

West Dunbartonshire Council

2016/17 Annual Audit Report



 AUDIT SCOTLAND

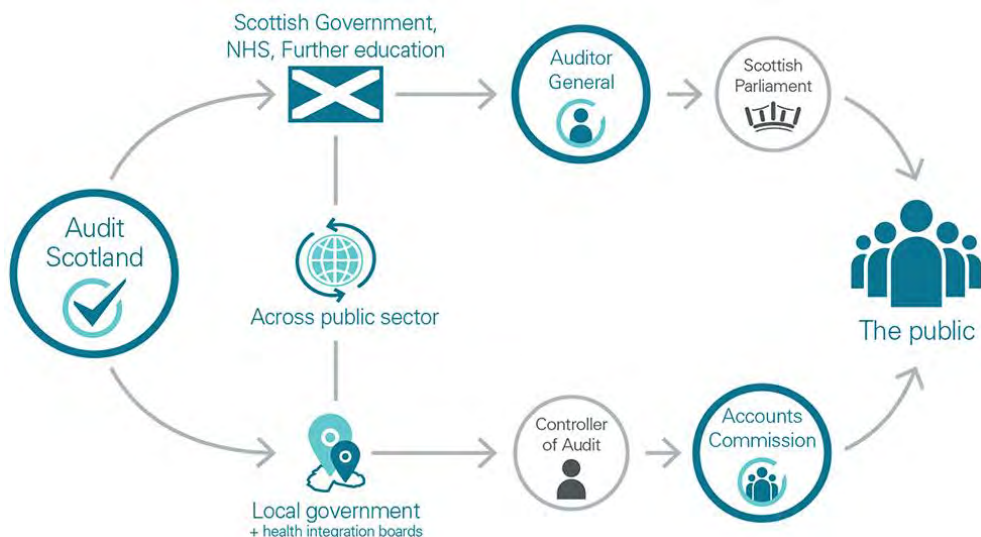
To Members of the West Dunbartonshire Council and the Controller of Audit

27 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

Audit of the 2016/17 annual accounts

- 1** The financial statements of West Dunbartonshire Council give a true and fair view of the state of its affairs and of its net expenditure for the year.
- 2** Our audit opinions are all unqualified. These cover the financial statements, management commentary, remuneration report and the annual governance statement.
- 3** Unqualified opinions have been issued for all the trusts administered by the Council.

Financial management

- 4** Financial management is effective with a budget process focussed on the Council's priorities. The Council has a good track record of delivering services within budgets over the last three years.
- 5** The key financial controls operated effectively in the year.

Financial sustainability

- 6** The Council's financial position is sustainable but challenging in the foreseeable future
- 7** The Council's approach to financial planning is helping it to prepare for the challenges it will face, but savings of £11 million are still to be identified over the period to 2019/20.

Governance and transparency

- 8** There are effective governance arrangements in place which support its stewardship of resources and scrutiny of performance.
- 9** The Council is open and transparent in the way it conducts its business.

Value for money

- 10** The latest performance data reported nationally is mixed, with 23% of the council's indicators in the top quartile (2014/15: 22%) and 35% in the bottom quartile (2014/15: 25%). The council has reported improvements in performance in 2016/17.
- 11** As part of the five year national programme, a Best Value audit of the Council will be reported in June 2018.

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of West 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 Committee. This report presents:
 - findings from the audit of the 2016/17 financial statements
 - our review 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 were:
 - 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
 - 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. West 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 West Dunbartonshire Council to manage its performance and use of resources. 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, together with identified risks and control weaknesses. Communicating risks and weaknesses 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 \(page 30\)](#). 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.
- 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 report and accounts



Main judgements

The financial statements of West Dunbartonshire Council give a true and fair view of the state of its affairs and of its net expenditure for the year.

Unqualified audit opinions on the Council's annual report and accounts.

Unqualified audit opinions on the trusts administered by the Council.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the Audit Committee on 27 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 West 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 West Dunbartonshire Council are sole trustees, irrespective of the size of the charity. This relates to Dr A K Glen & West Dunbartonshire Charitable Trusts, a registered charity which incorporates seven trust funds.

16. Our duties as auditors of the charitable trusts administered by the Council are to:

- express an opinion on whether the charities' 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 the Office of the Scottish Charity Regulator.

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

17. We received the trusts' accounts in line with the agreed timetable and after completing our audit we issued an unqualified audit opinion on the 2016/17 financial statements of the relevant charities registered by the Council.

Submission of the Council's annual report and accounts for audit

18. We received the unaudited annual report and accounts on 20 June 2017 which was in advance of the audit timetable set out in our 2016/17 Annual Audit Plan. The Council's group accounts include the financial results of West Dunbartonshire Integration Joint Board within its area.

19. Working papers were provided within the agreed timetable. While they were of a reasonable standard, we are working with the Council on areas of improvement for next year.

Risk of material misstatement

20. [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

21. Materiality defines the maximum error that we are prepared to accept and still conclude 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.

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

23. On receipt of the annual report and accounts we reviewed our original materiality calculations. Minor changes were made to the materiality levels we reported in our annual audit plan as reported in [Exhibit 2](#). This had no impact on our audit approach.

Exhibit 2

Materiality values

Materiality level	As stated in our annual audit plan	Amount finally determined
Overall materiality – 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 2017.	£4.035 million	£4.335million
Performance materiality – 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 50% of overall materiality.	£2.018 million	£2.167 million

Materiality level	As stated in our annual audit plan	Amount finally determined
Reporting threshold (i.e., clearly trivial) – 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.	£0.040 million	£0.040 million

Source: Audit Scotland Annual Audit Plan 2016/17

How we evaluate misstatements

24. During the audit a number of errors were identified, both by ourselves and by officers, which exceeded our reporting threshold (£0.040 million). Following discussions with officers, all of these errors have been amended in the audited financial statements.

25. The net effect of these small value adjustments is to reduce the net cost of services recorded in the comprehensive income and expenditure account by £2.453 million. This, increases the general fund balance reported in the movement in reserves fund from £10.665 million to £13.118 million

26. The most significant errors identified in the audit are included in [Exhibit 3](#). This includes items that do not impact the general fund balance reported in the unaudited accounts relating to the duplication of council dwelling assets, the understatement of common good fund land assets, and the understatement of the liability for untaken annual leave. The errors have now been corrected in the updated accounts. The impact of this is a £0.931 million increase in the deficit on provision of services reported in the comprehensive income and expenditure account. However these changes have no impact on the general fund balance as they are mitigated in the movement in reserves statement in accordance with statutory adjustments prescribed in the 2016/17 local government accounting code (the “Code”).

27. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality.

