

# East Dunbartonshire Council

2016/17 Annual Audit Report



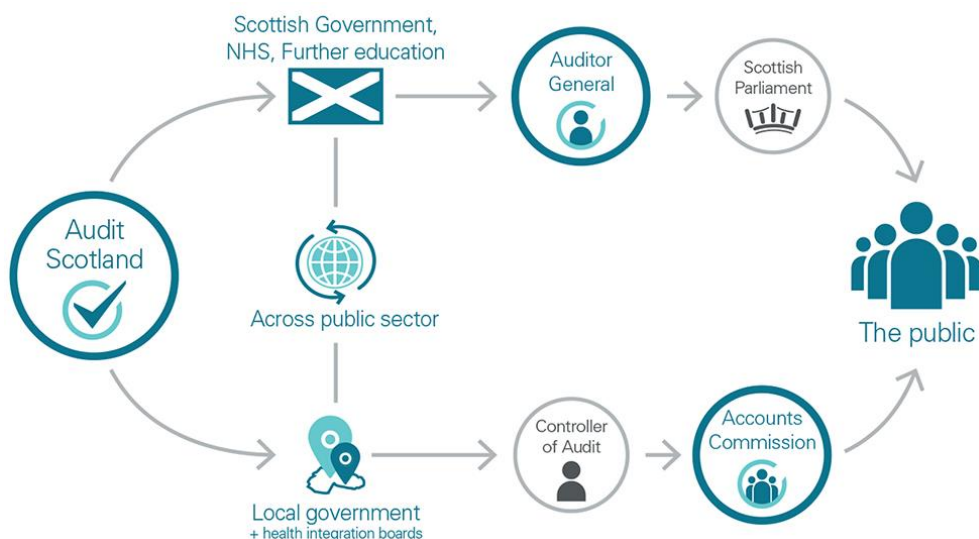
 AUDIT SCOTLAND

To the Members of East Dunbartonshire Council and the Controller of Audit  
26 September 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## Audit of the 2016/17 annual accounts

- 1 The financial statements of East Dunbartonshire Council for 2016/17 give a true and fair view of the state of its affairs and of its net expenditure for the year.
- 2 We have issued an unqualified independent auditor's report on the Council's accounts.
- 3 We have issued unqualified opinions on the accounts of the trusts administered by the Council.

## Financial management

- 4 Financial management is effective with a budget setting process focused on the Council's priorities.
- 5 The Council has delivered services in line with the total budget. In 2016/17, unrealised efficiency savings have been offset by underspends on services.
- 6 Internal controls over the main financial systems operated effectively in 2016/17. No significant internal controls weaknesses were identified in 2016/17.
- 7 The finance team was restructured in the year and recruitment is ongoing to strengthen the team. This is a positive move to ensure the team has the skills and capacity required to support the Council's needs in times of financial pressure.
- 8 The Council has completed the majority of the projects in its 2016/17 transformation programme. However, progress reports to members on the transformation programme did not show what benefits were achieved. Its priority projects with the largest potential savings were not achieved. Consequently, to improve accountability revised savings levels on these projects are reflected in 2017/18 service budgets.

## Financial sustainability

- 9 It is early days for the new Council. The revised strategic priorities and how effectively these are reflected in the Council's plans and performance monitoring will be reviewed as part of next year's audit.
- 10 The Council's financial position is sustainable in the foreseeable future. The Council is developing longer-term financial plans beyond 2018/19 which should demonstrate how it will address future budget challenges.
- 11 The Council is reporting good progress on projects in its 2017/18 transformation programme. Its transformation projects should lead to financial and other benefits in 2017/18 and beyond. This should be more clearly reported to members.
- 12 The updated Workforce Strategy demonstrates an improved focus in the approach to workforce planning. Detailed workforce plans are being developed.

## Governance and transparency

- 13** The Council has effective governance structures in place.
- 14** Improvements have been made to support members in their scrutiny roles. It is too early to assess the effectiveness of scrutiny since the elections.
- 15** The Council is open and transparent in the way that it conducts its main business, with the public able to attend meetings of the Council and its committees.
- 16** The Council is improving reports for members and has developed a new reporting template to be introduced from September 2017.

## Value for money

- 17** In the December 2016 Best Value report on East Dunbartonshire Council the Accounts Commission said it remained concerned about the Council's approach to Best Value and in particular, its capability to deliver its transformation programme and address its significant funding gap. An update was requested by the end of 2017.
- 18** The results of follow up audit work on the December 2016 Best Value report findings have been reported throughout this report. The Council has demonstrated that it responded positively to the key findings in the report. It has progressed a plan of improvement actions at a satisfactory pace, in line with expectations given the short time period since December 2016. Where it is too soon to evaluate the effectiveness of these actions, auditors will include an assessment of their impact in the 2017/18 annual audit report.
- 19** The leadership of the Council has been effective in demonstrating improved performance in managing the delivery of the transformation programme.
- 20** The Improvement Service has reported that 44% of the Council's 2015/16 performance indicators are in the top quartile of Scottish councils, an improved position from 2014 /15. The number of indicators in the bottom quartile has also decreased from 17% to 13%.

# Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of East Dunbartonshire Council.

2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit & Risk Management Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the Council's main financial systems and governance arrangements
- audit work covering the Council's arrangements for securing Best Value relating to financial management and financial sustainability. In addition, follow up audit work was undertaken in respect of the council's Best Value Audit Report, published in December 2016
- an audit of the Council's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions

4. East Dunbartonshire Council is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing

effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within East Dunbartonshire Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the Council's best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

# Part 1

## Audit of 2016/17 annual accounts



### Main judgements

**The financial statements of East Dunbartonshire Council for 2016/17 give a true and fair view of the state of its affairs and of its net expenditure for the year.**

**Unqualified audit opinions issued on the Council's annual accounts.**

**Unqualified audit opinions issued on the trusts administered by the Council.**

### Unqualified audit opinions

**13.** The annual accounts for the year ended 31 March 2017 were approved by the Audit & Risk Management Committee on 26 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

**14.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### Audit of charitable trusts administered by East Dunbartonshire Council

**15.** Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of East Dunbartonshire Council are sole trustees, irrespective of the size of the charity.

**16.** Due to the limited ability to spend funds held within charitable trusts where the Council is the sole trustee under the current structure, approval was sought from the Office of the Scottish Charity Regulator (OSCR) to reorganise the charitable trusts. In 2015/16 the Council managed seven charitable trusts and in 2016/17 the Council reduced the number of charitable trusts managed to five. In addition, at 31 March 2017 two of the charitable trusts (Kirkintilloch War Memorial Fund and the William Patrick Memorial Library Trust) were wound up with the funds of the William Patrick Memorial Library Trust being transferred to the East Dunbartonshire Leisure and Culture Trust to be used for the maintenance of the library. As a result, in 2017/18 the Council will manage three charitable trusts where it is the sole trustee.

**17.** Our duties as auditors of the charitable trusts administered by East Dunbartonshire Council are to:

The Council's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.



- express an opinion on whether the charity(s) financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to OSCR.

**18.** We received the trusts' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions in respect of the 2016/17 financial statements of East Dunbartonshire Council Charitable Trusts, Kirkintilloch War Memorial Fund, Robert Lillie Trust, Talbot Crosbie Bequest and the William Patrick Memorial Library Trust.

## Submission of the Council's annual accounts for audit

**19.** We received the unaudited annual accounts on 22 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, for the second time, the Council's group accounts included the financial results of East Dunbartonshire Integration Joint Board (IJB) within its area. We provided assurances to the external auditor of East Dunbartonshire IJB under International Standard on Auditing 402 (audit considerations relating to an entity using a service organization) in relation to the income received and expenditure incurred by the Council on behalf of the IJB.

**20.** The working papers provided with the unaudited annual accounts were of a good and improved standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly.

## Risk of material misstatement

**21.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

## Materiality

**22.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**23.** Our initial assessment of materiality for the annual accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2 \(page 10\)](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**24.** On receipt of the unaudited annual accounts and following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate.

## Exhibit 2

### Materiality values

| Materiality level   | Amount         |
|---|----------------|
| <b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2016 based on the latest audited accounts.  | £3.529 million |
| <b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 25% of overall materiality. | £0.882 million |
| <b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.  | £0.035 million |

Source: Audit Scotland Annual Audit Plan 2016/17

### How we evaluate misstatements

**25.** There were no material adjustments to the unaudited financial statements arising from our audit although we identified two significant misstatements in the unaudited financial statements that have been amended in the audited financial statements. Further details are provided in [Exhibit 3](#). There were no unadjusted errors in the financial statements which exceeded our clearly trivial reporting threshold.

### Significant findings

**26.** International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#) (where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included).

## Exhibit 3

### Significant findings from the audit of East Dunbartonshire Council

| Issue  | Resolution  |
|--|---|
| <p><b>1. Pension Fund Liability</b></p> <p>The net pension fund liability on the Council's balance sheet has increased from £145.9 million in 2015/16 to £215.6 million in 2016/17, an increase of £69.7 million. This is also reflected in the balance sheet for the group accounts. The appointed actuaries advised that this is as a result of a significant decrease in the net discount rate (much lower discount rate, net of slightly higher inflation) over this period.</p> <p>The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. The valuation of the fund as at 31</p> | <p>For information only. This is a national issue reported due to the size of the change.</p> |

| Issue   | Resolution   |
|---|--|
| <p>March 2017 stated that the assets held were sufficient to cover only 73% of the accrued liabilities. The appointed actuaries express the view that future pension liabilities will still be met by a combination of the pension scheme's asset holdings, future contributions by employers and employees and planned increases in employer's contributions.</p>  |  |
| <p><b>2. Capital expenditure</b></p> <p>Audit testing and Council finance officers identified a number of items of capital expenditure totalling £0.662 million that had been incorrectly posted to the 2017/18 financial year when this expenditure should have been accrued into the 2016/17 financial year.</p>  | <p>The audited annual accounts have been updated to include additional capital expenditure of £0.662 million and associated capital grant income of £0.376 million (£0.286 million net capital expenditure). There is no material impact on the Council's financial position.</p> <p><a href="#">Action plan (Appendix 1, point 1)</a></p> |
| <p><b>3. Provisions</b></p> <p>During 2016/17 the Council created a provision for the strategic operating model (SOM) back pay costs which relate to the implementation of the job evaluation outcomes as well as commitments as part of the revised pay and grading model. During our audit of the annual accounts, officers identified a number of amendments relating to 2016/17 that required this provision to be increased by £0.272 million.</p> | <p>The audited annual accounts have been updated to reflect this with no material impact on the Council's financial position.</p>  |

## Going concern

**27.** The financial statements of the Council, its group and the associated charitable trusts have been prepared on the going concern basis.

## Management commentary, annual governance statement and remuneration report

**28.** The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

**29.** Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

## Other findings

**30.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were changed and reflected in the audited annual accounts.

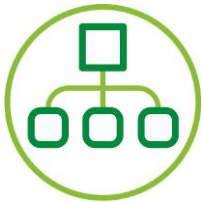
## **Objections and Whole of Government Accounts**

**31.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the annual accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations.

