



INFRASTRUCTURE, GOVERNMENT &  
HEALTHCARE

# West Dunbartonshire Council

Annual audit report to the  
members of West  
Dunbartonshire Council and the  
Controller of Audit 2006-07

31 October 2007

AUDIT



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## **Notice: About this report**

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

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

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

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

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If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Grant Macrae, who is the engagement leader for our services to West Dunbartonshire Council, telephone 0131 527 6611, email [grant.macrae@kpmg.co.uk](mailto:grant.macrae@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Lorraine Bennett, our Head of Audit in Scotland, either by writing to her at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 222 2000 or email to [lorraine.bennett@kpmg.co.uk](mailto:lorraine.bennett@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

# Executive summary

This report summarises our work for the 2006-07 year and our findings in relation to our audit of the accounts, corporate governance and performance management arrangements.

## Accounts

On 28 September 2007 we issued an audit report giving our unqualified opinion on the accounts of West Dunbartonshire Council and its group for the year ended 31 March 2007.

As disclosed in note 3 to the financial statements the authority failed to comply with its duty under section 10 of the Local Government in Scotland Act 2003 to conduct its catering significant trading operation so that income is not less than expenditure for the three year period ended 31 March 2007. We have included an emphasis of matter paragraph in our audit opinion drawing attention to this failure to comply with a statutory requirement.

## Financial position

The Council has reported net expenditure on services of £181.180 million against budgeted net service expenditure of £181.990 million. Total net operating expenditure for the year was £186.119 million. The net increase in the general fund balance during the year was £2.738 million after adjusting for statutory and non-statutory adjustments, including a one-off in year transfer of £1.5 million to the general fund from the housing revenue account. The results for the year included an increase to the Council's provision for equal pay and single status of £4.840 million.

The Council's prudential reserves policy identifies target free reserves of £4.304 million for 31 March 2007. The closing general fund balance was £4.566 million, however, this included earmarked reserves of £1.483 million, with a further £2.020 million to be applied in the 2007-08 budget in order to limit the Council tax increase for the year. The Council is aiming to return its free general fund balances to its prudential target within a three year period.

## Corporate governance

The Council has included a statement on internal financial control within the accounts. This has been prepared in accordance with the SORP and reports that there is a sound system of internal financial control in place and that appropriate mechanisms are in place to identify any areas of weakness and to take appropriate action. This statement accords with the internal audit assurance statement and annual internal audit report. However, the Council has recognised weaknesses identified by Audit Scotland in their Audit of Best Value and Community Planning report of February 2007 which require to be addressed as a priority. To this end the Council has prepared a Best Value Improvement Plan, with reports of progress against the plan made to each full Council meeting.

Management are in the process of embedding various risk management arrangements throughout the Council. Risk registers have been created for a number of departments and a risk management working group has been established.

The May 2007 local government elections saw a number of new members being elected and a new coalition administration being formed. Elected members were provided with formal induction and training during May 2007.

We have issued two management reports during the year as a result of our work to review the system of internal control established by Council management. One significant (grade one) recommendation was made to management relating to super-user access controls to the payroll system. A number of other recommendations to improve the overall control environment were also accepted by management.

## **Performance management**

### **Best Value audit**

Audit Scotland completed their audit of Best Value and Community Planning during 2006 with the Controller of Audit's report made to the Accounts Commission on 3 October 2006. The Accounts Commission subsequently held a hearing into the findings on 29 and 30 November, with the final report issued in February 2007. The Commission found that the Council was not at that time in a position to deliver Best Value, with a number of significant findings and key recommendations made.

The Commission requested that a Best Value Improvement Plan be prepared by the Council, with a requirement that the Controller of Audit make a further formal report on the Council's progress in implementing its statutory Best Value duty as at 31 July 2007.

The Council's position statement as at 31 July 2007, signed by the leader of the council, the leader of the opposition and the chief executive, asserts that the nine months since the Best Value hearing have seen significant progress being made within the Council while acknowledging that major challenges still remain.

The follow-up inspection by the Audit Scotland Best Value team to assess the Council's progress against its Improvement Plan was conducted in August 2007, and the outcome of this follow-up is currently scheduled to be reported to the Accounts Commission in November 2007.

### **Efficient government**

An efficient government strategy was approved in August 2005. The Audit Scotland Best Value and Community Planning report, however, identified a number of areas for the Council to develop relating to efficient government.

The Council's annual efficiency statement for 2006-07 was presented to the corporate and efficient governance committee in September 2007. This statement was not subject to audit in this financial year. The Council has reported cashable efficiency gains delivered in the year of £3.4 million, with a further £1.9 million of non-cashable savings reported.

### **Statutory performance indicators**

We audited the Council's 2006-07 statutory performance indicators submission during August 2007, in conjunction with the Council's internal audit team. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return. However, we reported two indicators as being unreliable since the Council was unable to provide supporting evidence due to systems constraints.

# Introduction

## Audit framework

This was the first year of our five-year appointment as external auditors of West Dunbartonshire Council ("the Council"). This report to the members of the Council and the Controller of Audit outlines our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice* ("the Code"), the scope of the audit was to:

- provide an opinion on the Council's accounts;
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland):
  - the Council's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position
  - the Council's arrangements to achieve Best Value
  - other aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources
  - arrangements for preparing and publishing statutory performance information;
- examine and report on grant claims and other returns submitted by the Council, to the extent required by the relevant authorities, and in accordance with any guidance issued by Audit Scotland.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan for the year discussed with the Council's audit and performance review committee.