Significant findings

28. 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 West Dunbartonshire Council

Issue	Resolution
<p>1. Valuation of non-current assets</p> <p>Council dwellings recorded in the unaudited financial statements were overstated by £13.7 million. This was due to inclusion of elements of council dwellings reported in the asset register not</p>	<p>The audited accounts have been updated to reflect this.</p> <p>Action plan (appendix 1, point 1)</p>

Issue	Resolution
<p>being eliminated following the 5 yearly revaluation in 2016/17. The financial statements have been adjusted to eliminate this duplication.</p> <p>Whilst our testing in other categories of non current assets did not identify any other duplication, there is a risk that other categories of non current assets recorded in the asset register could have an element of duplication.</p>	
<p>2. Untaken annual leave accrual</p> <p>Our review of the untaken annual leave accrual identified errors within the calculations. The net effect resulted in a £0.931 million increase to the 2016/17 untaken annual leave accrual. Whilst they were of a different nature, the previous external auditor identified errors in the annual leave accrual in previous years.</p>	<p>The audited accounts have been updated to reflect this.</p> <p>Action plan (appendix 1, point 2)</p>
<p>3. Common Good Fund</p> <p>The audit identified two areas of land, with a book value of £0.278 million, which are owned by the Common Good Fund but were omitted from the asset register and the unaudited accounts.</p>	<p>The audited accounts have been updated to reflect this.</p> <p>Action plan (appendix 1, point 3)</p>
<p>4 International Accounting Standard (IAS19) pension liability</p> <p>The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure.</p> <p>There has been an increase in the 'net liability arising from defined benefit obligation' of £87.186 million to £240.926 million at 31 March 2017. This is due to a reduction in the net discount rate increasing the assessed value of liabilities, as a higher value is placed on benefits paid in the future. Although the liability will continue to vary, this information is necessary for the council to ensure the pension fund remains affordable and adequately funded.</p>	<p>The triennial valuations of the pension fund carried out by Strathclyde Pension Fund assures that the pension fund remains adequately funded. The financial statements have been prepared on the basis of these assumptions.</p>
<p>5. Equal pay</p> <p>The council continues to review its equal pay claims and are currently seeking to settle claims outwith the formal employment tribunal process, with offers having been paid to 393 individuals. Following a review of settlements by the council, the provision in the unaudited accounts was reduced by £0.501 million to £0.750 million.</p>	<p>The audited accounts have been updated to reflect this. The Council considers the remaining provision of £0.750 million is sufficient to meet all known equal pay claims against the Council.</p>
<p>6. Termination pay accrual</p> <p>The unaudited financial statements included a</p>	<p>It has been agreed with officers that these costs will be taken out of provisions. Instead, an earmarked balance from the general fund will be identified to</p>

Issue	Resolution
<p>provision for termination costs of £1.972 million. Supporting working papers were provided showing how the figure was calculated, however following discussion with officers it was apparent that the calculation did not demonstrate whether a constructive obligation to meet these costs existed at the year end.</p> <p>This is due to the nature of future savings currently planned where the specific impact on employees is not yet known at this time. This means that this sum doesn't meet the requirements of accounting standards to be treated as a provision.</p>	<p>continue to reflect a prudent approach to planning for the future impacts of required future savings.</p> <p>Action plan (appendix 1, point 4)</p>

Going concern

29. 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

30. The [Code of Audit Practice 2016](#) 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.

31. 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

32. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

Objections and Whole of Government Accounts

33. 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 accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations. No objections were submitted on the accounts.

34. The Council submitted a consolidation pack for the whole of government accounts audit on 27 July 2017. This was in accordance with the prescribed timescales for submission.

Part 2

Financial management



Main judgements

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

The Council has a good track record of delivering services within its budgets and over the last three years has consistently contained its expenditure within annual budgets. However, there was significant capital programme slippage in 2016/17 which continued a trend over recent years.

The Council has effective internal controls in place within the main financial systems. We did not identify any significant internal control weaknesses.

The Council has high borrowing levels relative to other Scottish Councils. Good management of the loan debt enabled interest charges to reduce in 2016/17 despite increases in borrowing during the year.

Financial performance in 2016/17

35. The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for Councils with decreasing (or low levels) of usable reserves to rely on.

36. In February 2016, the Council approved a budget of £214.913 million for 2016/17. During the year there were revisions to the budget which adjusted this to £214.136 million. We noted that the Council's budget and savings plan is aligned to the Council priorities. This is consistent with good practice.

37. The Council has a good track record in delivering services within budget over recent years. Members are regularly informed of the year end outturn and the reasons for any significant movements from the previous reporting period. The £2.407 million underspend against budget was in line with the provisional out-turn submitted to the Scottish Government.

38. The Council's spending has remained in line with its overall budget. The most significant variance was an £0.874 million underspend in Education, Learning and Attainment.

39. Within the Council detailed scrutiny of financial performance is performed at service committees, and at meetings of the Council. From our review of the budget reports and attendance at Council meetings we concluded that they provided an overall picture of the budget position at service level. Also, the reports forecast out-turn position for the year and include good narrative explanations for significant variances against budget.

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

Housing Revenue Account

40. The Council is required by legislation to maintain a separate housing revenue account 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.

41. The HRA recorded a surplus of £0.746 million in 2016/17 (2015/16: £1.647 million surplus), resulting in a closing HRA balance of £6.963 million. A large element of this balance (£6.117 million) is earmarked for regeneration of the housing stock. The remaining balance of £0.846 million is available for general use by the HRA and is in line with the reserves policy of 2% of expenditure.

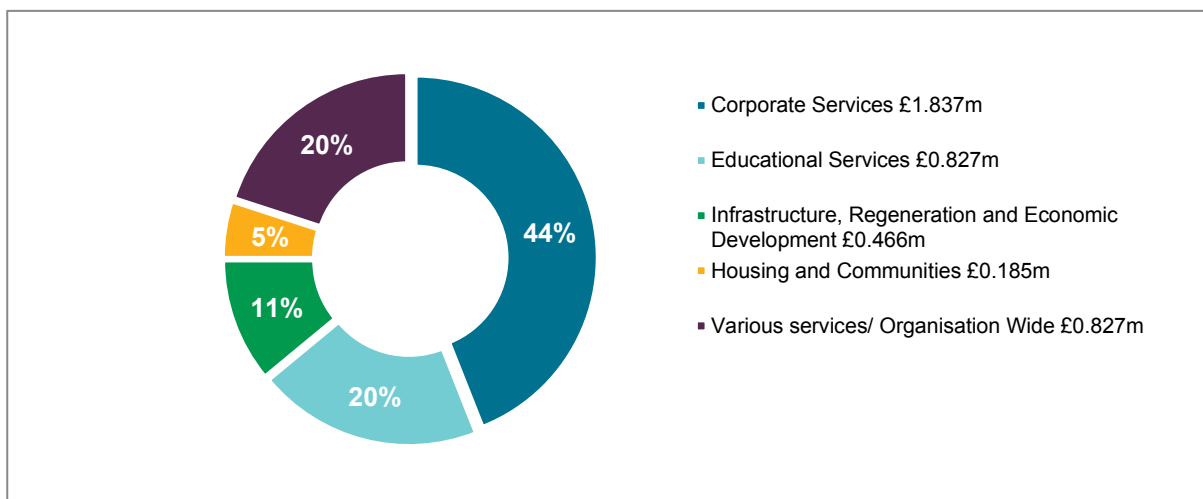
Efficiency savings

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

43. The Council and service committees routinely receive budget monitoring reports including savings plans which have been risk assessed. The planned savings for 2016/17 was £4.9 million. [Exhibit 4](#) demonstrates that the Council achieved actual savings of £4.1 million (84% of this total) in 2016/17. The shortfall was mainly due to delays in realising efficiencies planned through shared services.

Exhibit 4

Efficiency savings 2016/17 by service



Source: Outturn reports: West Dunbartonshire Council 2016/17

Borrowing in 2016/17

44. The Council's outstanding loans at 31st March 2017 were £383.496 million, an increase of £57.419 million on the previous year. The increase in borrowing was required to help finance the council's significant capital programme in 2016/17.