**32.** The Council submitted a consolidation pack for the whole of government accounts audit on 21 July 2017.

# Part 2

## Financial management



### Main judgements

**Financial management is effective with a budget setting process focused on the Council's priorities.**

**The Council has delivered services in line with the total budget. In 2016/17, unrealised efficiency savings have been offset by underspends on services.**

**The Council has completed the majority of the projects in its 2016/17 transformation programme. However, progress reports to members on the transformation programme did not show what benefits were achieved. Its priority projects with the largest potential savings were not achieved. Consequently, to improve accountability revised savings levels on these projects are reflected in 2017/18 service budgets.**

**Internal controls over the main financial systems operated effectively in 2016/17. No significant internal controls weaknesses were identified in 2016/17.**

**The format of financial monitoring reports for members has been improved for 2017/18.**

**The finance team was restructured in the year and recruitment is ongoing to strengthen the team. This is a positive move to ensure the team has the skills and capacity required to support the Council's needs in times of financial pressure.**

### Financial performance in 2016/17

**33.** In March 2016 the Council approved a budget of £241.180 million for 2016/17. The budget was aligned to the Council's main priorities and highlighted that the Council faces an increasingly challenging financial position. At this time it was estimated that the Council needed to save around £27.6 million in the three years from 2017/18 to 2019/20, with almost £10 million of savings required in 2016/17.

**34.** The Council has delivered services in line with its total budget. A favourable variance of £0.503 million is reported against budgeted general fund services net expenditure of £239.876 million. In addition £1.085 million extra income is reported compared to a budget of £235.309 million. This results in a total underspend on the services net budget of £1.588 million.

**35.** The Council had budgeted to use £1.8 million of its general fund reserves in 2016/17. The actual amount used per the Movement in Reserves Statement was £2.143 million, an increase of £0.343 million (only 0.1% of net expenditure). A

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

shortfall in estimated procurement and efficiency savings, due to be funded from reserves, was offset by the underspends on services.

**36.** During the financial year members of the Policy & Resources Committee were presented with regular reports which provided updates on the provisional year end financial outturn including revisions to the general fund service budgets or the application of general fund balances to support efficiency savings targets.

**37.** While the Council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The more significant over and underspends are summarised in [Exhibit 4](#).

## Exhibit 4

### Summary of significant over and under spends against budget

| Area                          | Under/over spend (£m) | Reason(s) for variance   |
|-------------------------------|-----------------------|--|
| <b>Underspends</b>            |                       |  |
| Education                     | £2.274m               | This underspend represents 2% of the total education budget and was mainly due to reduced payroll costs from teacher vacancies and underspends with payments to agencies and other bodies, the largest underspend relating to insurance payment savings. |
| Debt Charges                  | £0.878m               | Underspend due to prudent treasury management, continuing low market rates for new borrowing and the use of internal resources to part fund the Council's capital programme.   |
| <b>Overspends</b>             |                       |  |
| Organisational Transformation | £1.717m               | Overspend mainly due to procurement savings not achieved of £2.1 million, offset with some small savings from vacancies and the centralisation of the training budget of £0.496 million.   |
| Miscellaneous Services        | £1.214m               | Overspends on insurance costs, strain on the pension fund payments from exit packages and the negotiated settlements relating to two employee tribunal cases.  |

Source: East Dunbartonshire Council – 2016/17 Unaudited Annual Accounts and Year End Outturn Report to Council (27 June 2017)

**38.** The outturn of the general services budget is, broadly satisfactory. However, there are a number of budget lines which require review to ensure that future budgets reflect the underlying cost of the services. In August 2017, the Transformation Programme Board agreed that a Zero Based Budgeting (ZBB) exercise is to be included in the transformation programme going forward. We will monitor progress in this area.

## Housing Revenue Account

**39.** The Council is required by legislation to maintain a separate Housing Revenue Account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The income requirement for the HRA in 2015/16 was set at £12.448 million and was to be funded from council house rents. This resulted in a rent increase of 2%, and increased the average weekly rent based on a 48 week period from £73.07 to £74.53.

**40.** The Council's current tenant arrears in 2016/17 were £0.694 million. This is an increase of 18% from the level recorded in 2015/16 (£0.589 million). As a consequence, the HRA bad debt provision was increased to £0.862 million in 2016/17 from £0.746 million in 2015/16. This represents a deteriorating position.

**41.** Arrears are the main focus for the Council's Housing Service and the impact of Universal Credit and welfare reform continues to affect the level of arrears. Although the Council has an increased number of arrears cases being referred to the sheriff court, this is a lengthy process. The arrears team issues direct debit mandates to all new tenants and discusses rent payment methods as tenancies are agreed. In January 2017 a specialist team was set up within the Housing Service to work solely on rent arrears management and Universal Credit. The Housing Service follows the Council's rent arrears management procedure and continues to work with the Revenues and Benefits section to ensure all Discretionary Housing Payment applications have been submitted.

**42.** In 2016/17, the Council recorded a deficit on HRA services of £3.002 million. This represents a further deterioration from the prior year in which a deficit of £2.257 million was returned. However, after applying statutory accounting adjustments there was an increase of £1.163 million on the HRA balance, resulting in a closing balance of £3.217 million at the year end. These statutory adjustments are required to remove depreciation and impairment charges and to include loans fund costs, capital expenditure funded by the HRA and capital grants and contributions.

## Efficiency savings

**43.** With reduced funding from government and increased demand for financial services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

**44.** The Council is required to make an annual return to the Scottish Government in respect of recurring efficiency savings. The Policy & Resources Committee routinely receives budget monitoring reports including savings plans which have been risk assessed.

**45.** The total efficiency savings included in the Council's 2016/17 revenue budget were £9.976 million although the actual savings achieved were £5.634 million (56% of the total planned savings). This adds to the financial pressures faced by the Council in 2017/18. The under achievement of efficiency savings was mainly due to the Council's decision to defer the implementation of some staff terms and conditions review savings (£1.273 million) to 2017/18 and the £2.1 million lower than expected procurement savings referred to earlier.

## Progress on the 2016/17 transformation programme

**46.** The Council's 2016/17 transformation programme was approved by the Council in March 2016 and an updated programme was approved in June 2016. This programme included 27 prioritised projects with expected savings of £4.825 million, which are included in the total efficiency savings referred above.

**47.** The Council monitors progress on each of its transformation projects via its performance management system, Covalent. This includes a comprehensive record for each project which includes its priority score, project sponsor and manager, project milestones with completion dates and estimated benefits.

**48.** Officers reported to us in September 2017 the following:

- 20 projects have been completed
- The Council's 2 highest priority projects in the 2016/17 transformation programme were procurement and a review of terms and conditions with anticipated in year savings of £2.1 million and £1.273 million respectively. These savings were not achieved, as detailed in paragraph 45. These are no longer separate projects in the transformation programme, instead to improve accountability revised savings levels on these projects are reflected in service budgets. This is a positive change, showing a clearer picture of progress in achieving savings.
- 3 projects that were due to be completed in 2016/17 have been delayed and carried forward to 2017/18: Oracle Procure to Pay (P2P), Charging Framework & Review of Letting and Fleet Service Review. These projects had projected benefits for 2016/17 totalling £0.536 million.
- 2 projects are now monitored as part of the capital programme (see paragraph 55).

**49.** Despite not completing its highest priority projects, the Council demonstrated a good completion rate overall through effective management of projects in 2016/17.

**50.** A Transformation Update report to the Council in June 2017 includes an overview of the completed projects in 2016/17. It reports in summary that 43% of projects had been completed, with 5% carried forward to 2017/18. It is unclear how the completed projects relate to the 43% completion rate. Officers have now demonstrated that this completion rate includes 29 projects from the 2017/18 transformation programme, but this is not clear in the report presented to members.

**51.** We would expect to see a comparison between the estimated savings included in the programme for each project and the actual savings achieved. The update on the 2016/17 transformation programme only lists £0.1 million of efficiencies achieved by one project, with no details of the savings achieved by any of the other projects. Nor does it show how much of the overall £4.825 million savings included in the programme were achieved.

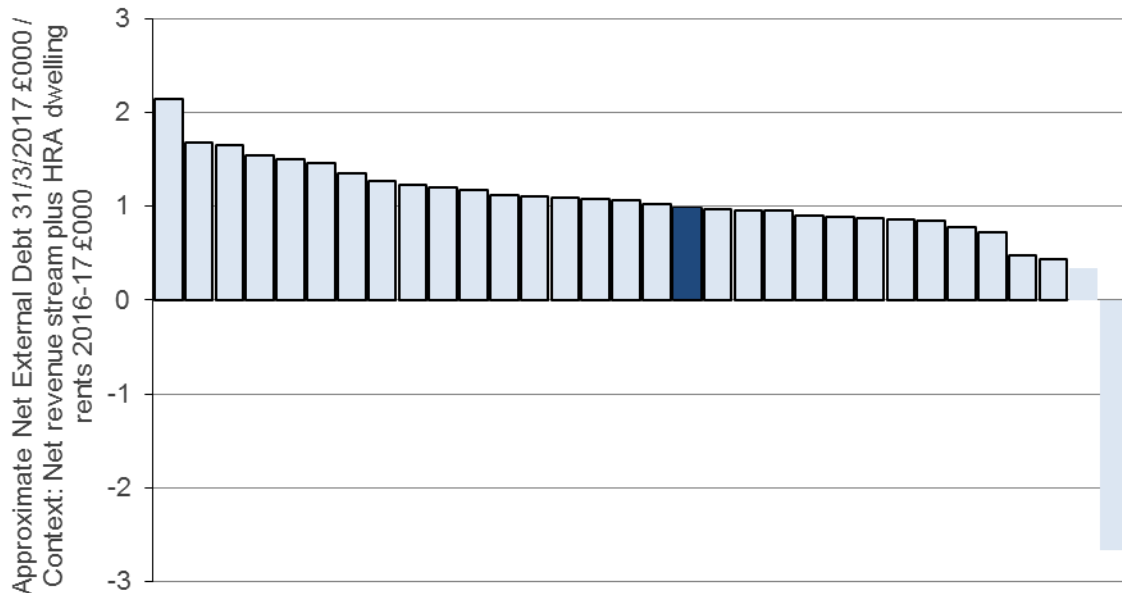
## **Borrowing in 2016/17**

**52.** The Council's outstanding loans at 31 March 2017 were £168 million, an increase of £20 million on the previous year. £13.8 million of loan principal repayments were made and there were £33.6 million of new loans taken out during 2016/17. Analysing net external debt as a proportion of net revenue stream gives an indication of the relative indebtedness of the Council. [Exhibit 5](#) overleaf shows approximate net external debt as at 31 March 2017 as a percentage of net revenue stream (including HRA dwelling rents) for all mainland Scottish councils. East Dunbartonshire Council is highlighted in [Exhibit 5](#) as being in the middle of the range of debt levels, with approximate net external debt of £245.5 million at 31 March 2017 (with net external debt being total external borrowing and long-term liabilities less short-term investments).



