West Dunbartonshire Council

Annual audit report to Members and the Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed David McConnell as the external auditor of West Dunbartonshire Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of West Dunbartonshire Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Key contacts

David McConnell, Assistant Director
dmcconnell@audit-scotland.gov.uk

Elaine Boyd, Senior Audit Manager
eboyd@audit-scotland.gov.uk

Laurence Slavin, Senior Auditor
lslavin@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

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Key messages

Audit of financial statements	• Unqualified auditor's report on the 2014/15 financial statements. • Unqualified auditor's reports on the eight charitable trusts administered by the council.
Financial management and sustainability	• Financial management remains strong with robust budget monitoring in place. • The council is financially sustainable currently and for the foreseeable future although rising demand for and costs of services will continue to place a strain on the council’s capacity to deliver services at the current levels.
Governance and transparency	• The council has sound governance arrangements in place. • Systems of internal control operated effectively. • The council has an effective internal audit function and anti-fraud arrangements.

Best Value	• The council's arrangements for securing Best Value are satisfactory. • The council has a strong framework in place for monitoring and reporting performance including good arrangements for public performance reporting.
Outlook	• Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. • Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of West Dunbartonshire Council (the council). The report is divided into sections which reflect our public sector audit model.

2. The management of the council is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

3. Our responsibility, as the external auditor of the council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.

6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the council understands its risks and has arrangements in place to manage these risks. The council and corporate management team should ensure that they are satisfied with proposed action and have a mechanism in place to assess, progress and monitor outcomes.

7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	We have completed our audit and issued an unqualified independent auditor's report.
Going concern	The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts ability to continue as a going concern.
Other information	We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trusts	We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by the council and issued an unqualified independent auditor's report for each of the relevant trusts.
Group accounts	The council has accounted for the financial results of two subsidiaries and three associates in its 2014/15 group accounts. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £11.77 million.
Whole of government accounts	The council submitted a consolidation pack for audit by the deadline. The audit of the pack is ongoing we expect the certified return to be submitted to the Scottish Government by the deadline of 3 October 2015.

Submission of financial statements for audit

9. We received the unaudited financial statements on 8 June 2015, in accordance with the agreed timetable and well in advance of the statutory deadline of 30 June 2015. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit & Performance Review Committee (A&PRC) on 11 March 2015.

11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

The audit of charities' financial statements

14. The charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) set out the accounting and auditing rules for Scottish charities. These require a full audit of all registered charities accounts where a local authority or some members are the sole trustees.

15. The council had eight funds which were subject to the full charities financial statements audit for 2014/15.

16. We have given an unqualified opinion on the 2014/15 financial statements of the relevant charities registered by the Council.

Group Accounts

17. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.

18. The Council has accounted for the financial results of three associates, two subsidiaries, the Common Good Fund and sundry trusts in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £11.77 million.

19. At the time of certifying the council's annual accounts the audit of the Clydebank Property Company (CPC) was ongoing. CPC, as a subsidiary of the council, has been consolidated in the council's group accounts based on the most up-to-date accounts provided by the CPC's appointed auditors.

Materiality

20. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

21. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

22. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the council we set our planning materiality for 2014/15 at £3.51 million (1% of gross expenditure). We report all misstatements greater than £0.05 million. Performance materiality was calculated at £0.88 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

23. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

24. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.

25. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is a:

- £1.49 million decrease in the council's net worth, predominantly due to an error in the holiday pay accrual (refer to paragraph 26 for further details)
- minor increase of £0.006 million in the council's general fund.