45. Interest payable and similar charges on borrowing, excluding PPP fell by £0.291 million in 2016/17 to £12.621 million. This was achieved through prioritising temporary borrowing at lower interest rates as naturally maturing debt of £87.144 million was repaid during the year. This resulted in the average interest on loans

held at the year end reducing from 3.64% at 31 March 2016 to 2.99% at 31 March 2017.

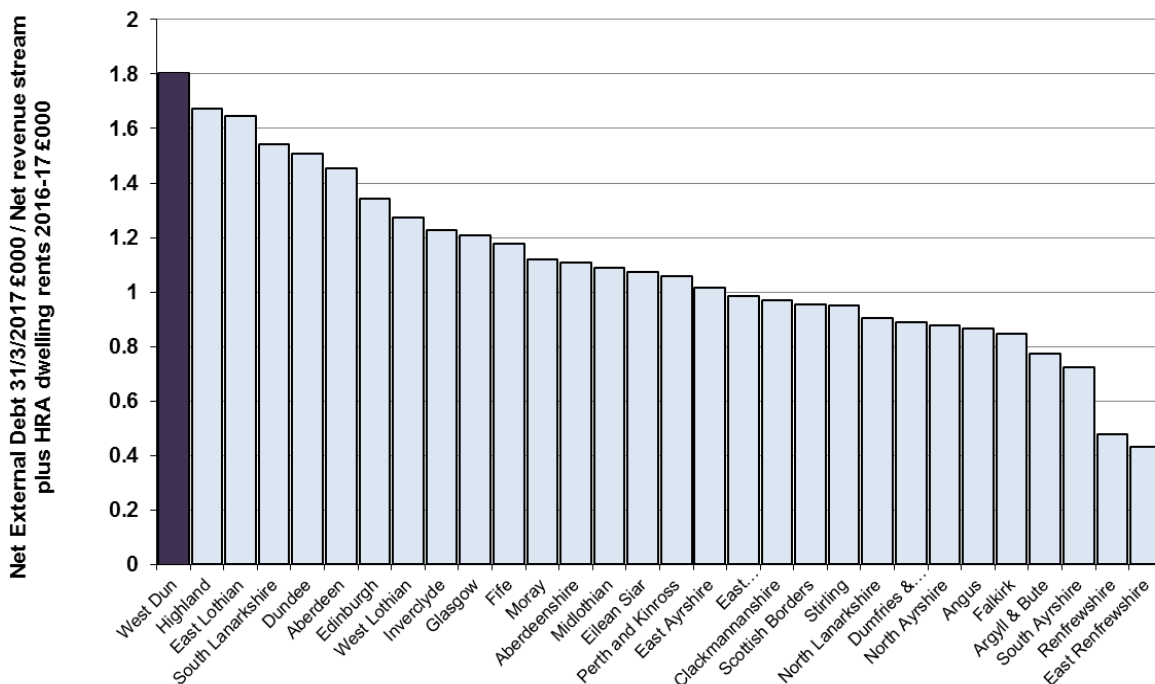
46. The Council entered into a PPP contract for three new community learning centres in 2009/10 and a primary school in 2011/12, with the contract running up to 2038/39. Over the remaining life of this contract, the council expects to pay £272.033 million in unitary charges covering service costs, interest payments and repayment of debt. This is built in to long term financial plans to ensure that the unitary charges are affordable over the life of the contracts. The council receives Scottish Government revenue support funding of £7.257 million annually to support its PPP commitments, which amounts to £159.654 million over the remainder of the contract.

47. The capital balance outstanding on PPP contracts at 31 March 2017 was £84.316 million, a reduction of £1.980 million from the previous year. The interest charge reduced slightly from £6.833 million in 2015/16 to £6.662 million in 2016/17. This is equivalent to a rate of 7.7% of the PPP finance lease liability at the beginning of the financial year.

48. Total external debt was within the authorised limit and operational boundary set within the council’s treasury management strategy. [Exhibit 5](#) shows that the Council’s net borrowing, as a proportion of net revenue stream including dwelling rents, continues to be amongst the highest in Scotland. It is recognised that the Council’s borrowing figure includes debt associated with both the HRA and the Council’s Public Private Partnership (PPP) assets which not all Scottish local authorities will have.

Exhibit 5

Net Borrowing (including PPP capital balance but offset by cash or cash investments held) as a proportion of net revenue stream (i.e. council tax income, NDR income, RSG) plus income from housing rents



Source: Audit Scotland database July 2017 – unaudited 2016/17 accounts (excluding Orkney and Shetland)

49. The presentation of local government accounts mean that it is not always possible to show the General Fund and HRA debt separately against the rest of Scotland. This is an important distinction, as the cost of servicing HRA debt will affect council house rents, whereas the cost of servicing General Fund debt will need to be met from the net revenue stream (i.e. general revenue grants, NDR and council tax) that are typically used to fund services.

50. An analysis of the debt outstanding for the Council shows: the General Fund debt to annual net revenue stream at a factor of 1.26; and the HRA debt as a proportion of HRA income at 4.85. The Council considers the affordability of capital investment each year as part of the integrated budget setting process and considers affordability of debt in terms of the proportion of the annual revenue which is used for loan charges. This is projected long term into the future to identify peaks and allow elected members to make informed decisions as to affordability into the long term. The HRA position is significantly higher than the General Fund position, however much of this debt is recent borrowing to fund the attainment of the Scottish Housing Quality Standard and the Council has a 30 year strategic plan for the HRA which is tested each year to ensure the planned capital investment does not breach affordability rules set by the Council.

51. The Council need to balance the delivery of their capital programme to ensure it can service the medium to long term debt incurred to finance it. We note that the Council's treasury strategy and capital plan consider the affordability in relation to the capital plan over the next 10 years and beyond.

LOBO debt included within borrowing

52. In response to correspondence received at a national level Audit Scotland are reporting, within each council's annual audit report, the extent to which the Council has 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. The borrower has the option to either pay the revised interest rate or to repay the loan.

53. Eleven LOBOs were taken out by the Council between April 2000 and September 2014, with one of these being repaid early in 2016.

54. Seven of these loans, with a value of £52.400 million relate to: five pre-existing loans that were re-negotiated with Barclays between 2005 and 2006 at the best rates available at the time (rather than repay these and incur premiums); one for £5 million was a pre-existing loan held with another financial institution that was purchased by Barclays and terms were re-negotiated in 2006; with the final loan for £8 million being a new loan taken out in 2008. In five of these loans there has been just one step in interest rates since inception, one loan has had two steps, while the new loan taken out in 2008 had no steps included in the terms of the loan. In all cases interest has been paid at a fixed interest rate for a number of years and will continue to do so until the loans are terminated.

55. In June 2016 Barclays advised the Council that they were waiving their right to either increase the interest rates on these loans or call in the loan early, thus the Barclays loans are no longer classed as LOBO loans and are now fixed rate loans at their current rates with their stated maturities.

56. The loan that was repaid early in 2016 incurred a premium of £0.121 million but this is more than offset by the actual savings of £0.647 million that will accrue to the Council over the period of the replacement loan.