To assist in the development of a consistent approach to the audit across bodies, Audit Scotland publishes *Priorities and Risks Framework* guidance, setting out a number of areas for consideration during the audit planning process. We used the material developed by Audit Scotland in 2006-07 in our assessment of the Council's processes and management arrangements. The planning process also identified a number of other areas for specific attention.

## Basis of information

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

## Acknowledgement

We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during the first year of our work in the discharge of our responsibilities.

# Accounts audit

## **Audit opinion**

On 28 September 2007 we issued an audit report giving our unqualified opinion on the accounts of West Dunbartonshire Council and its group for the year ended 31 March 2007.

In forming our unqualified opinion, we considered the adequacy of the disclosure made in note 3 to the financial statements concerning a local authority's duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so that income is not less than expenditure over each rolling three year period. As disclosed in note 3 to the financial statements, the Council failed to comply with this statutory requirement for the three year period ended 31 March 2007 in respect of the catering significant trading operation. We have included an emphasis of matter paragraph in our audit opinion drawing attention to this failure to comply with a statutory requirement.

Our findings on the Council's accounts production process were made in our report to those charged with governance, issued 12 September 2007. There were no significant matters reflected in that report, however, seven recommendations to improve the process were accepted by management.

We wish to bring the following matters to your attention.

## **Compliance with the SORP 2006**

The Code of Practice on Local Authority Accounting in the United Kingdom 2006 ("2006 SORP") introduced a number of substantive changes to local authority accounting and accounts presentation for 2006-07. The main changes included:

- the removal of the requirement to make a capital financing charge; and
- the replacement of the consolidated revenue account and statement of total movement on reserves with an income and expenditure account, statement of movement on general fund balance and statement of total recognised gains and losses.

The income and expenditure account provides the best measure of the Council's financial result for the year, and is prepared in line with the accounting conventions of UK Generally Accepted Accounting Practice (UK GAAP). The statement of movement on the general fund balance reconciles the Council's result for the year with the amount which is required under statute and non-statutory proper practices to be determine the Council's budget requirement and consequently its Council Tax demand. As such, this statement also provides important information on the Council's stewardship of its resources.

As a result of the above, the Council processed a prior year adjustment to reflect changes in the previously reported financial statements, in line with the requirements of FRS 3 'reporting financial performance.'

## Significant accounting / auditing issues identified

### Accounting for tangible fixed assets

Expenditure on items of a capital nature totalling £23.933 million had originally been written off directly to the fixed asset restatement account during 2006-07. While this was consistent with the accounting treatment followed previously by the Council, it does not accord with the requirements of the 2006 SORP. An audit adjustment was therefore made, recognising an additional £21.537 million fixed asset additions.

The 2006 SORP requires the Council to maintain a UK GAAP compliant revaluation reserve from 1 April 2007. The existing fixed asset restatement account does not meet the requirements of FRS 15 in respect of revaluation reserves and so the Council should ensure that appropriate steps are taken as a matter of priority to ensure that this requirement can be met for the year ending 31 March 2008.

#### *Recommendation one*

During 2006-07 the Council performed a detailed review of the fixed asset register to ensure it was accurate and up to date. The result of this exercise was the identification of assets owned which had not been subject to valuation in previous years. The Council obtained valuations for these assets during the year and, as a result, £17.826 million of value for land and buildings has been added to the fixed asset register.

The accounts show £63.760 million non-operational assets, of which the Council has outlined plans for disposing of surplus assets totalling £13.432 million, with the balance held as investment properties.

### Debtors and bad debt provision

The Council has significant amounts of aged debt on the balance sheet as shown in the table below.

<b>As at 31 March 2007</b>	<b>Council tax (£000)</b>	<b>Sundry debtors (£000)</b>
Debt < one year	2,340	5,212
Debt > one year	23,948	1,192
<b>Total debt</b>	<b>26,288</b>	<b>6,404</b>
Bad debt provision	(18,253)	(0,528)
<b>Net debt</b>	<b>8,035</b>	<b>5,876</b>
Debt > one year not provided	7,342	0,715

Following a recent restructuring, the Council has centralised its debt recovery processes with a view to enhancing the debt management and improving the Council's aged debt profile. Whilst we recognise that the Council has improved its overall debt collection rates in recent years, it is important that management continue to monitor outstanding debt and re-assess the bad debt provision for adequacy on a regular basis.

#### *Recommendation two*



### Employee debt

The Council has experienced high levels of debt owed by current employees. While steps taken by management during 2006-07 have reduced the outstanding balance, a total of £1.412 million council tax was still owed by around 500 employees as at 31 March 2007. In our view, there is scope for further formalised reporting of the progress the Council is making in reducing employee debt in order to demonstrate effective management of this specific debt profile.

*Recommendation three*

### Treatment of unspent government grants

During the course of our audit, we were advised by Audit Scotland that agreement had been reached with the Scottish Government over accounting for unspent elements of specific government grants with a view to establishing consistency across the local government sector in Scotland. In relation to the supporting people funding stream, Audit Scotland advised that unspent grant income should be credited to the general fund in the year, rather than deferred within current liabilities. This is because the grant funding is not adjusted for underspends and there is no expectation of repayment of monies provided. The Council had originally accounted for this within creditors, and an audit adjustment was processed to credit the general fund in the year with £1.483 million. The Council has earmarked this amount within the general fund to fund supporting people expenditure in 2007-08.

