West Dunbartonshire Council

Report to Members on the 2005/06 Audit

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Key messages

Introduction

During the year, the council received a full best value and community planning audit. The report on this audit is complete and was considered by the Accounts Commission on 11 October 2006. The Commission decided to hold a hearing, the primary purpose of which is to assist the Commission to make findings by hearing appropriate evidence, including hearing from representatives of West Dunbartonshire Council.

We were members of the best value team and the findings from our interim work contributed to the best value report which includes full commentary on the council's governance and performance. As a result, this report only sets out our key findings from our audit of the 2005/06 financial statements.

Key outcomes from 2005/06 audit

We have given an unqualified opinion on the financial statements of West Dunbartonshire Council for 2005/06. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break-even on a rolling three year basis. This is because the catering trading organisation made an aggregate loss of £0.979 million in the three years to 31 March 2006, due to the charging of equal pay costs of £1.274 million to the trading account in 2005/06. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

The council has incurred a general fund deficit of £2.413 million compared to a budget to break-even using £0.650 million of balances. The main factors contributing to the over spend are provisions for equal pay and voluntary severance costs, totalling £2.4 million. The council has an accumulated surplus on the general fund of £1.828 million to carry forward. After deducting earmarked balances, £1.708 million remains available for other purposes and unforeseen costs. This is well below the council's reserves target of £4.1 million for 2006/07. The closing balance on the housing revenue account of £2.466 million exceeds the council's agreed target of £0.600 million.

The council is working towards re-establishing the appropriate level of reserves on its general fund in order to meet future contingencies. With the housing revenue account, the intention is to maintain rents at an appropriate level while planning for capital expenditure which will allow the council to meet quality standards for its council housing. The pressures on the council as it tries to meet these objectives are considerable. These pressures include the costs of the single status agreement, risks of further equal pay costs, increasing pension costs, the costs of free personal care for the elderly and supporting people services, and the costs of improving the school estate. Without robust longer term financial plans, the council risks being unable to fund satisfactorily its corporate plan and meet future contingencies.

West Dunbartonshire Council has sought to limit its exposure to the financial risk associated with equal pay claims by offering equal pay compensation payments to specific groups of employees as part of a compensation package. While this will help to reduce financial risk in this area, there remain significant risks, particularly while existing pay and reward structures remain in place.

The council has not yet implemented the single status agreement, and discussions continue with trades unions about the job evaluation model to be applied. However, an estimate of the annual costs of £2.3 million has been included in the 2006/07 revenue budget. Until a local agreement is concluded, the initial and continuing costs of single status cannot be reliably estimated. This represents a considerable risk to the council.

In common with other councils, changes to the code of practice on local authority accounting (ACOP) will have a significant impact on the presentation of the 2006/07 annual financial statements, which will require to be more consistent with the accounts of other public and private sector organisations.

This is the final year of our current appointment to the audit of the council. From 2006/07 KPMG will become the council's appointed auditor for the following five year period.

Audit Scotland
October 2006

Financial statements

Introduction

1. In this report we summarise key outcomes from our audit of the council's financial statements for 2005/06. We comment on the significant accounting issues faced, provide an outlook on future financial reporting issues and comment on the council's financial position.

2. We audit the financial statements and give an opinion on:

   - whether they present fairly the financial position of the council and its expenditure and income for the period in question; and
   - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

3. We also review the statement on the system of internal financial control by:

   - considering the adequacy of the process put in place by the chief executive and council to obtain assurances on systems of internal control; and
   - assessing whether disclosures in the statement are consistent with our knowledge of the council.

Audit opinion

4. We have given an unqualified opinion on the financial statements of West Dunbartonshire Council for 2005/06. We have, however, drawn attention to a failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

5. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. The council has three significant trading operations: housing maintenance, catering services and leisure services. The catering trading operation made an aggregate loss of £0.979 million in the three years to 31 March 2006, with the result that the council has failed to meet this statutory requirement. It is recognised, however, that this loss was due to the equal pay costs in 2005/06, which totalled £1.274 million for the year. It should be noted that, because the break-even requirement is over a rolling three year period, this expenditure will impact on the achievement of the break-even position over the next two years.

6. The council's unaudited financial statements were submitted to the controller of audit by the deadline of 30 June. The initial package of working papers lacked some key documents, in particular financial system reconciliations. While all back-up was subsequently provided for audit, it is important that steps are taken to continuously improve the working papers' package provided to support the accounts.

7. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the council and for publication. The financial statements are the means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

8. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). Some accounting adjustments were made to the figures included in the unaudited accounts provided for public inspection. The net effect of these was to increase the general fund deficit in 2005/06 by £2.4 million. However, as these equal pay and the voluntary severance costs had already been earmarked from the general fund surplus, these adjustments do not change the value (£ 1.708 million) of funds being carried forward to 2006/07, and available for other purposes. Details of these adjustments and other significant accounting issues arising in the course of our audit are summarised below.

Provision for equal pay and severance

9. In February 2006, the then head of corporate services reported to the corporate services committee an estimated one-off cost of £6.500 million in relation to equal pay compensatory payments to specific groups of employees, totalling an estimated 1,300. Payments of £5.420 million were actually made to employees during 2005/06, with a further £1.600 million being set aside for unsettled claims which may go to tribunal. Under accounting rules these costs had to be recognised in full during 2005/06, because at the year-end the council had an obligation to pay the compensation and there was a reliable estimate of the amount.

10. A further adjustment of £0.800 million was made to the accounts to include a provision for severance costs agreed in 2005/06 but paid in 2006/07.

Unspent government grant income

11. The accounts include, as part of creditors, £4 million relating to unspent grants at the year end. These grants are mainly ring fenced funds from the Scottish Executive and are being carried forward to 2006/07. It is my view that in accordance with proper and transparent accounting practice, these

balances should be shown as part of the closing general fund balance and be ring fenced for use in 2006/07. The council has clear plans to spend the unspent grant. At the 31 March 2006, there was no requirement to return the money to the Scottish Executive as it had approved the carry forward of the funds to be spent in 2006/07, and some funds have been spent to date. This accounting practice was also raised with members of the audit and performance review committee in 2004/05. The presentation of these balances has, however, not been changed in 2005/06.

12. This matter has been discussed with colleagues in Audit Scotland, as this accounting treatment was used by a number, but not all, of councils in 2005/06. Because the letters from the Scottish Executive on the carry forward of these balances are often open to interpretation in accounting terms, and because the accounting treatment of grants, in general, is being considered by technical authorities in the UK and elsewhere, this matter will be considered further in 2006/07, and a consistent approach agreed in all councils. I have not required that the accounts be changed for these grants this year.

Debt restructuring costs

13. Lender option borrower option arrangements (LOBOs) are variable rate loans whereby, if the lender decides to change the interest rate at certain predetermined dates, the borrower has the option whether to accept the change or to repay the loan principal.

14. Over the last four years the commercial money market has been increasingly competitive with new products such as LOBOs being of particular interest to councils as an additional form of borrowing over the longer term. Although LOBOs do not fully provide the guaranteed long term interest rate stability of PWLB fixed rate maturity loans, longer term stability has improved in recent years with longer call intervals, and loan maturity now available up to 60 years.

15. There is currently a debate over the appropriate accounting treatment of LOBOs. One issue is whether the characteristics of a LOBO require any premium arising from replacing existing PWLB debt to be recognised immediately rather than over the life of the replacement borrowing. A secondary issue is whether interest should be charged according to the actual debt profile or smoothed over the length of the period.

16. The council had LOBO debt totalling £69.6 million at 31 March 2006. A total of £10.915 million of rescheduling costs relating to the use of LOBOs is being carried on the balance sheet. The council are writing off these premiums over the average term of the replacement loans.

17. As stated in the representation letter signed by the head of finance, this approach has been taken because the council considers that the overall economic effect of the original and the replacement borrowing is substantially the same. In reaching this view the council has considered:

- the definition of the term “overall economic effect” offered by the ACOP guidance notes;
- the expected stability of interest rates over the period of replacement borrowing;
- that there is no evidence that lenders have sought in practice to impose significant interest rate increases or that authorities have refused to accept any increases; and
- the expectation that the loans will run to maturity.

Public private partnership

18. In January 2006 Audit Scotland gave an initial comment on value for money for the West Dunbartonshire Schools PPP project. This concluded that, based on the council’s analysis, the quantitative assessment demonstrated that the PPP project represented value for money, as assessed against the Scottish Executive’s guidance, at this stage. A further audit opinion will be given on the final proposed scheme.

