monitoring reports. This would allow appropriate monitoring of debtors which is particularly important given the delays in receiving significant capital sums. *Grade two)*	Agreed. Updates will continue to be reported to elected members through the committee process.	Head of Finance & ICT Ongoing until resolution.
4	The Council is currently forecasting a deficit balance on its uncommitted general reserves level at 31 March 2010, unless corrective action is taken quickly. In addition, the medium to long-term budget forecasts require the achievement of significant efficiencies during this period in order to balance the budget. We recognise that the Council has taken steps to address this situation, however, it remains essential for the Council to take forward the achievement of efficiencies through the strategic operating model as quickly as possible. *(Grade one)*	Agreed. Officers are actively engaged in the finalisation of the council-wide Strategic Operating Model review allied to further revenue budget savings and efficiency proposals which will position the organisation for a period of financial constraint.	Chief Executive and Strategic Management Team. Ongoing.

Appendix one – action plan (continued)

No.	Issue and recommendation	Management response	Officer and due date
5	It is recommended that an officer is given responsibility for receiving national reports and that a summary be prepared for a relevant committee in respect of each report. *(Grade three)*	Agreed. The publication of national studies will be undertaken corporately, with the authorship of subsequent reports to relevant committees determined by the subject matter.	Head of Legal & Democratic Services Ongoing
6	It is recommended that the Council develop a consolidated range of performance indicators which will be reported under the revised direction, issued by the Accounts Commission, based on the indicators identified within the corporate development plan and at service level. *(Grade two)*	A performance management and reporting framework developed through the Strategic Operating Model was submitted for approval to the meeting of Council in October 2009. This includes revised key corporate performance indicators which enable effective measurement of progress on local outcomes prioritised for delivery in the Single Outcome Agreement and the Corporate Development Plan. These fifty indicators incorporate the statutory performance indicators set out by the Accounts Commission in its 2008 Direction together with service performance indicators. Those service PI's not included as key corporate indicators will be reported on quarterly through Strategic Committees. The framework also identifies quarterly reporting requirements to the relevant Strategic Committees, which include key corporate and service performance indicators with designated actions within the Council's Corporate Improvement Plan.	Head of Customer Relations & Organisational Development January 2010
7	It is recommended that more frequent reporting is introduced against the corporate improvement plan to ensure action is taken in a timely manner to address any indication that targets set will not be met. *(Grade three)*	The revised performance management and reporting framework submitted to the October meeting of Council will require Directorates to report on progress on a quarterly basis relevant to designated actions in the Corporate Improvement Plan. These reports will be supported by the six monthly review reports on implementation of the Corporate Improvement Plan which will continue to be reported to Council.	All Heads of Service Ongoing
8	It is recommended that the Council adopt a target of 10 days for the payment of supplier invoices and that monitoring reports continue to be produced at a departmental level to identify areas where improvement is required. *(Grade three)*	Noted. This recommendation requires the consideration of Policy & Resources Committee.	Head of Finance & ICT 3 December 2009