## Exhibit 5

Approximate net external debt as a percentage of net revenue stream including HRA dwelling rents



Source: Scottish councils' unaudited annual accounts 2016/17

**53.** The capital financing requirement is a measure of the capital expenditure incurred historically by the Council that can be financed by external debt. The capital financing requirement at 31 March 2017 was £288.979 million which is £34.691 million higher than the Council's total actual external borrowing and long-term liabilities balance of £254.288 million at 31 March 2017 (external borrowing of £167.547 million and PFI liability of £86.741 million).

**54.** For a number of years, the Council has used reserves to support capital programmes, which it considers is a short term, prudent strategy in the current economic environment where investment returns are low. However the Council has recognised that this situation is not sustainable in the long term and the Council's 2017/18 Treasury Management Strategy includes a plan to increase borrowing by £5 million in 2017/18, £10 million in 2018/19 and £5 million in 2019/20. This position continues to be monitored by the Council as part of its overall treasury management strategy.

## Capital programme 2016/17

**55.** The total capital budget for 2016/17 was £70.934 million, £56.813 million for General Services and £14.121 million for the HRA. Actual capital expenditure was £66.988 million, £57.309 million for General Services and £9.679 million for the HRA). The total underspend of £3.946 million represent 6% of the total capital budget for 2016/17 (8% in 2015/16). Whilst the increased General Services programme was delivered as planned with a slight overspend of almost £0.5 million, HRA capital expenditure was £4.442 million lower than the original budget (31% below budget). This was mainly due to slippage of some of the planned new build housing projects and slippage in some of the Energy Efficiency

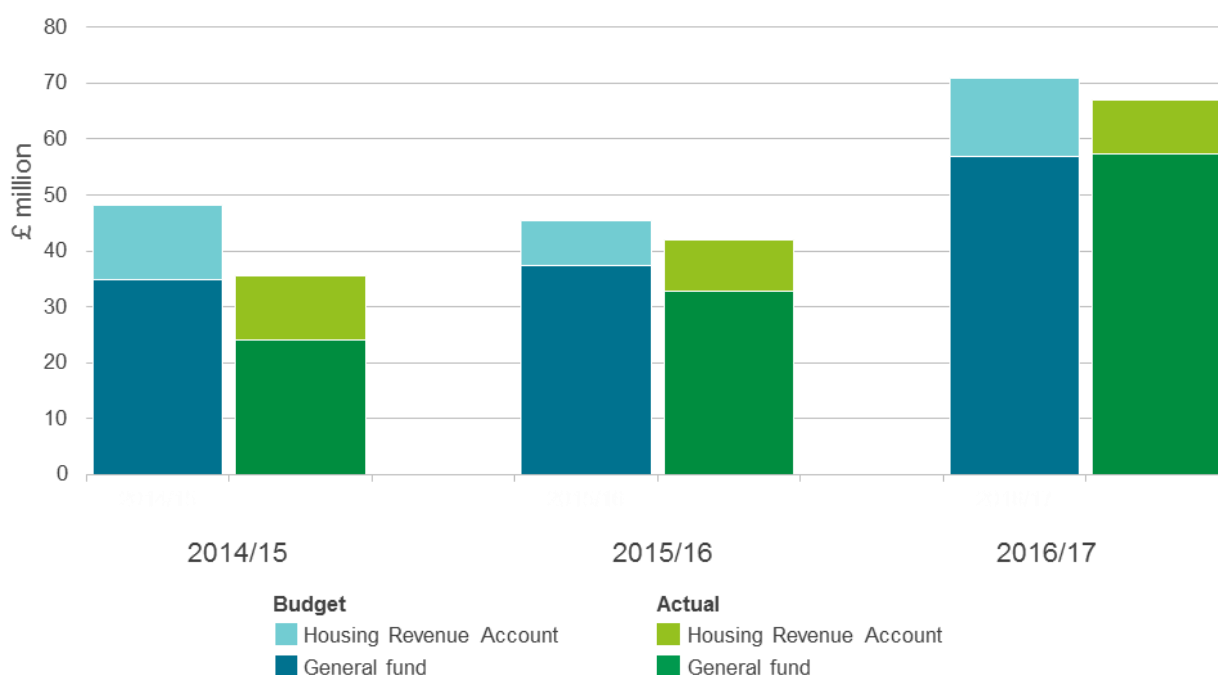
Standard for Social Housing (EESH) projects and other building projects which have been carried forward into 2017/18.

**56.** In recent years the Council has significantly reduced slippage in the delivery of its total capital programme as outlined in [Exhibit 6](#). During the course of the year the Council has completed a significant number of projects within its capital programme including:

- Holy Trinity Primary School (new build)
- Thomas Muir Primary School (new build)
- Lenzie Meadow Primary School (new build)
- Huntershill Sports Hub (new build)
- Kilmardinny House (refurbishment and extension)
- Phases 2, 3 and 4 of the accommodation strategy (remodelling)
- Bearsden Community Hub (remodelling)
- Bishopbriggs War Memorial Hall (refurbishment)

## Exhibit 6

### Capital slippage compared to budget (General Fund and HRA)



Source: East Dunbartonshire Council Annual Accounts 2014/15 to 2016/17

## Budgetary monitoring and control

**57.** In February 2017 the Council agreed the Transformational Change & Budget Reduction Strategy 2017/18 to 2018/19 which details the planned savings required in order for the Council to meet its funding gap. This strategy includes a number of proposed actions that will affect the savings and budget figures in the medium term, up to 2020/21 in some cases.

**58.** The scrutiny of financial performance is delegated to the Policy & Resources Committee which receives regular revenue and capital monitoring reports. Our Interim Audit Report issued in May 2017, highlighted financial monitoring reports for members included projected actual expenditure and variance against budget figures to the year end. However, we identified that the effectiveness of these reports could be improved by the inclusion of phased budget figures as well as actual expenditure and variance against budget to date for the period being reported. As a result, during 2017/18 finance officers have reviewed and revised the format of revenue budget monitoring reports in line with our recommendations.

## Financial capacity within the Council

**59.** At the end of July 2016 the Group Director – Finance & Corporate Assets left the Council and was replaced by a Chief Finance Officer (CFO) who is now the Section 95 Officer responsible for the proper administration of the council's financial affairs. Whilst the previous Group Director was a member of the Corporate Management Team (CMT <sup>(1)</sup>), the new CFO is a third tier officer reporting to the Depute Chief Executive – Education, People & Business and is not a member of CMT. The Accounts Commission, in a number of recent publications, has expressed the view that a council's Section 95 Officer should preferably be a member of a council's CMT, or equivalent, given the key nature of the role and the financial guidance that the postholder can offer. Whilst this is not the case the CFO is a member of the Strategic Management Team <sup>(2)</sup> and regularly attends CMT meetings.

**60.** The Council have experienced staffing changes and reductions within the finance and revenue and benefits teams over recent years, including officers key to both the delivery of the financial statements and day to day financial management. During 2016/17 departmental restructuring took place and changes were made within the finance team. The finance team now comprises three sections (Budgets & Transformation; HRA, Capital & Treasury; and Annual Accounts, Returns Income & Technical Accounting) each headed up by a Principal Accountant and reporting to the CFO. The finance team is also in the process of recruiting additional experienced finance staff and staff to train towards an accountancy qualification. We feel that this is a positive move to ensuring that the finance team is sufficiently resourced in terms of time, experience and knowledge to ensure internal financial controls are operating effectively, to support the preparation of the financial statements and to support the Council decision making process.

## Internal controls

**61.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**62.** Our findings were included in our Interim Audit Report that was presented to the Audit & Risk Management Committee on 31 August 2017. We identified several control weaknesses, which we do not consider to be significant in terms of their impact on 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. We did however identify two areas where additional audit testing was required to gain the necessary assurance for the financial statements audit. We selected a sample of employees to verify that they were valid employees of the Council and we substantively tested a sample of payments to suppliers to ensure they were made to an existing supplier for a valid reason in the normal course of business for East Dunbartonshire Council. No issues were identified from this additional testing.

<sup>(1)</sup> The Council's CMT comprises the Chief Executive and 2 Depute Chief Executives.

<sup>(2)</sup> The Council's Strategic Management Team comprises the CMT and all Strategic Lead Officers.

**63.** Our review of internal controls in 2015/16 identified that existing controls relating to Carefirst system payments to private care providers needed to be improved. In 2016/17 substantive testing in relation to payments made to care providers through the Carefirst system was undertaken by us and the Council's Internal Audit section and no significant errors were identified.

**64.** The annual governance statement in the Council's 2016/17 annual accounts refers to the fact that, on the basis of work completed by Internal Audit in 2016/17, the Council's internal control procedures were generally found to operate as intended with reasonable assurance being provided on the integrity of these controls.

## Prevention and detection of fraud

**65.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, corporate fraud and corruption.

**66.** Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud.

## National Fraud Initiative

**67.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

**68.** The latest position on NFI investigations by the Council is summarised in [Exhibit 7](#) and highlights that the Council has made steady progress in investigating those matches issued to the Council in January and May 2017 that were recommended for investigation.

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## Exhibit 7

### National Fraud Initiative

**Total number of matches**



**4,172**

**Number recommended for investigation**



**787**

**Completed/closed investigations**



**414**

Source: East Dunbartonshire Council and NFI website

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**69.** NFI progress and outcomes are reported regularly to the Audit & Risk Management Committee and senior management by Internal Audit. The Fraud Team Leader oversees NFI work including the completion of the NFI self appraisal checklist which we were advised is used for planning of future NFI work, as opposed to monitoring the progress of NFI work, which is carried out using the NFI website.

**70.** We concluded that the Council is pro-active in investigating matches and reporting the outcomes of NFI activity.

# Part 3

## Financial sustainability



### Main judgements

The new Council is working on proposals for its strategic priorities. How effectively these are reflected in the Council's Local Outcome Improvement Plan and financial plans will be reviewed as part of next year's audit.

The 2017/18 budget was set at £246.9 million, with a funding gap of £12.5 million, £11.5 million is to be met from efficiency and income generation proposals, and £1 million from reserves. The latest monitoring report shows a projected overspend of £0.402 million.

The Council's financial position is sustainable in the foreseeable future.

The Council's Strategic Planning and Performance Framework 2017/18 is the key driver in identifying budget savings that need to be made to secure longer term sustainability. The Council is developing longer-term financial plans beyond 2018/19.

The Council is reporting good progress on projects in its 2017/18 transformation programme. Its transformation projects should lead to financial and other benefits in 2017/18 and beyond. This should be more clearly reported to members.

The updated Workforce Strategy demonstrates an improved focus in the approach to workforce planning. Detailed workforce plans are being developed.

### Setting strategic priorities

**71.** The Council priorities are set out in its Local Outcome Improvement Plan (LOIP) 2016-2019. The LOIP sets out the strategic direction, priorities and outcomes which have been agreed for delivery with community planning partners. The LOIP is linked to the Transformational Change & Budget Reduction Strategy 2017/18 to 2018/19 and the Business Improvement Plan (BIPs) of each Council strategic group. BIPs are three year rolling strategic plans which set out the priorities for each of the strategic groups and identify their contribution to the delivery of the Council's local outcomes. Each BIP includes an improvement action plan (which incorporates a performance scorecard) that highlights how strategic groups will continue to improve performance and how these improvements will be monitored. This is consistent with good practice.