Significant findings from the audit

26. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Significant difficulties encountered during the audit.
- Significant matters arising from the audit that were discussed, or subject to correspondence with management.
- Written representations requested by the auditor.
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

27. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you:

Significant findings from the audit

Issue	Resolution
Prior year adjustment: In 2013/14 we identified that the council's housing stock was over valued by £37.7 million due to capital expenditure on housing stock not being removed when the stock was revalued. The council processed an adjustment in 2013/14 and committed to an exercise to identify if similar errors had been made within the general fund assets. This exercise identified the need for a prior year adjustment to reflect £15.76 million of impairment to property. The adjustment, and its impact on the 2013/14 financial statements has been appropriately disclosed in a note to the 2014/15 financial statements. This had no net impact on the general fund balance as the adjustment was offset by a reduction in the revaluation reserve.	The adjustment was identified as a result of an exercise carried out by council officers due to errors identified in the 2013/14 audit. The council have reviewed their procedures for processing revaluations to minimise the risk that errors of this nature will occur again in future.

Issue	Resolution
Creditors control account: Our audit identified £0.60 million of debtor balances in the creditors control account. During year end close down procedures invoices processed with a payment date in the following year are creating debit balances within the creditors control account. Consequently debtors and creditors balances are understated at the year end.	The council have adjusted the balances to show the correct presentation in the 2014/15 financial statements and will implement a process in 2015/16 whereby invoices received prior to the year end are paid in the final payment run of the financial year even if their payment due date is in the following year. This had no net revenue impact as these were purely balance sheet adjustments.
Holiday pay accrual: Our review of the holiday pay accrual identified that an audit adjustment agreed in our review of the 2013/14 financial statements had not been reflected in the 2014/15 opening balances. Consequently the opening balance for the accrual was the draft 2013/14 closing balance rather than the final adjusted one. This, in addition to other less material errors, resulted in a £1.48 million adjustment to the 2014/15 holiday pay accrual.	The error was corrected in the annual accounts, which now show the correct value for the holiday pay accrual. This had no net revenue impact and therefore did not affect the council's general fund balance.

Future accounting and auditing developments

Revisions to the Code of Practice

28. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.

29. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.

30. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets.

Health and Social Care Integration

31. From 1 April 2016 Integrated Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code and the Accounts Commission will appoint auditors to audit the financial statements. Refer to paragraphs 104-109 for further information on the West Dunbartonshire Health & Social Care Partnership (WDHSCP).

Financial management and sustainability

Net service budget expenditure
£217.58m

Service Outturn
£216.04m

Service Budget Underspend
£1.54m

Planned capital expenditure
£84.25m

Outturn Capital spend
£63.84m

Capital Underspend
£20.41m

Usable reserves

Outturn usable reserves
£19.06m

Movement in usable reserves
£0.43m

Savings target
£5.76m

Savings achieved
£4.74m

32. The capital underspend of £20.41million is a combination of slippage of £22.64 million, overspend of £3.92 million and underspend of £1.69 million. See paragraphs 65-67 for further information.

Financial management

33. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.

34. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

35. The council reported a surplus against service budget of £1.54 million. Significant underspends were recorded in Education and Corporate Services/Chief Executive with the Community Health and Care Partnership being the only service to record a significant overspend.

36. The underspend in Education amounted to £2.10 million (2.3% of budget) due mainly to teacher's pensions costs, vacant posts, and a reduction in demand for special needs children to be taught within the council area.

37. The underspend in Corporate Services/Chief Executive amounted to £0.94 million (4.8% of budget) due mainly to vacant posts.

38. The overspend in Community Health and Care Partnership amounted to £1.48 million (2.5% of budget) due mainly to an increase in service needs in areas such as residential accommodation for the elderly, physical disability and home care.

39. The council recorded a surplus against its general services budget. The £1.54 million surplus represents 0.7% of the original budget of £217.58 million. There are areas of underspend and overspend against budget lines, although these are not material variances as a percentage of the original budgets. However, the council should continue to consider these to ensure that future approved budgets reflect the anticipated underlying cost of service delivery,

40. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The HRA returned an overall surplus of £0.92 million in year increasing the balance on the HRA account to £4.57 million of which £3.75 million is earmarked. Therefore the balance available to the HRA for future use is £0.82 million.

Financial management arrangements

41. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the council to be able to deliver good financial management

- financial regulations are comprehensive, current and promoted within the council
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

42. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.