Financial position

Revenue performance 2005/06

19. The council’s net operating expenditure in 2005/06 was £184.814 million, after a transfer from the housing revenue account balance (£1.250 million) and a net contribution to the capital items replacement fund (£0.138 million). This expenditure was met by government grants and local taxation of £182.401 million, resulting in a net general fund deficit of £2.413 million. Added to the brought forward balance from previous years, this gives a surplus carried forward of £1.828 million.

20. The budget set for 2005/06 was based on a Band D council tax level of £1,113 and was constructed to break even using £0.650 million of balances. The overall adverse variance against budget was £1.763 million, mainly due to the total costs of equal pay (£7.02 million) and voluntary severances (£0.800 million), offset by savings in other areas. A number of actions were taken by the corporate management team during the year to reduce other costs, and contain the overspend. Budget underspends were achieved in staffing costs due to a widespread freeze on vacancies and non-essential expenditure. Other savings were made on interest payments, insurance costs and various efficiency measures.

21. 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. The budget set for 2005/06 was based on an average weekly rent level of £43.84, an increase of 3.9% on the previous year. The budget set for 2006/07 was based on a further increase in rent levels of 2.25%.

22. After a contribution to the general fund of £1.25 million, a surplus of £0.304 million was achieved in 2005/06, giving an accumulated HRA surplus of £2.466 million. The closing HRA balance of £2.466 million exceeds the council's reserve target and it is planned to retain this level for 2006/07.

Reserves and balances

23. At 31 March 2006 the council had total cash backed reserves and funds of £16.055 million, as listed below.

Table 1 Reserves and Funds 2005/2006

Description	2005/06 £ Million	2004/05 £ Million
General Fund	1.828	4.241
General Fund —Housing revenue account balance	2.466	2.162
Usable Capital Receipts Reserve	11.436	11.994
Capital Items Replacement Fund	0.325	0.187
	16.055	**18.584**

24. The balance on the general fund carried forward to 2006/07 of £1.828 million is substantially less than the prudential reserve level agreed by the council of 2% of gross expenditure (£4.1 million for 2006/07). The council is working towards re-establishing the appropriate level of reserve. However, the council faces a range of financial issues which will significantly impact on its reserves position and this is discussed further at paragraph 35 onwards.

Group balances and going concern

25. Arrangements for the preparation of group accounts were mandatory for the first time in 2005/06. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. This has become more important with the *Prudential Code for Capital Finance in Local Authorities* which requires authorities to take note of all their commitments, including those in alternative service delivery vehicles.

26. The 2005/06 financial statements report the position of the West Dunbartonshire Council group (council plus associate entities) in accordance with recommended accounting practice. This includes the Strathclyde Police Joint Board, Strathclyde Fire and Rescue Joint Board, and Strathclyde Passenger Transport Authority, all of which had an excess of liabilities over assets at 31 March

2006. In the case of the two joint boards this relates to the substantial pension liabilities from their unfunded pension schemes, being in total some £4.5 billion, of which the council has taken a proportionate share. For the Strathclyde Passenger Transport Authority, the net liability arises mainly from the long-term borrowing required to fund new investment in rail and other passenger transport facilities. The overall effect of inclusion of the council's associates on the group balance sheet is to reduce reserves and net assets, giving a net liability on its group balance sheet of £64.261 million.

27. All group associates have prepared their accounts on a going concern basis. Statutory arrangements in place with the Scottish Executive and constituent authorities for the funding of the deficit on police and fire pensions means that the financial position of the boards remain assured. Similarly, funding arrangements are in place between the Scottish Executive, constituent authorities and the Strathclyde Passenger Transport Authority. Therefore, group financial statements have been presented on a going concern basis, as there is no reason to suggest that future funding will not continue.

28. In compiling group accounts, the council has achieved compliance with group accounting policies in accordance with the accounting code of practice for local government (ACOP). One exception relates to the Strathclyde Passenger Transport Authority's valuation of its land and buildings which have been valued at historic cost. The difference in accounting treatment has been disclosed within the group accounts and efforts are to be made to ensure compliance from 2006/07. The common good accounts have not been incorporated within the council's group accounts for 2005/06. This deviates from UK GAAP requirements.