**72.** Following the local government elections the administration of the Council changed from a Labour/Conservative coalition minority administration to a minority SNP administration. The Council is currently working with officers towards agreeing the Council's new strategic priorities, through its Strategic Planning Framework. The priorities will be reflected in new service plans and the 2018/19 budget, to be set next February. The priorities are to be aligned with the community planning partnership plans.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

**73.** The Council is currently in the process of working alongside community partners to develop a LOIP to cover the ten year period from 2017 to 2027. This plan acts as the Council's highest level planning document to which all other plans align. The aim of the LOIP, to reduce inequality and improve outcomes for the people of East Dunbartonshire, will therefore continue to fundamentally inform and be at the forefront of the budget setting process.

**74.** The revised strategic priorities and how effectively these are reflected in the Council's plans and performance monitoring will be reviewed as part of next year's audit.

## Financial planning

**75.** All Council's face a number of challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in central government funding. Audit Scotland and the Account Commission's report [\*Scotland's public finances – a follow-up audit: Progress in meeting the challenges\*](#) (June 2014), highlights that public bodies need to develop effective longer-term financial plans which identify potential risks and ensure spending decisions are affordable. The Accounts Commission recommended that when future Scottish Government funding is not known, councils should plan for a range of scenarios so they are prepared for different levels of funding and income. In a report to the Council in September 2017, the Depute Chief Executive describes how it is developing its longer term financial planning as part of its Strategic Planning and Performance Framework. This will include an updated medium term financial model, financial strategy and assessment of longer term financial risks as part of its budget setting process to be concluded in February 2018.

### [Action plan \(Appendix 1, point 2\)](#)

**76.** In February 2017 the Council approved its 'Strategic Planning and Performance Framework 2017/18: Transformational Change and Budget Reduction' report. This details the planned savings required to meet funding gaps. Efficiency savings of £12.5 million are required in 2017/18 and an estimated £32.8 million in the following three years to maintain financial balance. It includes financial projections which include best and worst case scenarios of the levels of grant funding from the Scottish Government, changes in cost pressures and the effect that each scenario will have on the funding gap of the Council. The strategy includes a number of risk areas that could affect the savings and budget figures in the medium-term, up to 2020/21 in some cases.

**77.** The 2017/18 budget was set at £246.9 million with a funding gap of £12.5 million. Plans to address this gap include £11.5 million of savings, with the remaining £1 million being financed from reserves. The savings plans are made up of 23 management efficiency actions totalling £2.6 million and 15 budget reduction and income generation proposals totalling £8.9 million.

**78.** The savings target for this year is ambitious given that the Council realised £5.634 million in efficiency savings in 2016/17. However, the latest 2017/18 revenue monitoring report presented to the Policy & Resources Committee in August 2017 shows that the projected outturn savings is £11.4 million, which is in line with the savings target. There is a small projected overspend reported on general services of £0.402 million.

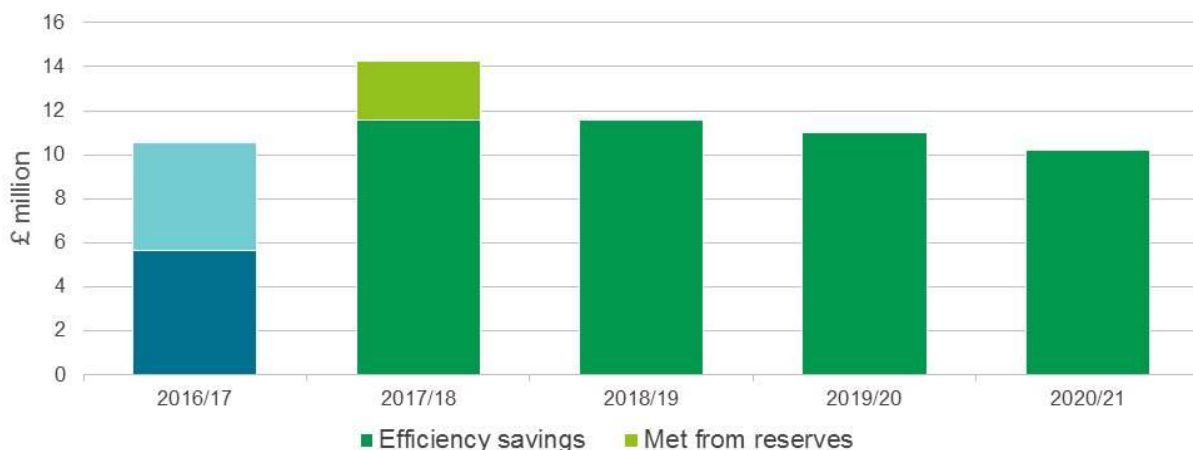
**79.** Financial projections for 2018/19 to 2020/21, forecast funding gaps of £11.6 million, £11 million and £10.2 million respectively see [Exhibit 8](#). These estimates represent baseline figures and are likely to vary until the finance settlement and the passing of the Budget (Scotland) Bill through the Scottish Parliament. The Council has also calculated separate estimated funding gaps for these years based on best and worst case scenarios. The Council has no detailed plans for how the gaps will be met in 2018/19 to 2020/21. The Council plans to use

its Strategic Planning and Performance Framework to identify management efficiencies and transformational activity to meet funding gaps. The Council anticipates a planned use of reserves in some instances although the amounts to be transferred from the general fund in 2018/19 to 2020/21 have yet to be identified. The Council recognises that the use of reserves to meet budget gaps is not sustainable in the longer term.

[Action plan \(Appendix 1, point 3\)](#)

## Exhibit 8

### Identified funding gaps 2017/18 – 2020/21



Actual

Planned

Source: East Dunbartonshire Council

## The Transformation Programme

80. The Council's transformation programme is part of its strategic planning and performance framework for meeting future funding gaps. In the December 2016 Best Value audit report, the Accounts Commission concluded that the Council did not demonstrate adequate capability to deliver its ambitious transformation programme which affected its ability to address its significant funding gap. This was evidenced by failure to meet targets and lack of clarity about the savings to be achieved.
81. In February 2017 the Council approved the 2017/18 transformation programme. In June 2017 an update on the transformation programme was presented to members and included a project overview which highlights the main achievements in 2016/17 and provides a summary of the main projects being taken forward in 2017/18.
82. Our review of Council reports on the 2017/18 transformation programme noted the following:
  - February 2017 - 21 projects included in the programme, with projected savings of £0.352 million.
  - June 2017 – 34 projects included in the reprioritised programme (none detailed as complete), with projected savings of £0.705 million.



- August 2017 – 29 projects included in the reprioritised programme, with projected savings of £0.662 million.

**83.** The high number of projects in the transformation programme makes it a challenging programme to manage and deliver. Based on the Council's 2016/17 track record in completing projects, the expectation is that the projects included on the programme will be delivered. The August 2017 update to the Council reports good progress with the 2017/18 transformation programme with all 29 projects shown as either completed, or in progress and on target. The update reports could provide a clearer trail to demonstrate which projects have been added to and removed from the transformation programme during the year.

**84.** Where projects have been identified as complete (e.g. in the August 2017 report), the update reports should also provide a comparison between the estimated savings included in the programme for each project and the actual savings achieved. Since 2016/17 the Council has made improvements to the format and content of update reports (e.g. including a narrative update for each project) but recognises that further improvements are required.

**85.** The estimated savings from the 2017/18 transformation programme are included within the management efficiency actions and budget reduction and income generation proposals. These proposals are the key drivers of the budget savings required for the Council to ensure sustainability in the future. Progress against them is reported in revenue budget monitoring reports presented to the Policy & Resources Committee. The transformation programme update reports and the revenue budget monitoring reports should be clearly linked.

**86.** Savings from transformation projects in 2017/18 are a relatively small part of overall planned savings. The transformation programme had previously made a greater financial contribution to the Council's planned annual savings. However, it is acknowledged that on top of the financial estimates, a number of the transformation projects will lead to financial benefits beyond 2017/18, not yet estimated, or will lead to service improvement with no financial benefits.

[Action plan \(Appendix 1, point 4\)](#)

## Reserves

**87.** One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the Council increased from £28.5 million in 2015/16 to £28.8 million in 2016/17. This includes the Council's general fund, HRA and capital and repair fund balances.

**88.** The general fund reserve is the largest reserve and has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows. The Council's general fund balance at 31 March 2017 was £17.664 million, as illustrated in [Exhibit 9](#) overleaf.

**89.** The Council reviews the level of its uncommitted (unearmarked) reserves when setting the budget each year. The level of uncommitted general fund reserves as at 31 March 2017 was £11.654 million which represents 4% of the 2016/17 net cost of services (£266.241 million). Planned commitments from the general fund balance amounted to £6.010 million and include modernisation, efficiency and reform initiatives, service commitments to ongoing projects and miscellaneous budget pressures for 2017/18. Committed (earmarked) balances represent 34% (2015/16: 50%) of the total general fund balance.

**90.** [Exhibit 9](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. This shows that the general fund reserve reached a peak of £19.7 million in 2015/16 but has reduced in

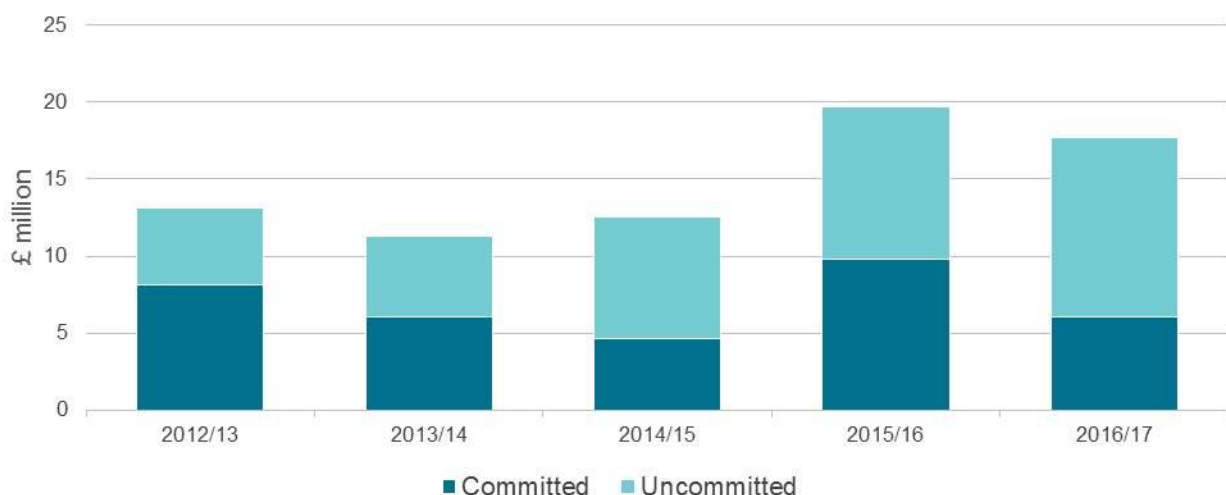
2016/17. At 31 March 2017 the Council has the following uncommitted general fund reserve balances:

- Contingency Reserve (£4.570 million) – maintained to provide improved financial resilience in future years.
- Prudential Reserve (£3.750 million) – maintained to underpin operational and borrowing activity.
- Treasury Management Reserve (£2.984 million) – maintained to provide stability during the delivery of the capital programme.