43. We reviewed the council's financial regulations, last revised in October 2013 and concluded that they are comprehensive and current. These regulations are available to staff via the Council's intranet.

44. Budgetary control reports (both revenue and capital) are submitted to the Corporate Management Team on a monthly basis, and the relevant committees and full council in line with the committee reporting timetable. Revenue reports compare annual budget with projected outturn with service variances in excess of £50,000 highlighted and explanations provided.

45. Revised capital monitoring reports were implemented in August 2014. These provide a better focus on projects graded red or amber in terms of projected overspend or delay, and highlight identified issues, mitigating action and the anticipated outcome.

46. The finance team are implementing a revised structure which is built around generic posts within grades. Staff rotation should allow for the development of knowledge and expertise, reduce the risk of knowledge being held by a single member of staff and facilitate succession planning at certain grades.

47. We attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

48. We have concluded that the council's financial management arrangements are satisfactory. Budget monitoring is regular and effective and the outturn against service budgets provides assurance that budgets are set realistically.

Financial sustainability

49. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.

50. In assessing financial sustainability we are concerned with whether:

- there is an adequate level of reserves
- spending is being balanced with income in the short term
- long term financial pressures are understood and planned for
- investment in services and assets is effective.

51. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

52. The overall level of usable reserves held by the council increased by £0.43 million compared to the previous year and totalled £19.06 million (see exhibit 1).

53. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows. The General Fund balance includes £5.73 million of unallocated general fund reserves. Planned commitments from the general fund balance amounted to £3.89 million and include the Jobs Growth fund, modernisation fund, private sector housing grants, and contributions to budget setting 2015/16-2017/18.

54. The council has a policy of holding a minimum unallocated reserve of at least 2% of net service cost. The Council's unallocated reserve of £5.73 million as at 31 March 2015 represents 2.26% of the 2014/15 net cost of services (£253.69 million) which is at the lower end of CIPFA's best practice guidance of holding 2% - 4% of revenue expenditure.

Exhibit 1: Usable reserves

Description	31 March 2014 £ million	31 March 2015 £ million
General fund	10.11	9.62
Housing revenue reserve	3.64	4.57
Capital grants unapplied	0.31	0.42
Capital reserve	4.20	4.02
Other reserve	0.37	0.43
Total usable reserves	**18.63**	**19.06**

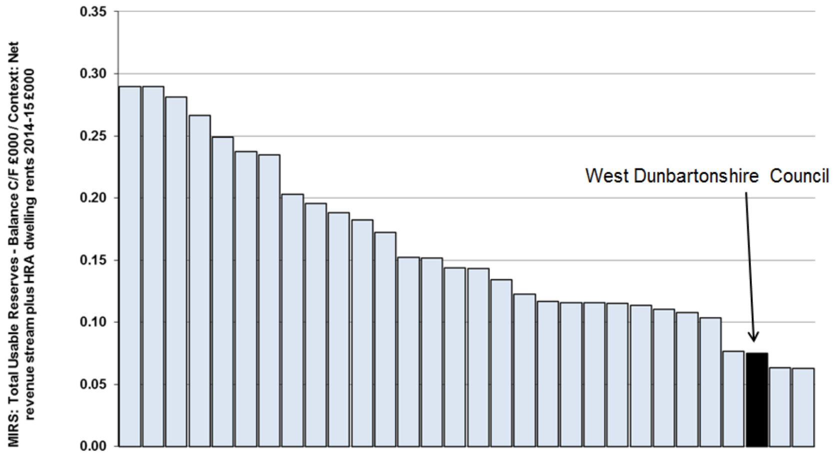
Source: West Dunbartonshire Council 2014/15 financial statements

55. Despite the in year increase, exhibit 2 highlights that the council has the third lowest usable reserves in relation to net revenue stream for the year in Scotland. The council, like all local authorities, faces ongoing financial pressures. Ensuring there are sufficient reserves is important in order to protect the council against the financial impact of unforeseen events or reductions in future funding. As highlighted in exhibit 3 the council are planning to use £1.30 million of reserves in 2016/17 to reduce the funding gap. This and the need to meet the funding gaps highlighted in exhibit 3 will place greater pressure on the council's reserves.