### Common good and trust funds

The presentation of the Council's Common Good and Trusts Funds was adjusted in the accounts in order to show charitable and non-charitable funds separately in accordance with Office of the Scottish Charity Regulator ("OSCR") requirements. New OSCR regulations will impose stricter reporting on all charities in future years, which could increase significantly the administrative burden on the Council of holding these funds.

*Recommendation four*

### Group accounts and going concern

The 2006-07 accounts represent the second year of reporting of the Council's group accounts, with six associate entities consolidated into the group. The Strathclyde Police Joint Board, Strathclyde Fire Joint Board and the Strathclyde Partnership for Transport have negative liabilities as at 31 March 2007 and so the effect of inclusion of these entities on the Council's balance sheet is to reduce its net reserves by £228.152 million, representing the Council's share of net liabilities in these entities.

All group associates have prepared their accounts on a going concern basis. Statutory arrangements in place with the Scottish Executive and constituent authorities mean that the financial position of these entities is secured on future funding. The group accounts have, therefore, been prepared on a going concern basis as there is no reason to assume that this funding will not continue. The group accounts accounting policies disclose these circumstances.

# Financial position

## General fund

The Council reported a financial surplus on its general fund in 2006-07 of £2.738 million (2005-06: £2.413 million deficit).

	<b>Actual</b>
	<b>£000</b>
<b>Income and expenditure result</b>	
Net operating expenditure	186,119
Income: revenue support grant, council tax and non-domestic rates	185,895
<b>(Surplus) / deficit to be met from balances b/forward</b>	<b>224</b>
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(2,962)
<b>Result for the year: (Increase) / decrease in general fund balance</b>	<b>(2,738)</b>
	=====
General fund balance brought forward	<b>(1,828)</b>
<b>General fund balance carried forward</b>	<b>(4,566)</b>
	=====

During 2006-07 the Council has progressed its commitment to pay modernisation and implementation of the single status agreement. An "Employers Offer" was approved by Council in June 2007 to allow commencement of formal consultation with trade unions of the offer in accordance with statutory requirements. As payments to employees are to be back-dated to 1 April 2006, costs associated with pay modernisation have been recognised within the net cost of services for the year, with provision made to allow for the estimated liabilities.

The pay modernisation costs were the major cost pressure arising during 2006-07, with an additional £4.840 million provided for equal pay claims and single status implementation during the year, resulting in a closing provision for these of £6.440 million as at 31 March 2007. The Council partially addressed these cost pressures during 2006-07 by freezing all non-essential staff appointments and generating efficiency savings relating to various supplies and services.

## Reserves and balances

The Council has a prudential reserves policy to retain 2% of net expenditure which for 2006-07 equates to a targeted general fund balance of £4.305 million. While the actual outturn of £4.566 million is in excess of this level, this includes earmarked reserves of £1.483 million, with a further £2.020 million to be applied in the 2007-08 budget in order to limit the Council tax increase for the year. The closing general fund balance also included a one-off non-recurring transfer from the housing revenue account of £1.5 million. As a result, the Council is aiming to return its free general fund balances to its prudential target within a three year period.

*Recommendation five*

### **Housing revenue account**

The Council's housing revenue income and expenditure account shows a surplus for the year of £2.654 million, against an approved break even budget which included application of £0.603 million of housing revenue account balances. The balance on the housing revenue account fund balance at 31 March 2007 was therefore £0.984 million (31 March 2006 £2.466 million) after net additional costs of £2.636 million to be recognised by statute and approval of a £1.5 million transfer to the general fund.

On 19 December 2006, the Minister for Communities used his statutory intervention powers under Section 74 of the Housing (Scotland) Act 2001 to allow Communities Scotland to place a formal notice on the Council, requesting a housing remedial plan and for the regulator to work alongside the Council to set out a strategy for improvement. The Council agreed with Communities Scotland to prepare a remedial plan on a voluntary basis and requested that the formal notice under Section 74 be withdrawn. Based on discussions between the Council and Communities Scotland, the Minister for Communities decided that a formal notice in terms of the legislation was not required at this time, and accepted the Council's request that the plan be submitted on a voluntary basis. The original draft notice, however, remains in place for a further period of time to encourage further progress.

At the Council meeting of 25 April 2007, the Council approved its Remedial Plan for submission to Communities Scotland. The period of the plan is outlined as 12-18 months starting from April 2007, with agreed monitoring of progress against the plan by Communities Scotland on a quarterly basis. Communities Scotland will also review progress against all recommendations at the end of the first year and at the end of the period, followed by a full inspection of the housing service in 2008-09.

During 2005-06, the Council had sought permission for partial transfer of its housing stock to a registered social landlord. This request was rejected as part of the Communities Scotland recommendation to require statutory intervention into housing management services at the Council.

### **Significant trading operations**

Councils have a statutory target of generating revenues not less than expenditure over a rolling three year period for each trading operation. As a result of Council restructuring in 2005-06, two new trading operations, roads and the grounds maintenance / street cleaning trading operation only became statutory trading operations in 2006-07 and so the three year rolling requirement did not apply to them.