**91.** The maintenance of these reserves demonstrates a prudent approach by the Council and the level of reserves appears adequate. It is acknowledged by the Council that reserves can only be spent once and it is not a sustainable approach to use them to fund budget gaps over the longer term.

## Exhibit 9

### Analysis of general fund over last five years



Source: East Dunbartonshire Council Annual Accounts 2012/13 to 2016/17

## Treasury management

**92.** In line with the Council's Treasury Management Strategy for 2016/17, borrowing undertaken during the year was a combination of short-term and long-term debt. At 31 March 2017, long term borrowing stood at £144.9 million, an increase of £12.7 million on the 2016 level of £132.2 million. During the same period, short term borrowing increased from £15.7 million to £22.6 million. As a result interest payable on loans increased by £0.3 million to £7.9 million in 2016/17.

**93.** The Council's total external debt of £254.288 million was within the authorised limit of £300 million and operational boundary of £290 million as set out in the Council's Treasury Management Strategy. The current borrowing position is prudent and the Council will continue to consider the affordability of future borrowing. As noted at earlier, the Council's capital borrowing requirement has not reached its limit and the Council's treasury management strategy includes a plan to increase its level of debt over the medium to long term, if required.

## Lender Option Borrower Option

**94.** During the year we received correspondence on a number of council's using Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term

loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate.

**95.** At the start of 2016/17 East Dunbartonshire Council had three of these standard LOBO loans with Barclay's Bank totalling £14.4 million. However, in June 2016 Barclay's Bank wrote to the Council advising that they were waiving their right to change the applicable interest rate on the outstanding loans. This was a business decision taken by Barclay's Bank. In effect, the LOBO loans became fixed rate loans at their current interest rates and the maturity date remains the same. Therefore, at 31 March 2017 the Council had no LOBO loans in place.

## Workforce planning

**96.** Audit Scotland's [\*Local government in Scotland – performance and challenges 2017\*](#) report highlighted the need to plan and manage reductions to Council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver, manage and scrutinise services effectively.

**97.** The report advises councils to have effective systems in place for managing their workforce and monitoring staffing levels, and that information should be aligned to other long-term plans such as financial plans.

**98.** The Council's workforce (FTE) over the period has fallen from 3,693 to 3,592 (a reduction of 3%) comprising 1,219 teachers and other staff totalling 2,373. The Council has no plans for any further reduction in staff numbers in the near future as the focus of the 2017/18 transformation programme is the prioritisation of financial efficiency through more cost effective procurement, contract management and management efficiency actions relating to cost containment and cost avoidance.

**99.** In June 2015, the Council approved a Workforce Strategy covering 2015 to 2018. The strategy outlined the Council's high level principles relating to workforce planning, leadership, employee wellbeing and career development. The Workforce Strategy was accompanied by a Workforce Improvement Plan, which set out programmes and activity, both ongoing and emerging, associated with the strategy.

**100.** The December 2016 Best Value audit report said that workforce planning needed to improve further, with a workforce plan that is better integrated to the transformation programme, ensuring that the skills needed to achieve the programme will be available and the targeted savings are monitored and achieved.

**101.** In June 2017, the Council approved an updated Workforce Strategy for 2017/18. This includes a profile of the workforce at 31 March 2017, including numbers of staff, age profile, length of service and turnover analysis.

**102.** The 2017/18 Workforce Improvement Plan is contained within the updated Workforce Strategy. The strategy includes four phased approach to help the Council develop a three year Workforce and Skill Profile for 2018 to 2021 relating to succession planning, cluster analysis, scenario planning and planning and implementation. This approach reflects guidance in the Accounts Commission's and Auditor General for Scotland's Public Sector Workforce Report (2013).

**103.** In compiling the plan, the Council has also used benchmarking and engagement with other Scottish local authorities and the Improvement Service to identify best practice.

**104.** The Council is to be provided with an update against the Workforce Improvement Plan in December 2017. We recommend this update includes specific tasks and timescales to deliver on each phase of the plan.

[Action plan \(Appendix 1, point 5\)](#)

**105.** The Council's updated Workforce Strategy demonstrates an improved focus in the approach to workforce planning. However, detailed workforce plans demonstrating how the Council will structure its workforce to deliver its strategic priorities are still to be put in place. The Council's progress in this area will be reported by us in 2017/18.

## Equal pay

**106.** In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA) and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory. East Dunbartonshire Council implemented single status in March 2008 and reports that between 2004/05 and 2015/16 it has spent £6 million compensating workers who had been unfairly paid and settling equal pay claims.

**107.** Almost 27,000 equal pay claims across Scotland remain live and at the end of September 2016 East Dunbartonshire Council still had 442 live claims (which related to 370 individual claimants). Since December 2016 the Council has completed a further wholesale job evaluation exercise (following on from that undertaken in 2008) along with a terms and conditions review and is working towards settling all outstanding equal pay claims. The job evaluation exercise (implemented in July 2017) was undertaken to provide assurance that the current pay and grading model is gender neutral.

**108.** As at September 2017, the Council has settled two thirds of its outstanding claims, leaving one third outstanding. The settlement agreements issued to date, include compensation for both historic inequality and also compensation for "second wave claims" in respect of the period of pay protection immediately following the implementation of job evaluation in 2008, thereby circumventing the need for both the Council and claimants to go through a second claims process. Workers could potentially still make new claims against councils. This means that councils needs to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty.

# Part 4

## Governance and transparency



### Main Judgements

**The Council has effective governance structures in place.**

**Improvements have been made to support members in their scrutiny roles. It is too early to assess the effectiveness of scrutiny since the elections.**

**The Council is open and transparent in the way that it conducts its main business, with the public able to attend meetings of the Council and its committees.**

**The Council is improving reports for members and has developed a new reporting template to be introduced from September 2017.**

### Changes in the council

**109.** The Council saw significant changes in its elected members following the local government elections in May 2017, with thirteen of its twenty two members being elected for the first time. The Council recognise this brings opportunities with new ideas and approaches from the members but it also provides challenges for the Council in ensuring members have the skills they need to be effective in their roles.

#### Members induction and development

**110.** Following the local government elections in May 2017 there has been a sustained period of elected member training, recognising the number of newly elected members. A series of events have also been held between strategic lead officers and elected members to raise awareness of respective roles and responsibilities.

**111.** A members training plan has been implemented and includes a range of activities including coverage on ethical standards, Councillors Code of Conduct and training for scrutiny panel members. The Council has confirmed good attendance at training sessions amongst new members in particular. Individual development plans are being prepared for all members.

**112.** At the August 2017 meeting of the Audit & Risk Management Committee, members received a presentation from the Chief Finance Officer on the role of the Council's Internal Audit function. External Audit will give a similar presentation to a future meeting of the committee.

**113.** We reviewed the induction training plan provided to members and concluded that its coverage looks comprehensive. It is too early to assess the effectiveness of the training provided and we will be considering this in the context of scrutiny in the Council reported below.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

## Governance arrangements

**114.** We reviewed the Council's governance and accountability arrangements which included:

- confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective
- assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body
- confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management
- confirming that decision makers have the information they need to scrutinise, challenge and make transparent decisions
- ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions.

**115.** We concluded that the Council's overall arrangements are effective in that they support good governance and accountability.

## Scrutiny arrangements

**116.** The Audit and Risk Committee became a separate committee in September 2016. Since the elections, a new Chair has been appointed and it has met on one occasion. With the change in members, it is too early for us to comment on the effectiveness of this committee. We will comment further in next year's report. In the meantime we would encourage the committee Chair to build a self assessment of the committee's effectiveness into its agenda cycle, using for example, Chartered Institute of Public and Accountancy (CIPFA) guidance.

**117.** The Council also operates two scrutiny panels (Transformation, Economy and Employment, and Transformation and Community Wellbeing) to help elected members scrutinise the Council's transformation programme and its impact on the services, as well as the Council's priorities and significant financial challenges. However, the Best Value Report highlighted the following:

- The focus of scrutiny panel meetings continues to be more on members receiving a wide range of information through presentations rather than on scrutinising specific issues of importance.
- In some cases, it is clearer why issues are being examined by scrutiny panels, but this remains variable. This is likely to be helped by Audit and Risk Management becoming a full committee from September 2016. It now operates independently of the Policy and Resources Committee, setting its own agenda and directing the scrutiny panels' work.
- Officers have recently started providing scrutiny panel members with information to allow them to track changes resulting from their scrutiny. Officers recognise that they can improve on how well and how quickly they provide this information.

**118.** The Accounts Commission concluded in December 2016 that member scrutiny must improve further with members needing to set the priorities of scrutiny and determine the quantity and content of information they require to fulfil their responsibilities.

**119.** In response to this, the Council has revised the format of committee reports including recommendations, items to 'note', summary information, etc. being reviewed. A new template for committee reports has been developed to make recommendations and the risks associated with decisions clearer. The new



template is being introduced from September 2017. To facilitate better decision making and scrutiny, officers should complement the new template by striving to overcome some of the current complexity and presenting reports in plain English. After a period of time, the Council should request feedback from members on the effectiveness of the new report format, level of detail and use of plain English.

#### [Action plan \(Appendix 1, point 6\)](#)

**120.** The work of the scrutiny panels continues with action logs supplementing the agendas. This ensures that members are advised of the progress of required actions with the motivation that these actions are closed within a committee cycle. Opportunities have been taken to reduce the volume of complex information presented to members with, for example, budget reports providing high level detail supplemented with useful guidance for members similar to that provided in Accounts Commission and Audit Scotland national performance reports.

**121.** Following the local government elections in May 2017 the Council gained thirteen new councillors. Two of these councillors who come from the opposition parties, have been appointed chairs of the scrutiny panels. The first meetings of the scrutiny panels took place in September 2017. The Council acknowledges that there is still room for further improvement in the work of the scrutiny panels, particularly around clarifying the reasons why Audit & Risk Committee has selected specific areas for scrutiny and the focus of panels' scrutiny.

**122.** Improvements have been made to support members in their scrutiny role, however it is too early to assess the effectiveness of scrutiny since the elections. We will report on the effectiveness of the scrutiny panels and the Audit & Risk Committee in 2017/18.

### Internal audit

**123.** Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.

**124.** We carried out a review of the adequacy of the Council's internal audit function and concluded that it operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**125.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in relation to social care payments. Also, as part of our wider dimension work, we considered the work of internal audit in relation to the National Fraud Initiative.

### Transparency

**126.** Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

**127.** There is evidence from a number of sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.

**128.** The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys, and how to make a complaint.

**129.** The Council makes its annual accounts available on its website. These include a management commentary which provides details of performance against

budget, information on the use of reserves and risks and uncertainties facing the Council.

**130.** Overall, we concluded that the Council conducts its business in an open and transparent manner.

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

**131.** The Council has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. Also there are established procedures for preventing and detecting bribery and corruption including a Corporate Fraud & Corruption Policy and an Anti-Bribery Policy.