57. The total value of the Council's market loans with financial institutions is £87.600 million and comprise the seven Barclays loans with a combined value of £65.400 million and the remaining three LOBOs which have a value of £22.200 million and were taken out in 2000, 2003, and 2014 respectively.

58. . We are satisfied that the use of LOBOs was undertaken in line with the council's treasury management policy, which is reviewed and approved annually by councillors and that the potential for debt restructuring is kept under regular review.

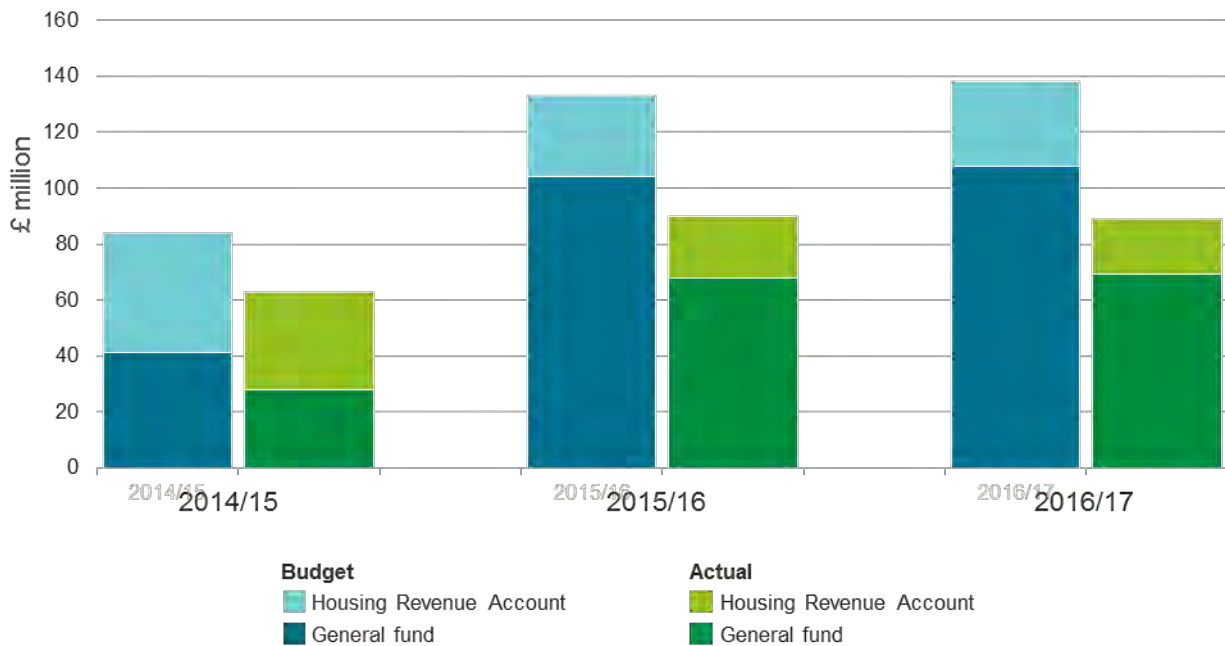
Capital programme 2016/17

59. Total capital expenditure in 2016/17 was £88.667 million, of which £68.655 million related to general services and £20.012 million related to the housing revenue account. The scale of the programme has increased substantially since 2014/15 which makes its management more challenging.

60. There was slippage in 2016/17 of £50.888 million (36.9% of budget). This continues a trend of significant slippage in the council's capital programme as outlined in [Exhibit 6](#). This consisted of general fund capital slippage of 36.7% and HRA capital fund slippage of 37.7%.

Exhibit 6

Capital expenditure compared to budget (General Fund and HRA)



Source: West Dunbartonshire Council annual accounts 2014/15 to 2016/17

61. The slippage arose due to a variety of circumstances, the most significant of which are noted below:

- Queens Quay regeneration (£8.2 million) – delays due to complex design solutions and regulatory services required further information and clarification on the remediation strategy. The delay in approving the remediation strategy resulted in the road construction consent also being delayed.
- New Balloch campus (£3.6 million) – surveys identified the presence of asbestos on the site, resulting in a remediation strategy needing to be developed and further approval by the Council's Planning & Environmental Health departments.

- Levensgrove park (£3.3 million) – this project is mainly financed from external funding and could not start until the funding was confirmed. Funding has subsequently been confirmed and work will commence in 2017/18.
- Council office rationalisation (£2.8 million) – remediation works were required to the new Dumbarton office arising from the discovery of a significant gas storage tank on site.
- New build social housing programme 2016/17 (HRA: £2.9 million) – the tender resulted in higher than anticipated costs, resulting in a delay until additional grant income was secured. Work subsequently commenced on site and is due to be completed in September 2018.

62. Much of the slippage is due to circumstances that were outwith the control of the council and all delayed projects have been carried forward into 2017/18 capital budgets. This is also likely to be due to the significant amount of capital expenditure profiled into 2016/17. We are satisfied that there was frequent reporting of the capital programme progress to members which highlighted the capital programme slippage. However, slippage may also be indicative of poor project management or problems with the profiling of capital expenditure. There is a risk that continued slippage could impact service delivery in the future.

Recommendation 5

The council should review its capital plans and improve the control of capital projects and, if necessary, re-profile the budget to reflect current plans.

Equal Pay

63. In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government.

64. 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. West Dunbartonshire Council implemented single status in March 2009 and reports that between 2004/05 and 2015/16 it has spent £19.8 million compensating workers who had been unfairly paid and settling equal pay claims.

65. Almost 27,000 equal pay claims across Scotland remain live and the council still had 441 live claims lodged with the employment tribunal at March 2017. Workers could potentially still make new claims against councils. The national report highlighted that all councils need 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.

66. West Dunbartonshire Council continues to process the existing equal pay claims and the level of provision required to settle them has reduced since the unaudited accounts were presented following detailed consideration, and claimants' representatives withdrawing from acting. The Council are currently seeking to settle claims outwith the formal employment tribunal process, with offers having been made to 393 individuals. The Council consider that the revised provision of £0.750 million incorporated in the financial statements is sufficient to settle all lodged equal pay tribunal claims.

Financial capacity within the Council

67. The Section 95 officer is the Strategic Lead – Resources. He is a member of the corporate management team and has direct access to the chief executive and Council members. We concluded that the Section 95 officer has appropriate status within the Council.

68. Following a restructuring exercise in August 2016, the finance team decreased in size by 6.9 FTE, although four of these related to long term vacancies. While the Council considers there are sufficient numbers of qualified staff, the Council will continue to review the knowledge and experience of all staff as part of its approach to workforce planning.

69. With the recent Council elections there have been a number of new members elected. It is important that they receive adequate training on how the council works and how it is financed if they are to exercise their scrutiny responsibilities effectively. We reviewed the induction training and materials provided to new members and concluded that it was fit for purpose.

Internal controls

70. 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.

71. Our findings were included in our interim audit report that was presented to the Audit & Performance Review Committee in June 2017. We concluded that the key controls were operating effectively. No significant control weaknesses were identified which could affect the Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

72. The Governance Statement notes that the council's revised Code of Good Governance was approved by the Audit & Performance Review Committee on 8 March 2017. An assessment of the Council's compliance with the Code of Good Governance was reported to the Audit & Performance Review Committee on 21 June 2017.

Prevention and detection of fraud

73. 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, fraud prevention and fraud response plan.