The table below shows the summarised financial position of the trading accounts maintained by the Council for the three year period ended 31 March 2007. This demonstrates that the Council failed to achieve its statutory objective in respect of the catering significant trading operation.

<b>Trading operation</b>	<b>2004-05 surplus / (deficit) £000</b>	<b>2005-06 surplus / (deficit) £000</b>	<b>2006-07 surplus / (deficit) £000</b>	<b>3 year surplus / (deficit) £000</b>
Catering	(17)	(1,075)	275	<b>(817)</b>
Leisure	(75)	206	255	<b>386</b>
Housing property maintenance	1,205	1,320	1,235	<b>3,760</b>
Grounds maintenance / street cleaning	n/a	n/a	478	<b>478</b>
Roads	n/a	n/a	193	<b>193</b>
<b>Total</b>	<b>1,113</b>	<b>451</b>	<b>2,436</b>	<b>4,000</b>

The primary reason for the three year cumulative deficit to 2006-07 on the catering statutory trading operation was the settlement in 2005-06 of equal pay claims dating back to 2001-02 resulting in additional expenditure being recognised in this year.

### **Capital investment programme and prudential borrowing**

The Council incurred capital expenditure during the year of £29.658 million. This was funded through a combination of external borrowing (£16.776 million), capital receipts and government grants (£12.475 million) and revenue contributions (£0.407 million).

The Council operates a rolling capital programme. The original approved general services capital expenditure for 2006-07 was £15.262 million. Progress on the capital programme is reported to the Council throughout the year. Housing capital expenditure of £14.997 million was incurred against an initial budget of £15.310 million, with the £0.313 million slippage being carried forward into 2007-08.

The Council's annual treasury management strategy is reported to Council before the commencement of the financial year to which it relates. The following table outlines the Council's forecast capital expenditure and borrowing needs until 2009-10.

	<b>2006-07 estimate £000</b>	<b>2006-07 actual £000</b>	<b>2007-08 estimate £000</b>	<b>2008-09 estimate £000</b>	<b>2009-10 estimate £000</b>
Total capital expenditure	33,099	29,658	40,624	27,113	27,665
<i>Financed by:</i>					
Capital receipts	15,116	12,475	16,528	9,712	9,906
Capital grants	4,034		2,716	441	450
Revenue contributions	160	407	-	-	-
<b>Net financing need for the year</b>	<b>10,789</b>	<b>16,776</b>	<b>21,380</b>	<b>16,960</b>	<b>17,299</b>

The 2006-07 treasury management annual report was submitted to Council on 18 September 2007 and recorded that the Council had complied with all prudential indicators for the year. Total long term borrowing has increased from £203.616 million as at 31 March 2006 to £207.590 million as at 31 March 2007, primarily to fund capital expenditure. During 2006-07 the Council rescheduled long term Public Works Loan Board ("PWLB") and market loans with a value of £79.966 million. New loans were all PWLB; premiums arising on the rescheduling of £0.029 million have been capitalised. Interest savings of £2.660 million are expected to be achieved over the life of these new loans.

The Council has short term investments of £14.611 million as at 31 March 2007 (31 March 2006 £4.419 million). £6.566 million of this increase in cash on deposit is earmarked for future payments relating to the Council's provision for equal pay, single status and early retirement costs.

*Recommendation six*

### **Future financial plans**

The Council faces key financial pressures in the three year period ending 31 March 2010 if it is to achieve its prudential reserves policy. The 2007-08 budget shows an expected surplus of £0.736 million after additional equal pay / single status costs of £1.2 million expected to be managed through various efficiency savings. Assuming a £nil council tax increase and £nil increase in the Scottish Government settlement to be announced, the Council has reported an anticipated funding gap of £10.5m in 2008-09 and £4.5 million in 2009-10.

In order to address these financial pressures, Council departments have recently submitted 6% savings options to the corporate management team, who are currently analysing proposals. In recognition of the significant ongoing pressures, the Council has published its 'savings pack' for the 2008-09 budget on its website on 1 October 2007, three months earlier than normal, in order to allow time for detailed consideration of the proposals by members. Possible savings options identified to date total £14.412 million. The Council is also considering other alternatives aimed at improving the financial position, including the sale of the Council's interest in the Clydebank Shopping Centre to generate significant capital receipts which could then be used to reduce the Council's loans fund debt.

*Recommendation five*

The Council appointed its preferred bidder on the West Dunbartonshire Council Schools' PPP Project in April 2007. Whilst there is uncertainty across Scotland as to the future of this funding mechanism, the Council is currently aiming to finalise these contracts during November 2007. Recent interest rate changes have had an impact on the original planned affordability gap. This is being monitored closely by management to ensure any PPP deals continue to offer value for money.

The Government has announced that the Government Financial Reporting Manual will be compliant with International Financial Reporting Standards (IFRS) from 2008-09. As a result the CIPFA / LASAAC Joint Committee will be required to consider the same with the local authority SORP. This has increased the risk that the accounting treatment of the Project as determined under UK GAAP will need to be re-assessed in the future to take account of the impact of IFRS on accounting for PFI/PPP projects.

Notwithstanding the potential impact on accounting for PFI/PPP projects, the adoption of IFRS will require the Council to invest significant time and resources within the finance function in preparing IFRS-compliant financial statements for the first time.