**132.** During 2016/17 we reviewed the registers of interest completed by members and found that they met basic requirements in most areas. However, senior officers do not complete full registers of interest like those completed by members, declaring interests in other bodies.

[Action plan \(Appendix 1, point 7\)](#)

## **Integration of health and social care**

**133.** Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on 1 April 2016. This brings together NHS and local council social care services under one partnership arrangement for each council area. These health and social care partnerships are formally known as Integration Joint Boards (IJBs).

**134.** Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value.

**135.** The East Dunbartonshire Integration Joint Board (commonly known as East Dunbartonshire Health & Social Care Partnership) is provided in partnership with NHS Greater Glasgow & Clyde and became fully operational on 3 September 2015, in advance of the formal start date of 1 April 2016 set out in the Act. The financial transactions of the East Dunbartonshire IJB have been consolidated into the Council's group accounts.

**136.** East Dunbartonshire IJB has its own performance management framework to ensure that progress against key plans, strategies and budgets are monitored routinely in order that timely action can be taken to address any performance issues. Progress is monitored by senior management, appropriate scrutiny committees, the IJB and all partners. The IJB faces financial challenges in the future as well as service delivery challenges from the new landscape.

**137.** Audit Scotland's publication [Health and Social Care Integration](#) (December 2015) highlighted that there are significant risks which need to be addressed if health and social care integration is to fundamentally change the delivery of health and care services. The report highlighted that health boards and their IJB partners needed to have realistic plans in place to make health and social care integration work effectively. In addition, Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This report is not due until Spring 2018 and auditors will be in a better position to assess the effectiveness of the partnership arrangements after the work on this report has been completed.

## **Local scrutiny plan**

**138.** The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to East Dunbartonshire Council in April 2017. It was also presented to the Audit & Risk Management Committee on 11 April 2017. The LAN did not identify any new scrutiny risks in the



year which would require specific scrutiny work during 2017/18. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

## Equalities

**139.** The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

**140.** We reviewed the Council's Equality Outcomes and Mainstreaming Progress Report (April 2017) and concluded the Council has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the Council
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

**141.** We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.

# Part 5

## Value for money



### Main judgements

The results of follow up audit work on the December 2016 Best Value report findings have been reported throughout this report. The Council has demonstrated that it responded positively to the key findings in the report. It has progressed a plan of improvement actions at a satisfactory pace, in line with expectations given the short time period since December 2016. Where it is too soon to evaluate the effectiveness of these actions, auditors will include an assessment of their impact in the 2017/18 annual audit report.

The leadership of the Council has been effective in demonstrating improved performance in managing the delivery of the transformation programme.

The Council's performance management framework includes a number of strands such as service self-evaluations, service reviews and benchmarking against Local Government Benchmarking Framework (LGBF).

The Improvement Service has reported that 44% of the Council's 2015/16 performance indicators are in the top quartile of Scottish councils, an improved position from 2014 /15. The number of indicators in the bottom quartile has also decreased from 17% to 13%.

We will continue to monitor the Council's progress with its improvement plans as part of the annual audit. An update will be reported next year.

### Best Value – Follow Up of the Previous Audit Report

**142.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value arrangements in the Council will be assessed over the five year audit appointment, as part of the annual audit work. This year's Best Value audit work focused on following up progress made by the Council in response to the Best Value audit report published in December 2016.

**143.** In March 2017, the Council considered and accepted all of the recommendations made by the Accounts Commission in the Best Value audit report. In addition, the Council approved the management response to each of the Accounts Commission's findings.

**144.** The report contained five recommendations, two of which related to the Council's transformation programme. The Accounts Commission concluded that the Council did not demonstrate adequate capability to deliver its ambitious transformation programme which affected its ability to address its significant funding gap. This was evidenced by failure to meet targets and lack of clarity about the savings to be achieved.

**145.** The Accounts Commission's findings in December 2016 said that:

Value for money is concerned with using resources effectively and continually improving services.

- The Council has worked to respond to the concerns expressed by the Commission in our previous findings in June 2015. There is better prioritisation of improvement projects and some stronger aspects of workforce planning. Scrutiny of performance by elected members is also improving.
- But we remain concerned that the council does not demonstrate adequate capability to deliver its ambitious transformation programme and thus its ability to address its significant funding gap. Our concern is evidenced by failure to meet targets and lack of clarity about the savings to be achieved.
- More competent programme management is essential to ensure public confidence in the council's approach to managing change.
- Workforce planning needs to improve further, with a workforce plan that is better integrated to the transformation programme, ensuring that the skills needed to achieve the programme will be available and the targeted savings are monitored and achieved.
- Member scrutiny must also improve further. Members need to set the priorities of scrutiny and determine the quantity and content of information they require to fulfil their responsibilities.
- The Commission needs the council to demonstrate effective leadership in ensuring the required change. We will continue our interest in the council and require the Controller of Audit to update us by the end of 2017 through the annual audit and in our revised approach to auditing Best Value.

**146.** As part of the audit we have reported on the Council's response as follows:

|   |  |
|---|--|
| Delivery of the Transformation Programme      | Paragraphs 46-51 and 80-86 on the delivery of the Transformation Programme<br><br>Parts 2 & 3 covering the impact on financial management and financial sustainability |
| Workforce planning                            | Paragraphs 96-105 on the 2017/18 update to the Workforce Strategy  |
| Member scrutiny                               | Paragraphs 116-122 on the scrutiny arrangements in place in the new Council<br><br>Paragraphs 110-113 on the induction and development of elected members              |
| Leadership of the Council's improvement plans | Paragraphs 149-152   |

**147.** As part of the follow up work auditors met with a number of senior officers and some elected members to hear their views on the areas of coverage above. These discussions contributed to the audit judgements which are reported throughout this report and included in the key messages at pages 4 and 5. The Controller of Audit will consider the results of this follow up work, and report to the Accounts Commission on the extent of improvements made.

**148.** The Council has demonstrated that it responded positively to the key findings in the report. It has progressed a plan of improvement actions at a satisfactory pace, in line with expectations given the short time period since December 2016. We will continue to monitor the council's progress with its improvement plans as part of the annual audit. An update will be reported next year.

### Leadership of the Council's improvement plans

**149.** In March 2017 the Council considered and accepted all of the recommendations made by the Accounts Commission in the Best Value audit report. In addition, the Council approved the management response to each of the Accounts Commission's findings. Progress in addressing the Accounts Commission's recommendations is monitored using the Council's performance monitoring system (Covalent) and on 27 June 2017 the Council received progress reports covering the workforce strategy and transformation programme.

**150.** The Transformational Change and Budget Reduction Strategy for 2017/18 was agreed by Council in February 2017. Officer leadership is provided by the Transformation Programme Board, chaired by the Chief Executive, and attended by the SMT. We identified improvements in the way the Council was managing its transformation projects with the establishment of the Programme Management Office which is now part of the Finance Section. This leadership structure has demonstrated improved performance in managing the delivery of the transformation programme. Areas for further improvement are highlighted throughout this report and should be considered by the SMT and members.

**151.** The Council has demonstrated that it has taken improvement actions to respond to all key findings of the December 2016 Best Value Report. Evidence of this is included throughout this report. The impact of actions to date varies:

- some actions have led to immediate improvements in the Council, e.g. improved management of the transformation programme leading to good progress being reported on completion of projects
- some are longer term projects such as the development of comprehensive workforce plans
- in other cases the 2017 elections have meant that the impact of changes is still to be demonstrated, e.g. the scrutiny arrangements under the new council are still to bed in and their effectiveness cannot be evaluated.

Where the impact of the improvement actions is still to be demonstrated by the Council, they will be kept under review by audit and an assessment of impact reported in the 2017/18 annual audit report. Improvement recommendations identified by audit relevant to specific Best Value arrangements have been included in the action plan at [Appendix 1](#).

**152.** The Council operates in a challenging political and financial environment. Following the elections in May 2017, the council is run by an SNP minority administration. It will be important for councillors to continue to work together to make decisions on service priorities, to secure financial sustainability in the longer term

### Shared services

**153.** The Accounts Commission and Auditor General have highlighted the benefits to the people who use council services, communities and public sector organisations of working well together. Our recent report, Local government in Scotland: Performances and Challenges 2017, however, identified limited evidence of councils collaborating or sharing services.

**154.** In June 2016 the Council approved the establishment of the East Dunbartonshire, Inverclyde and West Dunbartonshire Councils' Shared Service Joint Committee (SSJC). The committee became effective from 1 November 2016,

and established a governance framework for the potential sharing of services. The SSJC has met twice in 2016/17, with a strategic business case for the sharing of roads and transportation services approved by the SSJC in March 2017.

**155.** In December 2016 we reported that the councils had an ambitious aim of sharing services from April 2017 onwards. The councils estimated indicative savings of 15% over three years from sharing the proposed frontline services, which initially includes roads and transportation and fleet management. The savings that East Dunbartonshire Council could achieve will be clearer once the councils had developed detailed business plans.

**156.** Following the approval of the strategic business case by the SSJC in March 2017, a consultant has been appointed and a project programme has been issued. For roads and transportation services a detailed business plan is being developed. Opportunities for further sharing of services are currently being scoped.

**157.** Progress was delayed during 2016/17, however since the year end there has been increased activity as noted earlier. The Council should ensure they continue to build on the progress made to realise efficiencies and the benefits of sharing resources.

## Following the public pound

**158.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

**159.** The Council's financial regulations contain a specific section on relationships with arms-length external organisations (ALEOs). This emphasises that the Chief Executive and Depute Chief Executives will be responsible for ensuring that any funding relationships with external bodies, other than those which are operated on a contractual basis, are operated in accordance with the Code of Guidance on Funding External Bodies and Following the Public Pound issued by the Accounts Commission, the associated COSLA Operational Guidance, and the Council's own local arrangements for allocating funds to ALEOs.

**160.** The Council allocates funding to only one ALEO, East Dunbartonshire Leisure and Culture Trust Limited, and reporting and monitoring arrangements are in place for the funding provided to this ALEO.

**161.** During 2015/16 we identified that the Council does not have formal arrangements in place to ensure compliance with European Commission State Aid Regulations. We confirmed that the Council is aware of its obligations to ensure compliance with these regulations and is currently working on the development of policy and procedures to support this.

**162.** We concluded that the Council has appropriate arrangements for ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

**163.** During 2017 Audit Scotland, on behalf of the Accounts Commission for Scotland, has been undertaking a review of ALEOs. This includes consideration of whether councils have sound governance and controls in place, taking into account the Following the Public Pound (FPP) code, and the skills, knowledge and experience of board members. The audit is planned to be reported in Spring 2018.

## Performance management

**164.** We identified that the Council has an established performance management framework that managers and elected members clearly understand, and that this provides a sound base for improvement. The Council's performance information is reported through quarterly How Good Is Our Service (HGIOS) evaluation reviews

and annual Business Improvement Plans (BIPs). These are supported by a Directorate Performance Guide which sets out good practice in performance reporting. HGIOS evaluation reviews are produced for each strategic group within both Council directorates and incorporate progress updates on BIPs. BIPs are three year rolling plans which set out the priorities for each strategic group and identify their contribution to the delivery of the Council's local outcomes. Each BIP includes an improvement action plan (which incorporates a performance scorecard) that highlights how strategic groups will continue to improve performance and how these improvements will be monitored.