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

National Fraud Initiative

75. 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.

76. The latest position on NFI investigations by the Council is summarised in [Exhibit 7](#).

Exhibit 7

National Fraud Initiative

Total number of matches**6427****Number recommended for investigation****1155****Completed/closed investigations****817**Source: NFI website

77. The Council engaged positively in the NFI exercise and has reviewed data matches timeously. To date, the 2016/17 NFI exercise has identified 17 fraud or errors with estimated savings of £0.035 million. We concluded that the Council has satisfactory arrangements in place for investigating and reporting data matches identified by the National Fraud Initiative.

Part 3

Financial sustainability



Main judgements

The Council's new administration is working on proposals for its strategic priorities which will be reflected in the 2018/19 budget.

The Council's financial position is sustainable but challenging in the foreseeable future. It recognises that plans to use £2 million of its general fund to balance the 2017/18 budget are not sustainable in the long term.

The Council's approach to financial planning is helping it to prepare for the challenges it will face, but savings of £11 million are still to be identified over the period to 2019/20.

Setting strategic priorities

78. Following the local government elections in May the administration of the Council changed. The new administration is currently working with officers towards agreeing the Council's new strategic priorities. The priorities will be reflected in a new Strategic Plan and the 2018/19 budget, to be set next February. The Council sees working with local partners as key to delivering services in the future. This is discussed further in section 5 of this report.

79. 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

80. Although councillors only approve the budget for a single year, this is supported by indicative future spending plans (covering a three year rolling period) that forecast the impact of relevant pressures on the Council.

81. The council has a robust approach to medium term financial planning. The council has developed a medium-term financial strategy which is reviewed each year. The current financial strategy (approved in October 2016) covers the period to March 2020. While this does not cover the longer term period, it provides a clear link to the rolling three year budget, and provides information on projected revenue and capital balances together with cost driver data and anticipated levels of spending. The strategy also discloses the council's approach to scenario planning and the impact of the various scenarios on projected budget gaps. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. We note that the Council's treasury strategy and capital strategy consider affordability in relation to the capital plan over the next 10 years and beyond.

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.

Recommendation 6

The council should develop a financial strategy that covers the long term period that links spending to the Council's strategies.

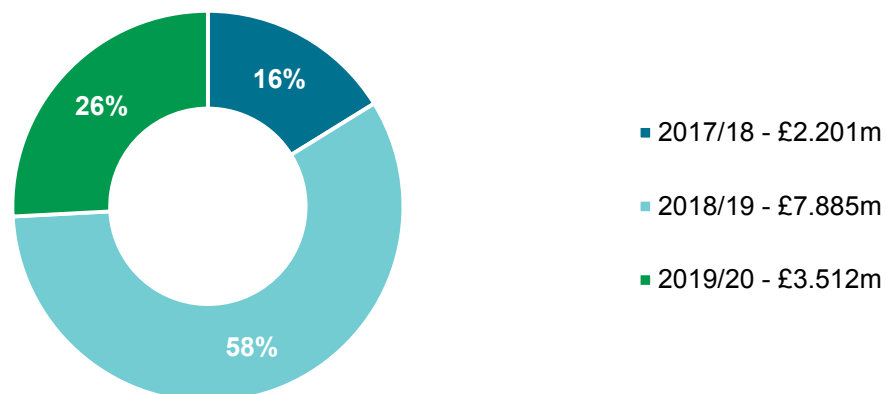
Funding position

82. The Council is facing a number of challenges in maintaining a sustainable financial position in future. These include rising demand for services, increasing costs of services and reductions in central government funding.

83. A break even budget for 2017/18 based on spending of £212 million was approved by the Council in February 2017. The cumulative budget gap over the three year period to 2019/20 is £11.397 million as outlined in [Exhibit 8](#) below. The funding gap for 2018/19 reported below incorporates the funding gap of £2.201 million for 2017/18 which is being financed from reserves. The council recognises that the use of reserves to fund services is not sustainable over the longer term.

Exhibit 8

Funding gap 2017/18 – 2019/20



Source: West Dunbartonshire Council 2017/18 budget – February 2017

84. The funding gap incorporates existing savings requirements approved over previous years which are embedded within annual budgets. As outlined in paragraph 43, the Council delivered most of its efficiency savings target in 2016/17. However, there is a risk to future service delivery if the Council does not address the projected funding gap. This will continue to be addressed in the Council's medium term financial planning and long term financial strategy.

Reserves

85. One of the key measures of the financial health of a local authority is the level of reserves held. The Council's usable reserves increased from £22.255 million in 2015/16 to £24.679 million in 2016/17 as shown in [Exhibit 9](#). The increase was primarily due to the £1.696 million surplus generated by the general fund during the year together with the surplus of £0.746 million generated by the HRA.

Exhibit 9

Usable reserves

Reserve	31 March 2016	31 March 2017
	£' million	£' million
General fund	£11.203	£13.118
Housing revenue account reserve	£6.217	£6.963
Capital grants unapplied account	£0.484	£0.466
Capital reserve	£3.824	£3.633
Other reserve	£0.527	£0.499
Total usable reserves	£22.225	£24.679

Source: West Dunbartonshire Council 2016/17 Annual Accounts

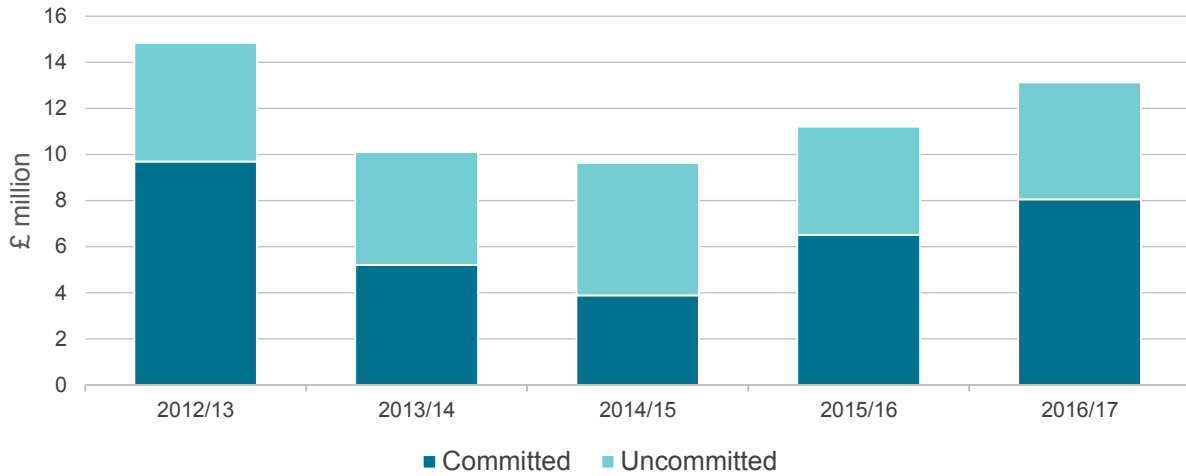
86. The general fund balance is the largest usable reserve and accounts for £13.118 million (53%) of usable reserves. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

87. The Council reviews the level of its uncommitted reserves when setting the budget each year. The Council's approved reserves strategy specifies that there should be a prudential reserve of 2% of net expenditure (net of requisitions) to safeguard assets and services against financial risk. This equates to £4.1 million for 2016/17. At 31 March 2017 the council's uncommitted general fund balance level was £5.063 million. The committed element of the general fund balance at 31 March 2017 is £8.055 million.