*Recommendation seven*

# Corporate governance

## Introduction

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

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

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

## Systems of internal control

### Statement on internal financial control

The Council has included a statement on internal financial control within the accounts. This has been prepared in accordance with the 2006 SORP and reports that there is a sound system of internal financial control in place and that appropriate mechanisms are in place to identify any areas of weakness and to take appropriate action. This statement accords with the internal audit assurance statement and annual internal audit report. However, the Council's statement has recognised weaknesses in decision-making, scrutiny, management structures and financial and workforce planning identified by Audit Scotland in their Audit of Best Value and Community Planning report of February 2007 which require to be addressed as a priority. To this end, a Best Value Improvement Plan has been developed and the Council is in the process of implementing this plan.

While not a statutory requirement in Scotland, and in light of the above findings, the Council has not yet included a wider governance statement covering its overall internal control environment or corporate governance structures.

*Recommendation eight*

### Internal audit

In our Audit Planning Memorandum, we outlined our planned audit approach which seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. In accordance with our Audit Planning Memorandum and International Standard on Auditing 610, we have therefore completed a formal evaluation of the Council's internal audit function.

The CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* ("the CIPFA Code") was issued in November 2006. The CIPFA Code establishes eleven key areas of good practice.

We assessed the internal audit function against each of these areas and made a number of observations in our management report issued 7 March 2007. While we were able to place formal reliance on the work of internal audit, we made nine performance improvement recommendations designed to enhance the Council's compliance with the 2006 CIPFA Code of Practice going forward.

We placed reliance on the work of internal audit in six areas:

- main accounting system
- treasury management
- debtors
- payroll
- creditors
- statutory performance indicators

In her annual report for 2006-07, the chief internal auditor has concluded that "reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's internal control system in the year to 31 March 2007." However, internal audit have also drawn attention to the weaknesses identified in the report issued by Audit Scotland on the Audit of Best Value and Community Planning in West Dunbartonshire Council, which require to be addressed as a priority. These findings have been reflected in the internal audit annual assurance statement and the statement of internal financial control and are consistent with work we have undertaken during the course of our audit over key financial controls.

#### Risk management

The Council is in the process of embedding various risk management arrangements throughout the Council. Risk registers have been created for a number of departments and a risk management working group has been established. Training has also been rolled out to various "risk champions" throughout the Council.

A report to the audit and performance review committee in March 2007 noted that strategic risk identification was re-commencing through interviews with directors and section heads to allow creation of a strategic risk register. The report also noted that a risk analysis section had now been introduced within the standard committee report template.

Going forward, the Council needs to ensure that risk management is embedded into the culture of the Council and this will require continued commitment from Council members and senior management.

*Recommendation nine*

#### Internal controls

Drawing on the work of internal audit, in accordance with our plan we undertook detailed testing in relation to both entity-level and key financial controls. Our work in this area included consideration of the principal accounting systems to assess whether the related controls were designed appropriately and operating effectively to prevent or detect a material misstatement of the accounts, consideration of management's reporting arrangements and review of the IT control environment.

Our management reports issued on 7 March and 20 September 2007 made a number of recommendations to management to improve the control environment. One grade one ("significant") recommendation was made to management relating to super-user access controls to the payroll system. Management have since agreed to address this issue. In addition, a number of material recommendations have been made which management have also accepted.

The Council reports progress on implementation of all internal and external audit recommendations to the audit and performance review committee.

### **Prevention and detection of fraud and irregularity**

There is a formal whistle-blowing policy governing the procedures to be followed in the event of a fraud or suspected fraud. Where management are made aware of a suspected fraud, the internal fraud response group is convened to co-ordinate an investigation. Attendance at the fraud response group depends on the nature of the alleged fraud, but will usually include senior management from finance, human resources and internal audit.

Significant frauds are reported to the audit committee, with an annual report on losses and investigations presented to the committee at the meeting where the annual accounts are considered.

There were no material instances of fraud or irregularity reported during 2006-07. However, there were 14 tier one (> £5,000) fraud returns made to Audit Scotland for 2006-07.

### **National fraud initiative ("NFI")**

In 2006-07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006-07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

The NFI 2006-07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application.

We undertook a review to ensure that the Council has put in place the appropriate systems and processes in order to meet the requirements of this recurring exercise and our findings were reported to the Council in our second interim management report. Whilst the arrangements in place have been found to work effectively and good progress has been made in some areas, we made one grade two ("material") recommendation to management, along with four grade three ("minor") recommendations. The grade two recommendation related to the number of data matches that had still to be investigated and cleared at the time the Council submitted its first progress report at 31 May 2007. However, at the time of writing this report, this situation has improved with 2,717 matches having been cleared out of 3,640 in total. The Council expects to clear all data matches by 31 December 2007. We intend to review further the Council's progress as part of our audit planning for 2007-08.

*Recommendation ten*

### **Standards of conduct**

The induction pack for members includes guidance on standards and code of conduct. There are also comprehensive human resources policies and procedures providing additional guidance to staff and these are readily accessible to staff on the Council's intranet. There is a formal register of interests for



recording board members' interests. In line with a number of other local authorities, the Council does not have a standards committee. Employees of the Council are also provided with a code of conduct governing their employment.