**165.** In accordance with the governance and scrutiny arrangements relevant to the Council's Strategic Planning and Performance Framework, scrutiny of directorate performance is undertaken by the relevant strategic committee.

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

## Overview of performance targets

**167.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**168.** The most recent [National Benchmarking Overview Report 2015/16](#) by the Improvement Service was published in February 2017 and covered the 2015/16 reporting period. Council officers carried out an analysis of the report immediately after its publication which was issued as a brief technical note to all elected members accompanied by high level statistics. A more detailed analysis of the Improvement Service report was also completed by officers but held over as the Council was in the pre-election phase before the local government elections in May 2017. The detailed analysis and the accompanying Improvement Service report have been considered by the CMT and both were presented to the Policy & Resources Committee in August 2017.

**169.** The overall conclusion from the Council's analysis of the Improvement Service report was that the Council has continued to sustain and improve performance with the majority of all indicators for which data is currently available either remaining static or reporting improvement when compared with the previous year. The Council's rank performance when compared across Scottish councils now reports 44% of the Council's indicators in the top quartile, an improved position from the 2014 /15 reporting period. The number of indicators in the bottom quartile has also decreased from 17% to 13%.

**170.** HGIOS evaluation reviews are presented to the relevant strategic committees and provide a concise and comprehensive review of each strategic group's performance and activity covering the following areas:

- Local delivery story – includes overview of performance
- Prioritised performance indicators (PI) – for each PI highlights the status (On target, 2-5% off target and Off target), quarterly and annual outcomes, annual target and update notes
- Absence management – provides quarterly and annual absence statistics for the strategic service and Council wide
- Progress on BIPs – for each area for improvement highlights the status (On target, 2-5% off target and Off target), progress against target and update notes

- Financial targets – for each main service division provides annual budget, projected annual outturn, variance against budget and narrative where significant variances shown
- Consultation / engagement activity with stakeholders
- Policy and strategy documents published in the period
- Improvement priorities – lists areas requiring improvement, improvement activity and implementation timescales
- Current delivery focus – lists ongoing service priority areas.

**171.** [Exhibit 10](#) shows a breakdown of annual and quarterly performance reported and the overall status of these indicators for each strategic group within both Council directorates as reported in the HGIOS evaluation reviews for 2016/17.

## Exhibit 10

### Performance information for 2016/17

| Directorates                              | On target  | 2-5% off target | Off target |
|---|------------|-----------------|------------|
| Place, Neighbourhood and Corporate Assets |            |                 |            |
| Comprises the following strategic groups: |            |                 |            |
| • Assets and Facilities                   | 5          | 2               | 2          |
| • Housing                                 | 4          |                 | 7          |
| • Land, Planning and Development          | 2          |                 | 3          |
| • Neighbourhood Services                  | 3          | 1               | 2          |
| • Place and Community Planning            | 25         |                 | 5          |
| • Roads and Transportation                | 6          |                 |            |
| Education, People and Business            |            |                 |            |
| Comprises the following strategic groups: |            |                 |            |
| • Education                               | 24         | 2               |            |
| • Finance, Audit and Performance          | 11         | 4               | 8          |
| • Legal and Democratic Services           | 1          |                 | 5          |
| • Organisational Transformation           | 7          |                 | 5          |
| • Customer and Digital Services           | 17         |                 | 12         |
| • Integrated Health and Social Care       | 11         | 4               | 4          |
| <b>Total</b>                              | <b>116</b> | <b>13</b>       | <b>53</b>  |

Source: How Good Is Our Service Reports 2016/17

**172.** Areas of good or improving performance include:

- 9.62 days were lost to sickness absence on average per employee for all employees (teaching and non-teaching staff) against a target of 10 days
- The average number of days taken to fully process new Housing Benefit claims was 27.2 days against a target of 30 days.



**173.** Areas identified for improvement include:

- Reducing current tenant arrears which were £0.7 million at 31 March 2017 against a target of £0.51 million
- Reviewing the performance of re-letting properties in relation to number of days and standard along with reduction in void target timescales. Average length of time taken to re-let properties in 2016/17 was more than 71 days against a target of 50 days.

**174.** Overall the Council has achieved 64% of performance targets, with a further 7% being within 5% of the target. This is similar to the 2015/16 results.

**175.** The Council is able to demonstrate that it is addressing its strategic priorities as set out in its Local Outcome Improvement Plan (LOIP) 2016-2019 which is linked to the (BIPs) of each Council strategic group which are monitored regularly throughout the year. See paragraph 164 for more detail on BIPs. The Council's performance management arrangements are consistent with good practice.

## Statutory performance indicators (SPIs)

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

**177.** For 2016/17 two (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

**178.** Overall we concluded that the Council's arrangements for publication are satisfactory.

## Local performance audit work

**179.** During 2016/17 we carried out a housing benefit (HB) performance audit at the Council. During the risk assessment phase of the audit, carried out in May 2017, we reviewed the Council's benefit service's self-assessment and supporting evidence, and analysed information from a number of other sources. We also met with senior officers to discuss HB performance issues. Our work was focused on the following three key areas:

- national and local priorities
- business planning and reporting
- delivering outcomes.

**180.** Our findings from this work were contained in our risk assessment report which was issued to the Council in June 2017. Our risk assessment noted that the Council had addressed eleven of the twelve risks we had identified in our previous HB performance audit carried out in March 2015, which highlights that the Council has made a very positive contribution to the delivery of the benefit service. This includes consistently and regularly reporting benefit service performance to senior management and members, significantly improving the speed of processing performance and continuing to deliver a high level of performance in the accuracy of claims and the recovery of benefit overpayments.



**181.** Although the Council demonstrates awareness of what constitutes an effective, efficient and secure benefit service, there are three new risks and one risk outstanding from our previous risk assessment. In order to ensure continuous improvement, the Council needs to:

- ensure that there is sufficient resource within the revenues and benefits service to maintain and improve on current speed of processing performance
- report performance across all aspects of the service to senior management and members as part of its reporting framework
- take action to address the reasons for the anomalies in the reporting of accuracy performance.

**182.** The Council responded to our risk assessment report in August 2017 and acknowledged the positive contributions recognised as being made to the delivery of the benefits service as well as the issues highlighted as risks to continuous improvement. The Council has produced an action plan to address the risks identified and this will be progressed in a proportionate and risk aware manner to ensure all key areas are addressed.

### **National performance audit reports**

**183.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3](#).



**184.** The Council has processes in place to ensure that findings from national reports are reported to members alongside an assessment of current arrangements against good practices and the agreement of actions to ensure further improvements.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

| Page no. | Issue/risk  | Recommendation  | Agreed management action/timing   |
|----------|---|---|---|
| 11       | <p><b>1. Capital expenditure</b></p> <p>Audit testing and Council finance officers identified a number of items of capital expenditure totalling £0.662 million that had been incorrectly posted to the 2017/18 financial year when this expenditure should have been accrued into the 2016/17 financial year.</p> <p><b>Risk</b></p> <p>The 2017/18 annual accounts do not reflect actual expenditure and may be materially misstated.</p>                               | <p>The Council should remind all officers of the procedures to be followed at the financial year end in relation to accruing expenditure to the financial year in which the expenditure was incurred.</p> | <p>The Chief Finance Officer has met with Departmental Management Teams to discuss year-end financial procedures including management accruals. In line with finance business partner roles Principal Accountants will continue to meet with Strategic Leads to deliver training and support. In addition, the Finance Team will provide a year-end report to assist with the identification of accruals.</p> <p>Chief Finance Officer<br/>March 2018</p> |
| 23       | <p><b>2. Long-term financial plan</b></p> <p>The Council has yet to issue a long-term financial plan which identifies potential risks and ensures spending decisions are affordable. Such a plan should include a range of scenarios to ensure the Council is prepared for different levels of funding and income.</p> <p><b>Risk</b></p> <p>The Council is not planning adequately over the medium to long term to manage or respond to significant financial risks.</p> | <p>Although the Council has a medium-term financial plan that includes scenario planning, the Council should consider expanding this approach and develop a longer-term financial strategy.</p>           | <p>The Council is in the process of developing a Long Term Financial Risk Management Strategy to act as the long term plan. This has been included in the Strategic Planning and Performance Framework as a future action and is scheduled for completion to support the budget process.</p> <p>Chief Finance Officer<br/>November 2017</p>   |
| 23/24    | <p><b>3. Efficiency savings</b></p> <p>Although the Council has a detailed savings plan for 2017/18, each savings proposal has not been risk assessed, i.e. assessed to estimate the risk of not</p>  | <p>The Council should ensure each savings proposal for 2017/18 is risk assessed and also develop risk assessed detailed savings plans to address future years funding gaps.</p>                           | <p>Business cases for all proposed transformation projects include specific consideration of risk which form part of the elected member briefing packs distributed to members as</p>  |

| Page no. | Issue/risk   | Recommendation   | Agreed management action/timing  |
|----------|--|--|--|
|          | <p>achieving the saving. In addition, detailed saving proposals for future years have yet to be developed.</p> <p><b>Risk</b></p> <p>The Council does not achieve its efficiency savings target leading to increased use of contingency reserves and increases the level of efficiency savings required in future years.</p>   |   |  <p>part of the budget proposals. Such considerations will include the potential for savings not be achieved. In addition, the finance team maintain a financial risk register which will continue to be reviewed as part of the budget setting process and includes consideration of non-delivery of savings options.</p> <p>The transformation programme includes projects that span a number of financial years with these being developed to support budget setting processes in future years.</p> <p>Strategic Lead,<br/>Organisational<br/>Transformation</p> <p>Chief Finance Officer</p> <p>February 2018</p> |
| 25       | <p><b>4. Transformation programme</b></p> <p>The programme update reports to members do not provide a comparison between the estimated savings included in the programme for each project and the actual savings achieved. Other non-financial benefits are also not reported.</p> <p><b>Risk</b></p> <p>Members are not provided with assurance that the projects realise the planned benefits.</p> | <p>The transformation programme update reports and the revenue budget monitoring reports should be explicitly linked and include details of the benefits achieved.</p> | <p>The Council will continue to work to improve the clarity of these reports having recently updated the format of its revenue monitoring and transformation reports. The Council will continue to support elected members through other means such as briefings, technical notes and training but recognise that, whilst significant improvements have been made to date, this is an iterative process. The Audit &amp; Risk Management Committee has identified this as an ongoing area of elected member focus, to ensure that developments support elected member scrutiny.</p> <p>Strategic Lead,<br/>Organisational<br/>Transformation</p> <p>Chief Finance Officer</p> <p>June 2018</p>           |