88. [Exhibit 10](#) 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 balance has shown small increases over the last few years. As previously noted, committed balances include £2.2 million to be used to help fund budgeted expenditure in 2017/18 and £1.972 million is being held to fund future termination costs.

Exhibit 10

Analysis of general fund over last five years

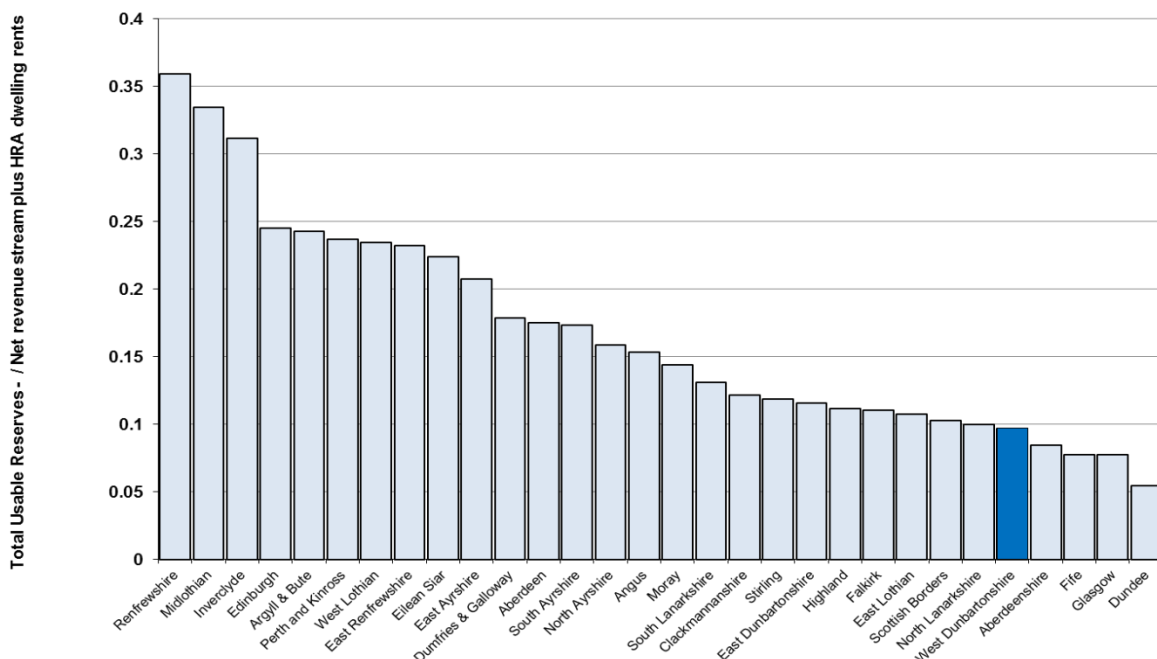


Source: West Dunbartonshire annual accounts – 2012/13 to 2016/17

89. Despite the in year increase, [Exhibit 11](#) highlights that the Council’s usable reserves (as a proportion of net revenue stream plus housing rents income) is in the lowest quartile in Scotland. The Council, like all local authorities, faces ongoing financial pressures. Ensuring there are sufficient reserves is important to protect the Council against the financial impact of unforeseen events or reductions in future funding. The Council will continue to consider reserves and plans for their usage as part of the annual budget setting process.

Exhibit 11

Usable reserves as a proportion of net revenue stream including dwelling rents



Source: Audit Scotland database July 2017 (excluding Orkney and Shetland) – unaudited accounts, WDC based on audited figures

Part 4

Governance and transparency



Main Judgements

The Council has effective governance arrangements in place which support its stewardship of resources and scrutiny of performance.

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

Governance arrangements

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

91. The council's corporate governance framework is centred on the full council, supported by five standing committees and appropriate sub-committees. Council and committee meetings are well attended by elected members and papers are subjected to a good level of scrutiny.

92. The Audit and Performance Review Committee oversees the development of the council's best value and continuous improvement activity as well as the performance management activity of the council. The committee is well attended by elected and lay members and appropriate council officers are in attendance.

Internal audit

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

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

95. 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 the following areas: Accounts Receivables, Payroll and Cash and Bank. Also, we considered internal audit report findings as part of our wider dimension work.

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.

Transparency

96. Citizens should be able to hold the council to account for the services provided. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources.

97. There is evidence from a number of sources which demonstrates 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.

98. 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.

99. Arrangements should be put in place to ensure that all senior officer interests are documented on an annual basis to help demonstrate that there are no conflicts of interests. We note that internal audit is currently carrying out audit work to ensure that this is addressed.

100. The Council publishes its annual accounts 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.

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

Integration of health and social care

102. The West Dunbartonshire Health & Social Care Partnership Board (hereafter referred to as the West Dunbartonshire Integration Joint Board) has been operational since 1 July 2015 and 2016/17 is therefore the second year that financial statements have been prepared for the Board.

103. The West Dunbartonshire Integration Joint Board (IJB) is provided in partnership with NHS Greater Glasgow & Clyde. The financial transactions of the WDIJB have been consolidated into the Council's group accounts.

104. The Council has good arrangements in place to identify all financial transactions that relate to the IJB. There are also proper arrangements in place to agree the council's share of the IJB budget and to provide officers with appropriate financial information to enable West Dunbartonshire IJB to monitor its financial budget.

105. The Council have notified the IJB of its funding for 2017/18, which incorporates the IJBs share of the council's efficiency requirements. This has been agreed with the IJB and was approved at its meeting in March 2017.

106. The IJB approved its second Strategic Plan, covering a three year period 2016-2019 in August 2016. The Strategic Plan sets out the Board's commissioning priorities for the medium term period with a commitment to the delivery of effective clinical and care governance and Best Value.

107. It is still too early for the council or its partners to demonstrate any significant examples of new ways of working that promote integration or the impact or improvements to services. 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 is due in spring 2018. We plan to use this to assess progress once the work on this report has been completed.

Local scrutiny plan

108. The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to West Dunbartonshire Council in June 2017.

109. The LAN did not identify any specific areas from the risk assessment where specific scrutiny was required, other than scrutiny that was nationally directed or part of a planned programme of work.

Equalities

110. 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.

111. The Council approved their Equalities Mainstreaming and Outcomes Report 2017-2021 in April 2017.

112. The report contain details confirming the extent of progress achieved in delivering equality outcomes and a revised set of equality outcomes for delivery over the next four years.

113. We reviewed the current equalities reports and concluded the board 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.

114. We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed. Equality outcomes for the next four years have been determined and the Council will be reporting progress in 2019.

Part 5

Value for money



Main judgements

As part of the five year national programme, a Best Value audit of the Council will be reported in June 2018.

The Council has effective arrangements for reporting on its performance. The latest performance data reported nationally is mixed, with 23% of the council's indicators in the top quartile (2014/15: 22%) and 35% in the bottom quartile (2014/15: 25%). The Council's Annual Report and Year End Performance 2016/17 document shows improvements in performance since 2015/16.

Best Value

115. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. Audit work will be starting in October 2017 for the Council's BVAR report, scheduled to be discussed by the Accounts Commission in June 2018. The scope of the work will be discussed with senior officers soon.