56. The council should consider its current reserves level and future plans for its use to determine if it will continue to provide an appropriate balance between meeting current obligations and preparing for future commitments and potential reductions in funding.

Action Plan 1

Exhibit 2: Usable reserves as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2014/15

Financial planning

57. The council set its 2015/16 budget in February 2015. The 2015/16 budget was set at £223.46 million and assumes net savings of £5.92 million to generate a budgeted surplus of £0.51 million. The council also set indicative budgets for 2016/17 and 2017/18 which identify planned savings and further funding gaps which need to be managed. Exhibit 3 highlights the headline figures for the period 2015/16 – 2017/18.

58. A number of efficiency measures have been agreed and are being implemented or are planned for implementation in 2015/16. Some of the more significant measures include:

- implementing a new organisation wide operating model including service redesign and rationalisation
- review of workforce structures and staffing provision
- review of grounds maintenance and street cleaning
- reductions in funding of NHS health staff.

59. A number of proposed savings options were not supported by council in February 2015 and council have asked officers to revise them for further consideration. While the council has been proactive in its approach to identify savings opportunities, the realisation of these savings, and the identification of further savings to meet funding gaps, will become progressively more challenging.

60. In April 2015 the CMT agreed to the preparation of a priority based budget exercise with a view to completing the first cycle for the 2017/18 budget.

Action Plan 2

Exhibit 3: 2015/16 – 2017/18 budget, savings and funding gap

	2015/16 £ million	2016/17 £ million	2017/18 £ million
Income	218.05	211.30	212.58
Expenditure	223.46	227.61	229.92
Shortfall	5.41	16.31	17.34
Planned savings	5.92	10.51	10.38
Use of / (contribution to) reserves	(0.51)	1.30	0.16
Cumulative gap / (surplus)	**0.00**	**4.50**	**6.80**

Source: West Dunbartonshire Council reports December 2014, January 2015, February 2015 and Council administration budget

Council transformational programme/efficiency strategy

61. The council are undertaking a major transformation programme involving significant regeneration in the area. The programme includes building new schools, care homes, leisure facilities and office accommodation. Project management arrangements are well established and regular monitoring and scrutiny takes places through the council's Change Board referred to in paragraph 125.

62. Progress in achieving project milestones and outcomes are regularly reviewed by the council's Change Board. The August 2015 project summary indicates that the council are on target (green status) with 24 of the 31 projects. The remaining 7 projects have been categorised as amber and are being monitored to ensure future plans are on track.

63. One of these projects relates to delivery efficiencies through shared services, as agreed by Council in February 2015. The Chief Executive and Executive Director of Corporate Services brought together 25 managers from across the council to identify both income generation and cost reduction projects. A target of £1.5 million has been set and the areas targeted are split into commercial excellence, procurement capability and developing services through partnership.

64. The council has a range of plans in this area, and it is important that robust project management arrangements continue to be applied to support the transformation required to meet the challenging budget reductions ahead.

Capital programme 2014/15

65. The council approved a ten year general services capital plan in February 2013 which set out the anticipated investment over the ten year period to 2022/2023. Since its approval, it has been subject to updates in February 2014 and February 2015. The 2014/15 element of the capital programme was budgeted to be £41.37 million with actual spend amounting to £28.49 million. There was an overspend on specific projects of £1.94