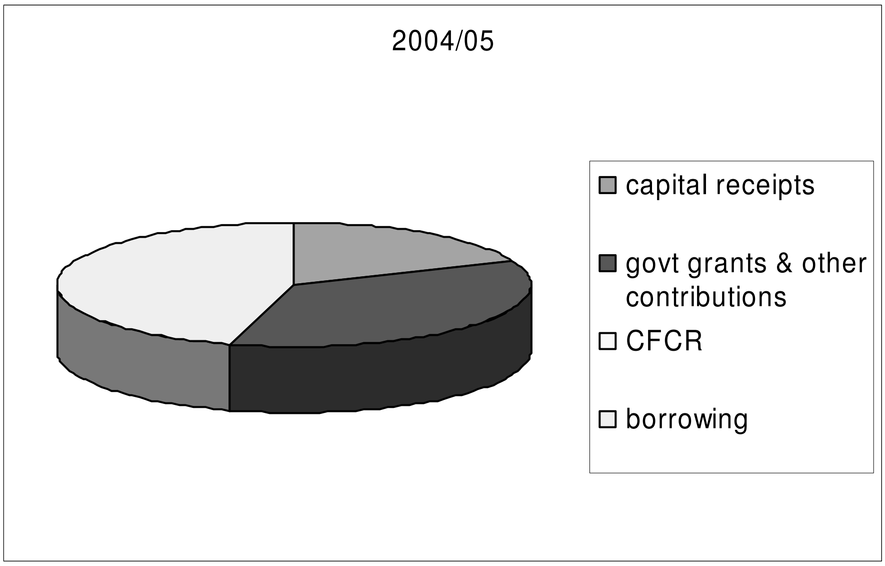
Spending on assets and long-term borrowing

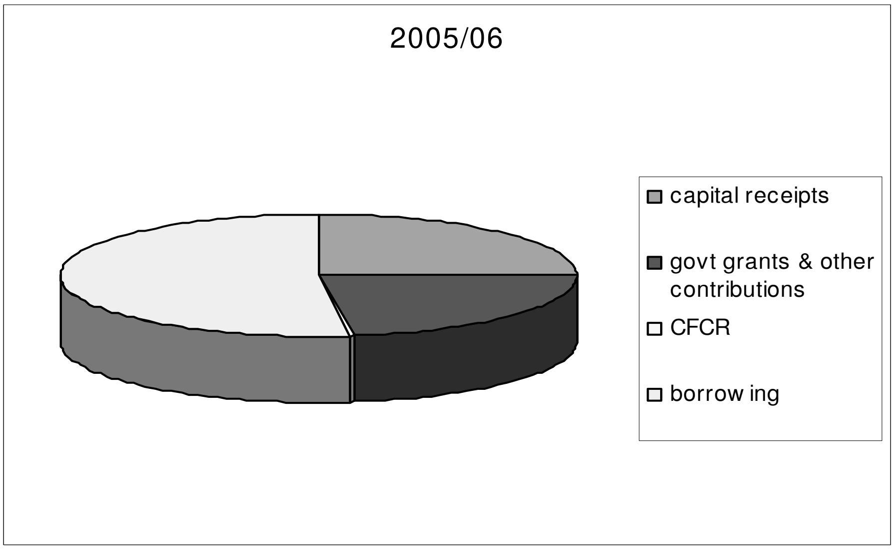
Capital performance 2005/06

29. Following the introduction of the prudential code in April 2004, the council can decide on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2005/06 were set in March 2005, and increases in capital expenditure have been made within this prudential framework as the council seeks to improve its asset infrastructure, particularly in housing.

30. Capital expenditure in 2005/06 for general services and housing (HRA) combined totalled £33.945 million, rising from £31.729 million in 2004/05 and £23.250 million in 2003/04, the last year of central capital controls. Capital investment in the last two years was funded as shown below. As the council has increased its capital spending, the proportion funded by debt has increased, with aggregate long and medium term borrowing at 31 March 2006 of £202.921 million, an increase of £4.924 million on the previous year.

Chart 1: Sources for of finance for capital expenditure in 2004/05 and 2005/06





31. Budgeted capital expenditure for 2005/06 was £41.006 million, compared to an actual, as above, of £33.945 million. As in previous years slippage was experienced, with expenditure at around 83% of budget, especially within the education, and development and environmental services programmes. The council has introduced a number of measures which should help minimise future slippage against the programme. These include the profiling of both the general fund and HRA programmes and projections of capital spend over the next 3 years.

32. Almost 93% of long and medium term loans at the year-end mature after more than 10 years. However, the council has actively managed its exposure to variable interest rate movements with less than 1% of all debt exposed to variable rate risk, well below its prudential maximum exposure of 30%.