116. The Best Value audit work carried out this year focussed on the Council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The findings of this work are reported earlier in this report. The effectiveness of the Council's Best Value arrangements in other areas will be assessed as part of the planned BVAR next year.

Shared services

117. 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. Audit Scotland's recent report, Local government in Scotland: Performances and Challenges 2017, however, identified limited evidence of councils collaborating or sharing services.

118. The Council has established a Change Board which is responsible for the delivery of the "Delivering for the Future" strategy, the council's capital plan and any other strategic change projects as determined by the board. The board consists of the Strategic Leadership Group and is chaired by a Strategic Director. The Board meets monthly with project sponsors reporting on progress using an established project template.

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

119. One workstream monitored by the Change Board is the shared services project “Developing Services through Partnerships” which focuses on changing how the council works through developing partnerships and sharing resources.

120. Discussions are underway with various councils and public sector organisations to consider sharing opportunities across a range of council services. The Council has successfully agreed partnership working with the Loch Lomond and Trossachs National Park and provides internal audit and grounds maintenance services.

121. The Council agreed in June 2016 to establish a Shared Services Joint Committee (SSJC) with Inverclyde Council and East Dunbartonshire Council. A Lead Officer Group has also been established.

122. 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.

123. Following this, 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.

124. 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

125. 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.

126. Leisure services in West Dunbartonshire are provided through an arms length external organisation (ALEO), the West Dunbartonshire Leisure Trust. The Council maintains ownership of the material property assets and a service level agreement is in place to manage the delivery of leisure services. Whilst we have not carried out any audit work this year, in previous years we confirmed that the Council had appropriate governance arrangements in place in respect of community grants, economic development grants and funding provided to procure services from the local third sector.

127. The Council has appropriate arrangements for ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

Performance management

128. The Council is committed to having a strong framework in place for monitoring and reporting performance. A corporate self-evaluation model is in place which is based on the Public Sector Improvement Framework and operates in conjunction with service specific self-evaluation activity. The council also participates 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. Regular performance monitoring against strategic priorities and service plans is undertaken at the monthly Performance and Monitoring Group, chaired by the Chief Executive.

129. The Council’s priorities are set out in its strategic plan 2012-2017 and are supported by a series of objectives. Progress against these objectives is assessed using a range of performance indicators with the progress reported in the council’s public performance report and through a series of booklets, each focusing on specific areas. Any performance indicators which relate to services provided by

the Health and Social Care Partnership (HSCP) and are now reported separately through the HSCP annual performance report.

130. We have concluded that the Council has robust and effective performance management arrangements.

131. The performance management framework uses [How Good is Our Council](#), and this is now in established use across all services. The Council provides corporate support, including facilitated events for all services, to maintain consistent standards in the process.

Overview of performance targets

132. 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.

133. 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. This report was submitted to the Audit and Performance Review committee in March 2017.

134. This identified areas where the Council is performing well; areas where improvement is required, as well as comparing the Council's performance to a Scotland wide benchmark for each performance indicator (PI). Overall, this showed mixed performance by the Council.

135. Of the indicators measured as part of the 2015/16 reporting period, the council performed better than the Scotland figure for 25 PIs. This represents 32% (51% in 14/15). Compared to other council's, 18 were ranked in the top quartile. This represents 23% (22% in 2014/15). Areas performing well include attainment levels within Children's Services, satisfaction levels within adult social care, and net costs for waste service per premises.

136. Areas in the bottom quartile include the cost of parks and open spaces per 1,000 population; percentage of income due from Council Tax received by the end of the year, and the percentage of procurement spent on local small/medium enterprises. In total, there were 27 indicators which fell into the bottom quartile. This represents 35% (25% in 2014/15). Each service reviews the indicators which fall within their remit, which aids in informing actions incorporated into delivery plans to sustain or improve performance.

137. The annual report and year end performance for 2016/17 was reported to the Council in August 2017 and demonstrated an improvement in performance in 2016/17. This provides a balanced scorecard of the Council's progress in achieving their objectives and the extent to which performance is improving. The report demonstrates the Council's progress against 74 reported Statutory Performance Indicators (SPIs) (70 were reported in 2015/16) and 28 Strategic Plan performance indicators (PIs).

138. The analysis of SPIs showed that: 51 (69%) met or exceeded target in 2016/17 compared to 37 (53%) in 2015/16; 18 (24%) narrowly missed target in 2016/17 compared to 28 (40%) in 2015/16; and 5 (7%) of indicators significantly missed target in both years. Information for three further SPIs was not available when the report was produced.

139. Analysis of PIs showed that: 17 (61%) met or exceeded target in 2016/17, compared to 12 (44%) in 2015/16; 6 (21%) narrowly missed target in 2016/17 compared to 11(41%) in 2015/16; and 5 (18%) significantly missed the target in 2016/17, an increase of one from 2015/16. Information on four further PIs was not available when the report was published.

Statutory performance indicators (SPIs)

140. 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.

141. 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.

142. The annual report and suite of performance information was reported to the Council in August 2017. This clearly demonstrates whether or not performance targets are being met.

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

National performance audit reports

144. 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.

145. The Audit & Performance Committee have processes in place for considering national reports. From our attendance at committee meetings we have noted that there is evidence of actions being taken to address areas for improvement locally.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
9	<p>1. Valuation of non-current assets</p> <p>Council dwellings recorded in the unaudited financial statements were overstated by £13.7 million due to the inclusion of elements of council dwellings recorded in the asset register not being eliminated following the 5 yearly revaluation in 2016/17. The financial statements have been adjusted to eliminate this duplication.</p> <p>Risk</p> <p>Other categories of non current assets recorded in the asset register could have an element of duplication.</p>	<p>Procedures should be in place to ensure that, following revaluation, all previous expenditure and aggregate depreciation is incorporated into the revalued amount.</p> <p>The fixed asset register should also be reviewed to ensure these errors are not repeated in other categories.</p>	<p>We will review the asset register to ensure any such issues are removed ahead of the 2017/18 accounts. We will review year end procedures to ensure valuations are agreed with the valuer.</p> <p>Finance Manager – G McNeilly.</p> <p>By 31 March 2018.</p>
10	<p>2. Untaken annual leave accrual</p> <p>Our review of the untaken annual leave accrual identified significant errors within the calculations. The net effect resulted in a £0.931 million increase to the 2016/17 untaken annual leave accrual. The previous external auditor identified errors in the annual leave accrual in previous years.</p> <p>Risk</p> <p>The annual leave accrual is not properly calculated.</p>	<p>The Council should review its procedures for calculating the annual leave accrual.</p>	<p>Procedures will be reviewed and a checking process implemented.</p> <p>Finance Manager – G McNeilly.</p> <p>By 30 April 2018.</p>
10	<p>3. Common Good Fund</p> <p>The audit identified two areas</p>	<p>The Council should review its procedures to ensure the</p>	<p>We will review the asset register to ensure any such</p>



**Page
no.**

Issue/risk

Recommendation

**Agreed management
action/timing**

of land, with a book value of £0.278 million, which are owned by the Common Good Fund but have been omitted from the asset register in previous years.

Risk

There is a risk that not all common good land has been identified or attributed a fair value.