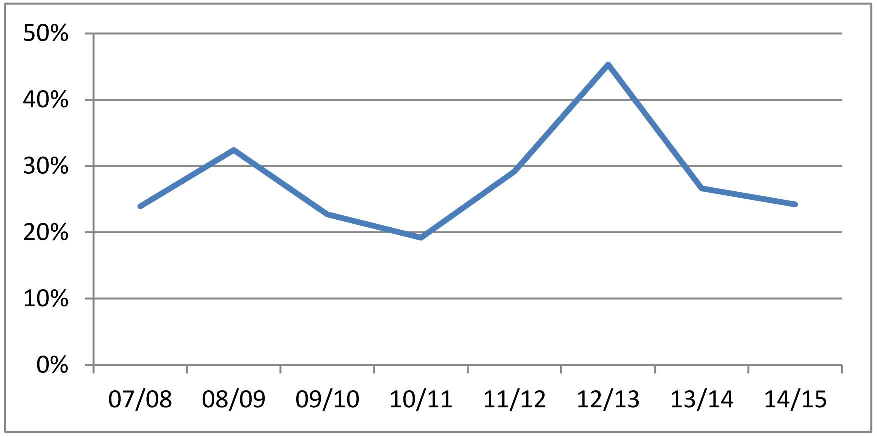
million and an underspend on others of £0.41 million. After taking account of these over and under spends the net general fund slippage is £14.41 million.

66. The council agreed the updated HRA capital plan for 2014/15 at a meeting in February 2014. This approved budgeted expenditure of £35.96 million was augmented by a 2013/14 underspend of £6.92 million giving a total 2014/15 planned spend of £42.88 million. Actual spend in year amounted to £35.35 million. There was overspend on specific projects of £1.99 million and underspend on others of £1.29 million. After taking account of these over and under spends the net HRA slippage is £8.23 million.

67. Exhibit 4 shows that capital slippage has been an area of concern for a number of years but also highlights that it has reduced in consecutive years since its peak in 2012/13. This reduction has been accomplished whilst pursuing an ambitious capital programme which includes some substantial projects that require careful management. Whilst we note the recent improvement in the management of the capital programme, there is still room for further improvement, and the scale of the council's forthcoming capital programme increases the requirement for continued effective project management.

68. In June 2014 the Education Services Committee approved the construction of the new Our Lady & St Patrick school (OLSP) in Bellsmyre with a targeted financial close of April 2015 and a planned opening in August 2016. Initially the council were funding 33% of the cost with the Scottish Government funding 67%. The model employed was a Design, Build and Facilities (DBFM) model

Exhibit 4: Capital slippage 2007 - 2015



Source: West Dunbartonshire Council Annual Audit Reports 2007/08 – 2014/15

69. Subsequently the Scottish Government agreed to fund 100% of the cost on the condition that the council utilised their committed funds to upgrade or rebuild other schools within the council area. This change, combined with design changes, resulted in a revised completion date of January 2017.

70. Since this revision the Scottish Government has put all DBFM projects which have not reached financial close on hold due to a European accounting issue (ESA10). The Scottish Government is working with the UK Treasury to resolve the ESA10 issue but, as yet, no resolution has been identified. The

OLSP project is presently on hold and guarantees on pricing previously made by contractors have now expired.

Workforce Management

71. The council's Workforce Planning Strategy and Framework introduced in November 2013 is well established and is supplemented by an annual Workforce Plan last updated by the Corporate Services Committee in August 2015.

72. The council is committed to developing its workforce. During 2014/15 the percentage of staff with a personal development plan increased to 92% exceeding the council's target of 90%. Departmental workforce plans are in place to support the council's overall approach and these are updated on an annual basis. Regular monitoring and review procedures are applied by Human Resources and Business Partners to ensure there is a consistent approach across the council. Future workforce planning will be critical in the council's next stage of development through delivery of the Future Operating Model.

73. Attendance management is a strategic priority for the council. During 2014/15 the council lost 57,211 full time equivalent working days of productivity at an estimated cost of £6.75m. In 2014/15 the average number of days lost per employee due to sickness absence was 12.81 days (2013/14 – 13 days). A joint attendance working group, with the Trades Unions, is now in its second year, and has been developing initiatives to improve performance. Despite supportive interventions being in place, these alone are not having the desired impact. The council have worked in partnership with trade unions to develop revised attendance management policies. These were presented to the August 2015 Corporate Services Committee. The key changes include:

- Reducing the time and number of stages in managing absence
- Increasing the opportunity to appeal at all stages and
- Reducing the number of trigger points from 12 to 8 days.