Forward capital programme

33. General services capital plans for 2006/07, 2007/08 and 2008/09 anticipate annual capital expenditure of £22.025 million, £10.308 million and £10.556 million respectively. This is expected to be funded by a number of sources including capital receipts and grants. Government supported borrowing of around £5 million per year is expected to be available to fund future capital expenditure of £2.5 million, together with leasing savings, in 2006/07. The capital programme reduces considerably after 2006/07 due mainly to a fall in the level of anticipated capital receipts and uncertainty over future capital grants. The council should ensure that this capital programme is fully aligned with its corporate objectives and is supported by the requirements of the council's proposed asset management process.

34. Capital spending on the HRA is planned for 2006/07, 2007/08 and 2008/09 at £18 million and £16.2 million for each of the subsequent years. Extensive work will be required to bring the council's housing stock up to Scottish housing quality standards. The standard delivery plan prepared by the council identifies that it will cost £149 million over the next 10 years to complete this work as well as non quality standard work. The council should review whether the present capital programme will meet this.

Financial outlook

35. As noted at paragraph 24 above, the council is working towards re-establishing the appropriate level of reserves on its general fund in order to meet future contingencies. With the HRA, the intention is to maintain rents at an appropriate level while planning for capital expenditure which will allow the council to meet quality standards for its council housing. The pressures on the council and the risks it faces as it tries to meet these objectives are considerable. These include the costs of the single status agreement, the risks of further equal pay costs, the top-slicing of expected efficiency savings, increasing pension costs, the costs of free personal care for the elderly and supporting people services, and the costs of improving the school estate. Without robust longer term financial plans the council risks not being able to satisfactorily fund its corporate plan nor will it be able to ensure it can meet future contingencies.

Equal pay

36. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal.

37. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06. There are risks for councils not only around traditionally female roles that have been underpaid but also in relation to many, mainly male, manual workers in areas such as cleansing, grounds maintenance and building trades who receive bonus payments that typically are not available in areas such as catering and cleaning where the workforce is predominantly female.

38. In common with many other Scottish councils, West Dunbartonshire Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees. The council completed its review and offered payments to the affected groups in early 2006. Over 90% of staff have accepted the offers made. A sum of £7.02 million has been included in the 2005/06 financial statements for the total one-off cost of these payments, including an estimate made for the 130 unsettled claims.

39. The extent to which the actual costs will vary from current estimates will depend on the level of awards of any cases taken to tribunal. The council has taken legal advice and provided for the full value of equal pay compensation for the above employees, pending tribunal proceedings. Costs above that already provided for, will increase further the financial pressure on the council.

40. While moves to agree compensation payments to affected employees will help to reduce financial risk in this area, there remain significant risks, particularly while existing pay and reward structures remain in place. The future implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.

Single status

41. In 1999 a single status agreement was reached between Scottish local authorities and trades unions which would harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers covering pay, working hours, leave and negotiating mechanisms. There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

42. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, this was extended by agreement between local authorities and unions to April 2004. To date only one council, South Lanarkshire, has implemented the single status agreement. At West Dunbartonshire Council, discussions are continuing with trade unions over the evaluation scheme to be applied, prior to agreement on the scheme to be implemented.

43. The council has set aside an earmarked balance of £2.300 million within the 2006/07 revenue budget to be applied to the costs of single status. The projected costs of single status beyond 2006/07 have not yet been budgeted for.

44. Until a local agreement is concluded, the initial and continuing costs to the council cannot be reliably estimated. This represents a significant financial risk to the council and its ability to replenish general reserves to prudent levels, and a risk to staff relations. In securing a local agreement the council needs to maximise the opportunity for service and job redesign to ensure that it achieves value for money from its investment in its staff.

Pension liabilities

45. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions including projecting increased life expectancy. In addition there are proposals to amend the local government pension scheme which are designed to reduce the ongoing cost although these have not yet been implemented. In accounting for pensions, *Financial Reporting Standard 17 (Retirement benefits)* is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised on the face of annual accounts.

46. The council's estimated pension liabilities at 31 March 2006 exceeded its share of the assets in the Strathclyde Pension Fund by £86.603 million, decreasing from £88.723 million in the previous year. While the net liabilities in the main scheme have fallen, the unfunded liabilities for discretionary pensions where the council agrees to fund an early retirement have increased by £5.896 million during the year.