Common Good fixed asset register is up to date and complete.

issues are removed ahead of the 2017/18 accounts. We will review year end procedures to ensure valuations are agreed with the valuer.

Finance Manager – G McNeilly.

By March 2018.

11

4. Termination pay accrual

The unaudited financial statements included a provision for termination costs of £1.972 million. Following discussion with officers it was agreed that it was not appropriate for these costs to be shown as a provision in 2016/17. The accounts are to be changed and an earmarked balance of the general fund will be identified for these costs to reflect a prudent approach to planning for the future impacts of required future savings.

Risk

Liabilities for future termination provisions may not be appropriately determined.

The council should review how they correctly account for the termination pay accrual.

The termination pay accrual accounting treatment will be considered at each financial year-end to determine correct treatment.

Strategic Lead, Resources - S West

31 May 2018.

17

5. Capital slippage

There was significant slippage in the capital programme of around £51 million (36.9%). This follows a trend over several years.

Risk

There is a risk that slippage could impact on the council's ability to deliver services in line with its strategic priorities.

The council should review its capital plans and improve the control of capital projects and, if necessary, re-profile the budget to reflect current plans.

Budgetary control reports provided to Council and Committee advises as to impact of slippage and any mitigation available. Post project reviews are also undertaken to identify any lessons which will be applied to future projects.

The capital plan is reviewed on an annual basis and profiles are reviewed. We will consider optimum bias.

Strategic Lead, Resources - S West.

31 January 2018.



**Page
no.**

Issue/risk

Recommendation

**Agreed management
action/timing**

21

6. Financial planning

The current financial strategy (approved in October 2016) covers the period to March 2020. While this does not cover the longer term period, it provides a clear link to the rolling three year budget which reports the need to identify £11 million in savings over this period; and the impact of the various scenarios on projected budget gaps. However, it does not provide a link to long term Council strategies.

Risk

By not covering the long term, the financial strategy may not identify the long term financial impact of the council's strategies.

The council should develop a financial strategy that covers the long term period (typically covering five to ten years) that links spending to the Council's strategies.

The long term finance strategy will be extended to cover a 10 year period.

Strategic Lead, Resources - S West.

31 January 2018.

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
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Focused testing of accruals and prepayments</p> <p>Evaluation of significant transactions that are outside the normal course of business</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>Focussed testing of regularity and cut-off assertions did not reveal any lapses in controls.</p> <p>No significant transactions outside the normal course of council business were identified.</p> <p>Our conclusion is that there is no evidence of management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>West Dunbartonshire Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Sample testing of income transactions to confirm that these were in the normal course of business.</p> <p>We obtained satisfactory explanations for any significant increases or decreases in income.</p> <p>Our sample cut-off testing confirmed that transactions were processed in the correct accounting year.</p> <p>The council has adequate counter-fraud arrangements.</p> <p>Our conclusion is that the council has arrangements in place to minimise the risk of fraud over income.</p>
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice requires consideration of risk of</p>	<p>Analytical procedures on expenditure streams</p> <p>Detailed testing of expenditure transactions focusing on the</p>	<p>Sample testing of expenditure transactions to confirm that these were in the normal course of business.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>fraud over expenditure (excluding payroll costs which are already a core part of all annual audits).</p>	<p>areas of greatest risk.</p>	<p>We obtained satisfactory explanations for any significant increases or decreases in expenditure.</p> <p>Our sample cut-off testing confirmed that transactions were processed in the correct accounting year.</p> <p>The council has adequate counter-fraud arrangements.</p> <p>Our conclusion is that the council has arrangements in place to minimise the risk of fraud over expenditure.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, provisions and pension liabilities. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas</p> <p>Review of the work of an actuary.</p> <p>Review of the pension assumptions used by the actuary.</p>	<p>A number of estimations and judgements in the accounts were based on the opinion of experts. We assessed the reliability of these experts and reviewed their work.</p> <p>We tested samples of accruals and provisions and confirmed them to appropriate back-up evidence.</p> <p>The council's accounting policies are appropriate.</p> <p>We concluded that estimations and judgements included in the accounts are supported by appropriate audit evidence.</p>
<p>5 Untaken annual leave</p> <p>There have been material audit adjustments to the council's untaken annual leave accrual in the previous two financial years. There is a risk that the accrual may be understated in the council's balance sheet.</p>	<p>Review the 2016/17 untaken annual leave accrual during the audit of the 2016/17 financial statements.</p> <p>Ensure inclusion of untaken annual leave for those on maternity leave and long term sick leave.</p>	<p>We addressed this and reported this within significant findings to management at Exhibit 3</p>
<p>6 Financial statements audit</p> <p>To reduce the risk of missing sign-off deadlines for the financial statements, it is essential that there is a process in place within the finance department for responding timeously to audit queries.</p>	<p>Liaised with finance staff in advance of the financial statements audit.</p>	<p>The sign off deadlines for the 2016/17 financial statements were met.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>7 Financial sustainability</p> <p>At the time of writing the Annual Audit Plan, West</p>	<p>Review financial monitoring reports and the financial position.</p>	<p>We concluded that the Council's financial position is sustainable but challenging in the</p>





















Audit risk	Assurance procedure	Results and conclusions
<p>Dunbartonshire Council had identified a funding gap of £2 million in 2017/18. This incorporates management adjustments and increase to council bandings. It was approved by members that reserves should be used to address this funding gap. West Dunbartonshire Council has an internally agreed prudential target of 2% of net expenditure. The use of reserves to close the funding gap in 2017/18 poses a significant risk that this prudential target will be breached.</p>	<p>Undertake specific audit work on financial planning and governance. This will include the robustness of long term financial planning.</p>	<p>foreseeable future.</p> <p>While efficiency savings initiatives have been identified over recent years and most of those relating to 2016/17 were achieved, further savings of £11 million still require to be identified over the period to 2019/20.</p>
<p>8 Capital management</p> <p>In 2016/17, the capital budget for West Dunbartonshire Council (including HRA) was £138 million.</p> <p>Last year external audit reported on significant underspends in the council's capital programme. In 2016/17, gross capital expenditure is projected to be underspent against the original budget by £35 million (26% underspend).</p> <p>There is a risk that the council's ability to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area is affected due to delays in investment or improvements to the asset base.</p>	<p>On-going monitoring of capital budget, plans and monitoring reports and inclusion in annual report.</p>	<p>Significant slippage in the capital programme is reported and reflected in the Action Plan at appendix 1.</p>
<p>6 Elected members</p> <p>The 2017 local government elections will result in a number of new elected members. There is a risk that there is a loss of skills and experience amongst members and this may have a detrimental impact on the council's decision-making processes. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. The Audit Scotland publication, How</p>	<p>Review of the council's induction and training arrangements for councillors following the elections.</p> <p>Participation in induction training by Audit Scotland staff.</p> <p>Assess the effectiveness of decision making and scrutiny arrangements as part of the ongoing BV audit work.</p>	<p>Our review of the council's induction and training arrangements, together with participation at this by Audit Scotland, enables us to conclude that appropriate arrangements are in place.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Councils Work provides guidance in this area: http://www.audit-scotland.gov.uk/about-us/accounts-commission/how-councils-work-roles-and-working-relationships-in-councils-are-you</p>		

Appendix 3

Summary of 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

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

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

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

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

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

West Dunbartonshire Council

2016/17 Annual Audit Report

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