### **Impact of May 2007 elections**

In the period from December 2006 until the May 2007 elections, the Council suffered a period of serious political instability with two changes of leadership in quick succession. In addition, there was significant realignment within the administration, with a number of members leaving the administration to become independent members.

The May 2007 elections returned a significantly different political makeup within the Council with a new coalition administration formed. Eleven new councillors, representing 50% of the Council, were returned compared to the previous Council.

Elected members were provided with formal induction training in May. The Council has also sought to provide individual members with a training needs analysis to allow further training programmes to be developed, however, no further training has yet been undertaken. In August 2007, the Council approved a revised protocol for member / officer relations, including guidance on operation of multi-member wards, as introduced by the May 2007 elections.

The Audit Scotland Best Value report, and the Council's Improvement Plan response, identified the requirement for the Council to take significant action to address the range of the findings in the Best Value report. This included the need to engage external assistance to help in delivery of the necessary improvement.

The Council commissioned a number of consultants' reviews in the early part of 2007. The majority of these reported back to the new Council in May and June. Coupled with the result of the May 2007 elections bringing a new administration, a closer political balance and a significant proportion of new councillors, the Council has commenced a large number of initiatives since the elections which have now been reported through committee. Our comments on this are included under Best Value within the Performance Management section of this report.

# Performance management

## Best Value

The Local Government in Scotland Act 2003 introduced new statutory duties relating to Best Value and community planning. As a result, the Accounts Commission introduced new arrangements for the audit of Best Value. The scope of Best Value and community planning is broad, but in overall terms a successful council will:

- work with its partners to identify a clear set of priorities that respond to the needs of the community in both the short and the longer term;
- be organised to deliver those priorities; and
- meet and clearly demonstrate that it is meeting the community's needs.

The Council was subject to its review from the Audit Scotland Best Value team in 2006, with the Controller of Audit's report made to the Accounts Commission on 3 October 2006. Following consideration of the report together with letters received from the then chief executive of the Council, the Commission decided to hold a hearing. The hearing was held on 29 and 30 November 2006 in Clydebank with a range of evidence heard.

The Commission found that the Council was not at that time in a position to deliver Best Value, with specific findings on the Council's high-level decision making, staff morale within the Council, inadequate scrutiny arrangements and a lack of effective leadership. Specific recommendations were made to the Council in respect of immediate and medium term priorities, as well as requesting that the Council review specific decisions which had been highlighted within the report.

The Commission requested that a Best Value Improvement Plan be prepared by the Council, with a requirement that the Controller of Audit make a further formal report on the Council's progress in implementing its statutory Best Value duty as at 31 July 2007.

The Council prepared its Improvement Plan and this was approved by Council in January 2007. In order to progress work on this plan, the Council constituted a member / officer working group to drive change. A number of other workstreams were created to address specific aspects of the Improvement Plan. Updates on progress, included an action plan, are taken to each Council meeting.

In preparation for the follow-up review by Audit Scotland in August 2007, the Council submitted a position statement, signed by the leader of the council, the leader of the opposition and the chief executive, along with supporting evidence for statements made within the document. Within this statement the Council has asserted that the nine months since the Best Value hearing have seen significant political and organisational change within the Council. We outline the main features of this below.

The position statement, however, recognises that a number of major challenges remain, notably in "bringing the workforce with them" as the Council is aware that the process of single status implementation has absorbed the majority of the Council's human resource capacity. The statement also notes that the pace of change required is challenging but that structural changes have been made in order to improve the Council's capacity to deliver change.

The outcome of the follow-up inspection is currently expected to be reported by the Controller of Audit to the Accounts Commission at its meeting in November 2007, and so we have not been required to provide comment on our assessment of the Council's progress against its Improvement Plan within this report.

### Committee structure

Following a consultant review of committee structures, the Council approved the recommended retention of the thematic committee structure previously in place at the Council, although with rationalisation of the number of committee convenors to associate one convenor with each committee and revision to some committee titles. In particular the corporate services committee was renamed as the corporate and efficient governance committee to draw attention to the revised focus of the committee.

### Management structures

The Council has seen a number of changes in key senior staff during 2006-07. The former chief executive retired at the end of October 2006, with the position filled by the then director of housing, regeneration and environmental services. The subsequent vacancy at director level has been filled since then by two of the department's heads of service acting in a joint director position.

The new Council has now approved a revised management structure based on a parallel review by its external consultants in this area. The significant change was the creation of a separate corporate resources department, distinct from the chief executive's department, with requirement for an additional director at this level. This is to provide additional capacity at the corporate management team level. In order to allow departmental directors to provide a more strategic direction to the Council, the structure also allows for each of the four main departments to be supported with three operational heads of service, with one head of service to support the chief executive. The new corporate resources department will have responsibility for finance and ICT, procurement, human resources, legal and administration and regulatory affairs.

The Council's recruitment committee met in August 2007 to approve the job specifications for the new director of corporate services, a director for the (revised) department of housing, environment and economic development to replace the acting directors, and a new director for the education department. The Council is therefore currently recruiting for three members out of five for its corporate management team. The Council's timetable for recruitment anticipates having these people in position by the end of 2007. Until these positions are filled, the Council is currently operating at under-capacity at senior management level.

As a result of the revised structure, the internal audit function is to transfer to the chief executive's office, to report directly to the chief executive in accordance with best practice. The restructure also brings revenues and benefits within the finance function. A number of additional key posts were identified, including a section head for efficient government.