74. We compared absence statistics in quarter 1 of 2015/16 and quarter 1 in 2014/15 which highlighted no significant improvement. Current levels of attendance are not sustainable within the council.

Treasury Management

75. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set aside to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.

76. At 31 March 2015 the council's long term borrowing stood at £314.68 million, an increase of £36.09 million on the 2014 borrowing level of £278.59 million. During the same period, short term borrowing reduced by £3.29 million from £70.47 million to £67.18 million. This net increase in borrowing of £32.8 million is designed to support the council's capital programme (refer to paragraphs 65-66).

77. Exhibits 5(a) and 5(b) highlight that the council's net debt levels, as a proportion of net revenue stream, and per head of population, continues to be amongst the highest in Scotland. It is recognised that the total debt figure includes debt associated with both the HRA and the council's Public Private Partnership (PPP) assets which not all Scottish local authorities will have.

78. The council need to balance the delivery of their capital programme with a need to ensure it can service the medium to long term debt incurred to finance it.

Exhibit 5(a): Net external debt as a proportion of net revenue stream

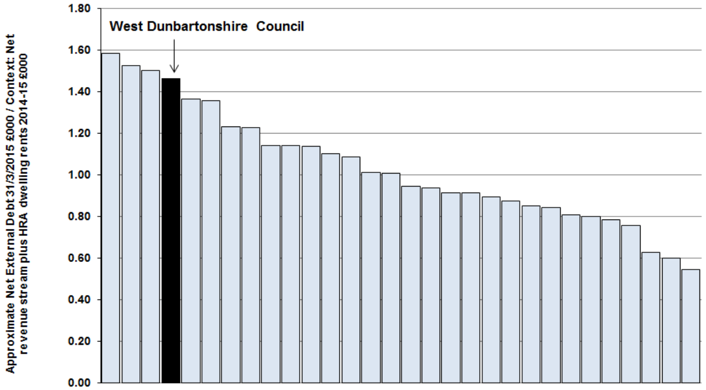
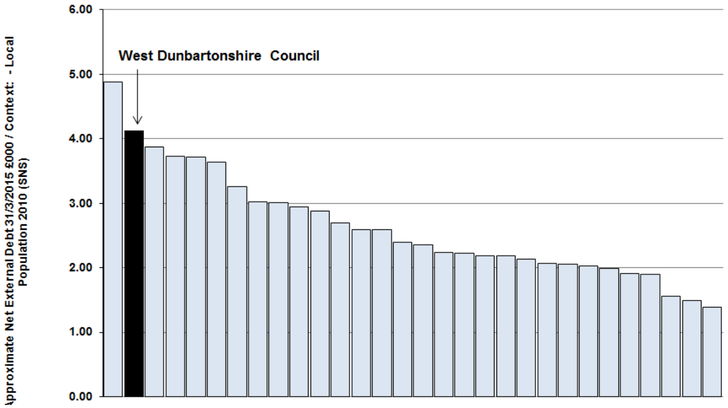


Exhibit 5(b): Net external debt per head of population



Source: Scottish councils' unaudited accounts 2014/15

Action Plan 3

Pension liability

79. The net assets on the council's balance sheet have decreased from £226.19 million in 2013/14 to £137.88 million in 2014/15, a reduction of £88.31 million. One of the principal reasons for this decrease is the £44.98 million increase in the pension liability from £171.70 million to £216.68 million. This is also reflected in the balance sheet for the group.

80. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. The valuation of the fund as at 31 March 2015 stated that the assets held were sufficient to cover only 73.06% of the accrued liabilities.

The appointed actuaries are of the view that future pension liabilities will still be met by a combination of the pension scheme's asset holdings, future contributions by employers and employees and planned increases in employer's contributions.