47. A full actuarial valuation of the Strathclyde Pension Fund was carried out in March 2005. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling between 31 March 2004 and 31 March 2005. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from 1 April 2006 to maintain the solvency of the fund. The contributions are expected to rise from 260% of employee contributions in 2006/07 to 280% by 2008/09.

Statement on the systems of internal control

48. A statement on the system of internal financial control is included within the annual financial statements, with the aim is of providing assurance to stakeholders on the adequacy of arrangements.

49. In her annual report for 2005/06, the manager of audit provided her opinion that, based on the internal audit work undertaken during the year, the systems of internal control that are in place within the council are, in the main, satisfactory. However separate disclosures were made highlighting the need to improve control over the management information on council assets, to continue to develop risk management and to ensure control objectives are documented for all main systems.

50. As part of our work to provide an opinion on the annual financial statements, we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the main central systems as having a satisfactory level of control for final accounts purposes.

51. However, several of the systems had some areas where controls should be improved. These mainly related to reconciliations of the debtors, non-domestic system, creditors and council tax systems. There was the lack of some in-year reconciliations, and the incompleteness of others. The detail of these has been raised and discussed with management. We are advised that staff illness was the main reason for the lack of reconciliations during the course of the year. It is essential that system reconciliations are completed timeously throughout the year and are properly authorised by senior staff. In addition, some less material control issues, including a lack of checking of payroll data with departmental data, and some weaknesses in the audit trail for ordering goods and services in the schools DMR system, have been discussed with departmental management.

52. The council is improving its debt recovery arrangements for its staff who owe council tax to the council. The council carried out a data matching exercise in November 2005 and this identified 1,027 employees who owed £2.25 million of council tax. Agreements have been reached with the majority of staff, and the amount (including 2006/07 debt) has, at 1 November 2006, reduced to £1.88 million relating to 850 staff, although it will take some time for full recovery to take place.

53. Internal audit plays a key role in the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements and found overall that the function operates satisfactorily. However, due to staff illness and secondment, combined with time spent on the introduction of the "Teammate" electronic audit tool, there was considerable slippage on the amount of work carried out on key systems of control during 2005/06. The manager of audit confirmed that the high risk financial systems work had been covered either during the year or prior to the signing of the statement on the system of internal financial control. It

is noted that there continues to be slippage against the 2006/07 internal audit plan due to staff turnover, although corrective action is being taken to address this.

Legality

54. Each year we request written confirmation from the head of finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The head of finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the chief executive and corporate management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

55. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. As highlighted earlier in this report, the council has recognised a liability in the financial statements in relation to the potential contravention of this act. Until the single status agreement is implemented, however, there remains the possibility that the council could be judged to have contravened the act. In addition, the council is unable to fully comply with race equality legislation, because its software systems do not allow the effective storage, retrieval and analysis of equal opportunities monitoring information, which would ensure compliance with the specific duty to monitor and report under this legislation.

56. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

57. Significant challenges lie ahead in preparing the annual financial statements from 2006/07 in accordance with accounting and statutory requirements. These are summarised below.

58. A number of changes have been made to the 2006 SORP. These include:

- changes to the single entity statement of accounts which include the replacement of the consolidated revenue account with a traditional income and expenditure account; a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit; and the replacement of the statement of total movement in reserves with a statement of total recognised gains and losses;
- similar changes to the housing revenue account; and
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to the single entity statement of accounts.

59. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The council should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.

60. Further ahead, there are proposed changes to the application of financial reporting standards (FRS) 25 and 26 in 2007. These standards will require the premium on loans that have been re-scheduled by the council to be charged to revenue expenditure in full in the year of re-scheduling rather than being written off over the period of the replacement loan, which can be up to 40-50 years. Every council will be affected by these charges of potentially millions of pounds to the revenue account and the impact this could have on council tax. Directors of finance have been talking to the Scottish Executive about legislation or regulation which would remove this risk of increasing council tax through the application of accounting practice.

Final Remarks

61. The members of West Dunbartonshire Council are invited to note this report.

62. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.

63. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit continues to be carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.

64. This is the final year of our current appointment to the audit of West Dunbartonshire Council. From 2006/07 KPMG will become the appointed auditor for the five year period to 2010/11.

65. I would like to take this opportunity to express my appreciation for the co-operation and assistance given to us by West Dunbartonshire Council's members and staff over the five years of our audit appointment.