### Scrutiny arrangements

The Council has completed a review of its scrutiny arrangements as part of its Best Value Improvement Plan. The audit and performance review committee ("A&PRC") considered its remit within the revised Council decision-making structures at its meeting in September 2007. This review concluded that the role of the A&PRC was to challenge the financial audit functions and the performance of the organisation through quality control and continuous improvement. The thematic committees, however, retain responsibility for performance and Best Value review of their own areas.

The A&PRC review noted the need for appropriate training and independence of the committee, with approval of the ability to call on external individuals to provide specialised input to the work of the committee if required. Priorities for future training needs were also identified.

### Community and corporate planning

The Council's community planning partnership launched its second community plan in September 2007, covering the 10-year period from 2007 to 2017. The plan outlines the partnership's vision for West Dunbartonshire and identifies a number of cross-cutting themes through which this will be achieved.

The Council's corporate plan has also been subject to revision with a draft corporate plan for the period 2008-2012 presented to Council in August 2007. The themes and priorities of the community plan have been reflected in the corporate plan, which sets out the actions the Council intends to take to deliver on its community planning responsibilities.

The Council also prepares an annual corporate plan performance review report which assesses the Council against the targets set within its existing corporate plan.

### Efficient government

An efficient government strategy was approved in August 2005. However, the Audit Scotland Best Value and Community Planning report identified a number of areas for the Council to develop relating to efficient government. The Council is in the process of addressing these findings.

### Annual efficiency statement

The Council's annual efficiency statement for 2006-07 was presented to the corporate and efficient governance committee in September 2007. This statement was not subject to audit in this financial year. The Council has reported cashable efficiency gains delivered in the year of £3.4 million, with a further £1.9 million of non-cashable efficiencies. These savings have been identified across the themes identified in the Scottish Executive's Efficient Government themes. The efficiency statement notes that while these efficiencies were planned within the corporate budget process, they were essential in allowing the Council to absorb a number of budget pressures which arose during the year.

The 2007-08 revenue budget was set on the basis of a 2.2% increase in council tax, with an assumption of an increase in the budgeted council tax collection rate from 96.0% to 96.75% as a result of the improved collection performance seen in recent years. Further cashable savings totalling £2.306 million were identified in order to balance the budget.

### Shared services

The Council is also the lead authority in developing a shared service centre for the collection and administration of non-domestic rates amongst neighbouring local authorities. Other consortium projects include a national procurement hub and shared training and employee development services. The Council is also planning to introduce document imaging production into various corporate processes in order to improve efficiency.

### Performance management

The Audit Scotland report on Best Value and Community Planning identified a number of matters relating to performance management, which the Council is addressing through its Improvement Plan. The review of scrutiny arrangements noted earlier has identified the thematic committees as responsible for reviewing performance within their areas.

The Council's central policy unit is seeking to proceed with an invitation to tender for performance management software to allow more effective corporate performance management monitoring and reporting.

A performance management framework for the chief executive and departmental directors was approved by Council in August 2007, with the extension of the remit of the recruitment committee into a recruitment and individual performance management committee.

### **Statutory performance indicators**

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

The Accounts Commission issues a Direction each year establishing the performance indicators to be published. We audited the Council's 2006-07 statutory performance indicators submission against this Direction during August 2007, in conjunction with the Council's internal audit team. Overall systems and controls were found to be adequate in supporting an accurate statutory performance indicator return. However, we reported two indicators as being unreliable since the Council was unable to provide supporting evidence due to systems constraints.