**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

|       |  |  |  |
|-------|--|--|--|
| 27    | <p><b>5. Workforce improvement plan</b></p> <p>A four phase plan is being developed. Progress is to be reported to members.</p> <p><b>Risk</b></p> <p>The progress report does not include clear actions to drive achievement of the plan.</p>   | <p>The December 2017 progress report to members should include milestones and target dates for each of the four phases of the plan.</p>                                  | <p>The Council will continue to work to improve the clarity of actions to deliver the various phases within its workforce strategy. The Council will develop a longer term workforce plan which will be reflective of risks and the Council's planned response. This will be in a similar format to the Long Term Financial Risk Management Strategy.</p> <p>Strategic Lead,<br/>Organisational<br/>Transformation</p> <p>Chief Finance Officer</p> <p>June 2018</p>             |
| 30/31 | <p><b>6. Reports to members</b></p> <p>A new template for reports to members is being implemented.</p> <p><b>Risk</b></p> <p>The format and content of reports to members does not support them in fulfilling their responsibilities on taking decisions and scrutiny of performance.</p>                      | <p>After a period of time, the Council should request feedback from members on the effectiveness of the new report format, level of detail and use of plain English.</p> | <p>The new template will be accompanied by an information pack for officers and a technical note for members. We will review the impact/effectiveness of the new template and approach after three complete committee cycles which would enable any further refinement to be implemented by the end of the financial year. In addition, training will be delivered to officers on effective report writing.</p> <p>Chief Solicitor &amp; Monitoring Officer</p> <p>June 2018</p> |
| 32    | <p><b>7. Registers of interest</b></p> <p>There is currently no requirement for senior officers to complete a register of interest.</p> <p><b>Risk</b></p> <p>Officers' interests and those of their close family are not adequately disclosed to enable potential conflicts to be identified and managed.</p> | <p>Senior officers should complete registers of interest at least annually and consideration should be given to extending this to other staff as appropriate.</p>        | <p>The Council acknowledges that this would be a useful exercise to support transparency and will progress this action.</p> <p>Chief Solicitor &amp; Monitoring Officer</p> <p>April 2018</p>  |

# Appendix 2

## Significant audit risks identified during planning

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

| Audit risk   | Assurance procedure  | Results and conclusions  |
|--|--|--|
| <b>Risks of material misstatement in the financial statements</b>  |  |  |
| <b>1 Risk of management override of controls</b><br><br>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. | Detailed testing of journal entries.<br><br>Reviewed significant management estimates and evaluated the impact of any variability in key assumptions.<br><br>Focused testing of accruals and prepayments.<br><br>Evaluated significant transactions that were outside the normal course of business. | We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.<br><br>We did not identify any incidents of management override of controls.   |
| <b>2 Risk of fraud over income</b><br><br>The extent and complexity of the council's income streams entails an inherent risk of fraud. ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.   | Performed analytical procedures on income streams.<br><br>Detailed testing of revenue transactions which focused on the areas of greatest risk.  | We undertook detailed testing of income streams.<br><br>No frauds were identified.   |
| <b>3 Risk of fraud over expenditure</b><br><br>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants. East Dunbartonshire Trust Funds also make grant payments.  | Reviewed work on the follow up of National Fraud Initiative (NFI) matches.<br><br>Performed walk-through testing of controls over social care payments.<br><br>Assessed the overarching controls in grant schemes.<br><br>Detailed testing of expenditure and housing benefit transactions.          | We concluded that the Council is proactive in following up NFI matches.<br><br>No significant issues were identified from our testing of the social care payments disclosed in the 2016/17 financial statements.<br><br>No control weaknesses were identified in relation to grant schemes.<br><br>No significant issues were identified from our testing of expenditure and housing benefit transactions disclosed in the |

| Audit risk  | Assurance procedure   | Results and conclusions  |
|---|---|--|
| 2016/17 financial statements.   |   |  |
| <p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of pension assets and liabilities. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables.</p>   | <p>Reviewed of the work of the actuary.</p> <p>Reviewed the appropriateness of actuarial assumptions.</p> <p>Confirmed pension valuations in actuarial report are correctly reflected within the 2016/17 accounts.</p>  | <p>We reviewed the work of the actuary and assessed the appropriateness of the actuarial assumptions.</p> <p>We confirmed that the pension valuations provided by the actuary are correctly reflected in the 2016/17 financial statements.</p> <p>No material misstatements were identified.</p>   |
| <p><b>5 Payments to social care providers</b></p> <p>Existing controls relating to Carefirst system payments to private care providers need to be further enhanced to ensure payments are made only for care provided. There is a risk that payments may be made to care providers which do not reflect the level of care provided to individuals.</p>  | <p>Placed reliance and reviewed the work of Internal Audit sampling Carefirst system payments at the year end.</p> <p>Reviewed Internal Audit reports providing an update on the work of the Social Work Payments Review team.</p>  | <p>No significant issues were identified by Internal Audit in relation to social care payments.</p>  |
| <p><b>6 Audit &amp; Risk Manager Vacancy</b></p> <p>There has been no Audit &amp; Risk Manager in post since August 2016. Given that the Audit &amp; Risk Manager provides the Council with an annual opinion on the effectiveness of the council's governance framework, there is a risk that the S95 officer will be unable to obtain the required assurances on the effectiveness of the governance framework in place during 2016/17.</p> | <p>Reviewed the annual governance statement as part of the audit of the 2016/17 financial statements and the assurances obtained by the council to inform the completion of the annual governance statement.</p> <p>Monitored progress of internal audit work completed against the 2016/17 plan.</p>                               | <p>No significant issues were identified from our review of the annual governance statement contained within the 2016/17 financial statements.</p> <p>The 2016/17 Annual Internal Audit Report highlights that 70% of planned outputs were achieved in the year and was due to the delay in appointing an Audit &amp; Risk Manager. An interim appointment was made in June 2017 and a permanent Audit &amp; Risk Manager took up post in August 2017.</p> |
| <p><b>7 Financial capacity</b></p> <p>As a result of staff turnover within the finance section, there is a risk that the Council fail to deliver unaudited financial statements and a comprehensive working paper package within agreed timescales.</p>   | <p>Meetings were held with finance staff throughout the preparation of the financial statements preparation and thereafter throughout the course of the audit.</p> <p>Issued a working paper checklist to finance staff to outline requirements and agreed timescales for the receipt of unaudited accounts and working papers.</p> | <p>Regular meetings with finance officers took place throughout the year. Weekly meetings were held during the financial statements audit.</p> <p>A working paper checklist was issued to finance officers early in 2017 outlining financial statements working paper requirements.</p> <p>The unaudited financial statements were provided to external audit on 22 June 2017. Working papers were also delivered within agreed timescales.</p>            |

| Audit risk   | Assurance procedure  | Results and conclusions  |
|--|--|--|
| <b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>   |  |  |
| <p><b>8 Financial sustainability</b></p> <p>The Council is facing a significant challenge in bridging a funding gap of £11.3 million in 2017/18 and almost £33 million in the three years to 2019/20. The Council may not be able to generate sufficient efficiencies and cost savings from its transformation programme to bridge the funding gap.</p>                        | <p>Monitored the Council's financial position by reviewing the revenue budget monitoring reports presented to Policy and Resources Committee and through meetings with officers.</p> <p>Reviewed the Council's progress towards delivering efficiency savings.</p> | <p>The audit team regularly attended Council committee meetings and reviewed all capital and revenue budget papers and monitoring reports.</p> <p>We noted that the Council did not achieve the target level of efficiency savings required in 2016/17 which will increase the level of efficiency savings the Council will need to make in 2017/18.</p>   |
| <p><b>9 Financial management</b></p> <p>The previous auditor reported persistent under and overspend against budgets in 2015/16, and highlighted that improvements to budgets were required. There is a risk that the Council will be unable to meet its budgeted expenditure if sound budgets have not been set for 2016/17.</p>  | <p>Monitored revenue and capital expenditure through review of financial monitoring reports presented to the Policy and Resources Committee.</p>   | <p>The audit team regularly attended Council committee meetings and reviewed all capital and revenue budget papers and monitoring reports.</p> <p>We concluded that financial management arrangements are adequate. We also concluded that the Council's financial position is sustainable currently although rising demand for and costs of services will continue to place a strain on the Council's capacity to deliver services at the current levels.</p> |
| <p><b>10 Best Value follow-up</b></p> <p>The Controller of Audit will monitor progress against the findings and improvement areas identified in his December 2016 follow-up report through the annual audit process.</p> <p>There is a risk that the Council is unable to demonstrate that action has been taken to address the findings and improvement areas identified.</p> | <p>Followed up the Council's progress in relation to the Best Value findings and provided an update in our 2016/17 Annual Audit Report.</p>  | <p>Our Best Value follow up work is included in this report. See paragraph 146.</p>  |
| <p><b>11 Impact of May 2017 local government elections</b></p> <p>The 2017 local government elections will result in changes to Council membership. There is a risk of a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny,</p>                  | <p>Reviewed the Council's induction and training arrangements for councillors following the elections.</p> <p>Assessed the effectiveness of decision making and scrutiny arrangements as part of ongoing Best Value audit work.</p>                                | <p>We concluded that the Council's induction and training arrangements for councillors are adequate.</p> <p>Our Best Value follow up work is included in this report. See paragraph 146.</p>   |



| Audit risk                                 | Assurance procedure | Results and conclusions |
|--|---------------------|-------------------------|
| development and training will be required. |                     |                         |





















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# Appendix 3

## Summary of national performance reports 2016/17



|      |   |   |  |
|------|---|---|--|
| Apr  |   |   |  |
| May  |    | Common Agricultural Policy Futures programme: an update         |  |
| Jun  |    | South Ayrshire Council: Best Value audit report                 |  The National Fraud Initiative in Scotland                  |
| Jul  |    | Audit of higher education in Scottish universities              |  Supporting Scotland's economic growth                      |
| Aug  |   | Maintaining Scotland's roads: a follow-up report                |  Superfast broadband for Scotland: a progress update       |
|      |   |   |  Scotland's colleges 2016                                |
| Sept |  | Social work in Scotland   |  Scotland's new financial powers                          |
| Oct  |  | Angus Council: Best Value audit report                          |  NHS in Scotland 2016                                     |
| Nov  |  | How councils work – Roles and working relationships in councils |  Local government in Scotland: Financial overview 2015/16 |
| Dec  |  | Falkirk Council: Best Value audit report                        |  East Dunbartonshire Council: Best Value audit report     |
| Jan  |   |   |  |
| Feb  |  | Scotland's NHS workforce  |  |
| Mar  |  | Local government in Scotland: Performance and challenges 2017   |  i6: a review   |
|      |   |   |  Managing new financial powers: an update               |

### Local government relevant reports

[South Ayrshire Council: Best Value audit report](#) – June 2016

[The National Fraud Initiative in Scotland](#) – June 2016

[Maintaining Scotland's roads: a follow-up report](#) – August 2016

[Social work in Scotland](#) – September 2016

[Angus Council: Best Value audit report](#) – October 2016

[How councils work – Roles and working relationships in councils](#) – November 2016

[Local Government in Scotland: Financial overview 2015/16](#) – November 2016

[Falkirk Council: Best Value audit report](#) – December 2016

[East Dunbartonshire Council: Best Value audit report](#) – December 2016

[Local Government in Scotland: Performance and challenges 2017](#) – March 2017

# East Dunbartonshire Council

## 2016/17 Annual Audit Report

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