## Appendix – action plan

Priority rating for performance improvement observations raised		
<p><b>Grade one:</b> Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>Grade two:</b> Issues that have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.</p>	<p><b>Grade three:</b> Issues that would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
1	<p>The 2006 SORP requires local authorities to prepare a revaluation reserve for the first time. The 2006 SORP recognises that this is a significant task and therefore has delayed mandatory implementation of this specific requirement until 1 April 2007. Nevertheless, during the course of our audit, we identified a number of areas of accounting for fixed assets that would not be permitted once this aspect of the SORP was implemented. The creation of a revaluation reserve also requires enhanced information on assets held and movements arising from changes in prices and revaluations.</p> <p>The Council should take steps as a matter of priority to prepare for the mandatory introduction of a revaluation reserve. In particular, accounting policies relating to fixed assets should be reviewed so as to ensure compliance with the 2007 SORP and the fixed asset register should be enhanced to enable effective monitoring of the movements in the carrying values on an asset-by-asset basis.</p> <p><i>(Grade one)</i></p>	<p>Arrangements are in hand to fully prepare for the introduction of the revaluation reserve. Policy and guidance notes will be updated and staff will receive appropriate training. A detailed briefing of the changes will be given to all members of the Finance Forum.</p>	<p>Manager of Accounting</p> <p>31 January 2008</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
2	<p>Following management restructuring, the Council has recently centralised its debt recovery processes with a view to enhancing debt management across the Council and improving the Council's aged debt profile. As part of this process, it is recommended that management give consideration to the range of methods open to them to further improve debt recovery levels, and consider regular reporting to the corporate management team and committee of the progress made.</p> <p><i>(Grade two)</i></p>	<p>Steps are being taken to produce a corporate debt policy. As such procedures are being reviewed to further improve collection levels. Reports will be submitted to the CMT and Committee</p>	<p>Manager of Exchequer</p> <p>31 March 2008</p>
3	<p>The Council has a high level of employee debt as at 31 March 2007. While we recognise that management have taken action during 2006-07 to address this, it is recommended that management introduce formal regular reporting of the level of employee debt within the Council, so that progress to reduce the level of debt can be effectively monitored.</p> <p><i>(Grade two)</i></p>	<p>Management reports will continue to be produced monthly and regular updates will be provided to the CMT and, as appropriate, to the Corporate and Efficient Governance Committee</p>	<p>Manager of Exchequer</p> <p>31 December 2007</p>
4	<p>The Council currently operate a number of common good and trust funds with charitable status. New OSCR regulations will impose stricter reporting on all charities in future years. Until March 2008, OSCR are allowing applications for the amalgamation of charities into larger charities covering the objectives of all the prior charities. It is recommended that the Council considers using this to ensure that compliance with charity legislation in future years is more manageable.</p> <p><i>(Grade two)</i></p>	<p>Arrangements are in hand to review all current trust and common good accounting practices. A report detailing the number of options open to the Council in the management of these charities will be presented to the Corporate and Efficient governance committee</p>	<p>Manager of Accounting</p> <p>31 January 2008</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
5	<p>The Council's financial position remains a matter of concern, with general fund balances as at 31 March 2007 falling short of the Council's prudential reserves policy by £1.222 million. We recognise that management are in the process of identifying solutions to this situation and we would encourage management to prioritise this work in order to ensure the medium and long term financial security of the Council, especially given the additional cost pressures and funding gaps identified for the three years ending 31 March 2010. The production of accurate long term financial planning and budgeting will be key to this process.</p> <p><i>(Grade one)</i></p>	<p>The Council will work towards restoring balances to a prudential level as soon as possible. The Council has prepared detailed budgets for the period 2007/10 and these will be refined and developed further to take account of both the outcome of the spending review negotiations and the impact of administration changes at both a national and local level. Work will continue to embed both the newly approved corporate plan commitments together with a number of efficiency targets into indicative budgets for the medium term.</p>	<p>Head of Finance</p> <p>Ongoing</p>
6	<p>The Council's treasury management strategy does not outline the target level of short term investments which the Council expects to hold during the next financial year. While the Council's level of investments is currently in line with other councils of a similar size, it is recommended that the treasury management strategy is expanded to provide greater clarity of information on short term investments to members.</p> <p><i>(Grade three)</i></p>	<p>This strategy will be reviewed, updated and reported to Council prior to 31/3/08. Additional information on investments will be included at this stage</p>	<p>Manager of Accounting</p> <p>31 March 2008</p>
7	<p>While the timescale for adoption of IFRS within the local authority SORP is not yet confirmed, the first time preparation of IFRS-compliant accounts will require significant time investment by the Council's finance section. It is recommended that the Council give consideration to the preparations required to convert to IFRS and ensure that appropriate resources will be in place when required.</p> <p><i>(Grade two)</i></p>	<p>A report outlining the potential burden on accountancy resources will be presented to the CMT for consideration. A growth bid for 2008/09 has been submitted along with the draft 2008/09 budget submission</p>	<p>Head of Finance</p> <p>31 January 2008</p>



No.	Issue and performance improvement observation	Management response	Officer and due date
8	<p>The Council currently prepares a statement of internal financial control covering itself and the bodies within its group accounts envelope. A number of other councils have moved to preparation of a wider governance statement in the form of either a statement of internal control or a statement of corporate governance. While this is not yet a statutory requirement, it is recommended that the Council give consideration to the steps required to move to a wider form of governance statement, and the evidence which would be required to support this.</p> <p><i>(Grade two)</i></p>	<p>Council will consider steps required by setting up a working group to report to the Head of Finance by 31/3/08 (for implementation by 1/4/08). A report will be resented to the Audit and Performance Review Committee.</p>	<p>Manager of Audit</p> <p>31 March 2008</p>
9	<p>The Council is progressing development of its strategic risk register. In order to embed risk management throughout the Council, it is necessary for a clear link to be established between the strategic risk register and the Council's corporate strategy. This will further demonstrate how the Council plans and uses resources to proactively mitigate risks to an acceptable level.</p> <p><i>(Grade two)</i></p>	<p>The new Corporate Plan contains the objective 'Improve approach to risk management'. There are two indicators proposed to measure this. In addition, the new risk and performance management system will integrate strategic and operational risks into the corporate and departmental strategic planning process.</p>	<p>All Executive Directors.</p> <p>Lead role to be assumed by Executive Director of Corporate Services, when appointed.</p> <p>31 March 2008</p>
10	<p>The NFI exercise for 2006-07 resulted in 3,640 data matches for investigation by the Council. It is recommended that management ensure that resources continue to be applied to the exercise to ensure that all data matches can be investigated in line with Audit Scotland guidance within the timetable set. It is also recommended that the Council consider conducting a high-level review for any lessons which can be learned from the 2006-07 exercise.</p> <p><i>(Grade two)</i></p>	<p>The NFI exercise is nearing completion and a high level review will be undertaken once the investigation of individual cases has finished.</p>	<p>Manager of Audit</p> <p>31 March 2008</p>

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