Conclusion on financial sustainability

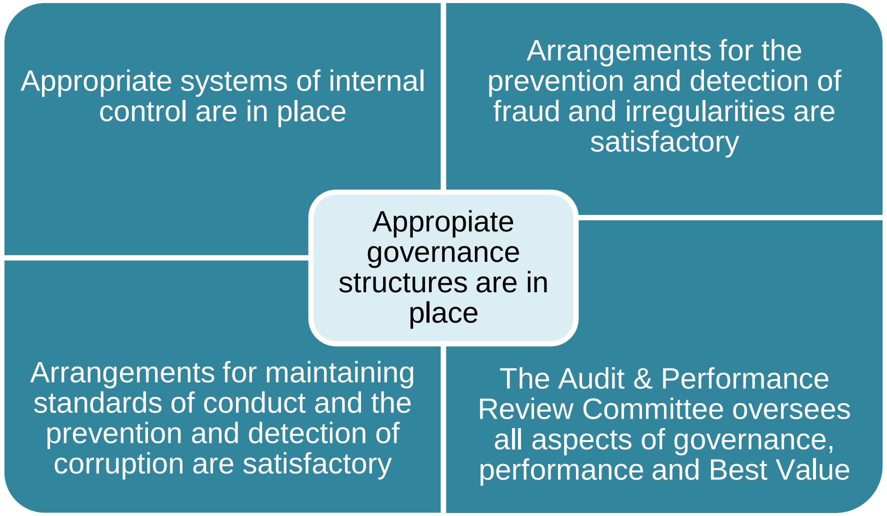
81. Overall we conclude that the financial position is currently sustainable although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels. Whilst the council holds reserves within CIPFA's best practice guidance of 2% - 4% of revenue expenditure, they are at the lower end of the range. Future demands on the revenue budget due to the need to meet funding gaps and service the council's debt may mean current reserve levels are insufficient in the medium to long term.

Outlook

82. Councils face increasingly difficult financial challenges. Public sector revenue budgets are decreasing and demand for council services is increasing. In common with many other councils, the council is reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected and increased pension contributions and national insurance changes creating further cost pressures, the councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

83. The Scottish Government plans to wait until the UK Government's spending review is published in November 2015 before approving its 2016/17 budget. This is likely to impact on councils' ability to approve their own budgets within their usual timetable. The council may have to revise its budget setting arrangements in response to this potential delay.

Governance and transparency



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

Corporate governance

85. The council's corporate governance framework is centred on the full council, supported by six standing committees and appropriate sub-committees. Committees are well attended by elected members and papers are subject to a high level of scrutiny.

86. The A&PRC scrutinises the development of the council's best value and continuous improvement activity, performance management and audit risk management activity and monitors the council's committees. It is chaired by the leader of the opposition, has appointed lay members and is well attended by both elected members and appropriate council officers.

87. In February 2015 the Standards Commission concluded on an investigation into a complaint that an elected member had breached the Councillors' Code of Conduct on three occasions. The elected member was censured for the breaches, this being the minimum sanction provided for by the code.

Local code of corporate governance

88. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government. The local code is subject to annual review.

Internal control

89. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.

90. We reported our findings to the A&PRC in June 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to enhance the control system in operation however our overall conclusion was that the council had appropriate systems of internal control in place during 2014/15.

91. During the course of our audit appointment the council has strengthened its control environment year on year.

Internal audit

92. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

93. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit for main accounting, council tax collection and refunds, payroll (leavers and transfers), NDR recovery and enforcement and council tax and NDR valuation (new properties).

ICT audit

94. During 2014/15 we undertook a review of the council's arrangements for dealing with a cyber attack. As a result of this audit the council changed their windows network password controls and decided to conduct a cyber table-top exercise. The lessons learnt from the event are in the process of being finalised and will inform improvements to the current development of a Cyber Incident Response Plan.

Arrangements for the prevention and detection of fraud

95. We have concluded that the council's arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.

National Fraud Initiative in Scotland

96. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

97. As part of our audit work we consider the council's approach to the NFI exercise. The council have positively engaged in the initiative and have taken a sensible approach to reviewing data matches. Progress has been made in investigating potential frauds. The council have identified one area where internal arrangements may be improved in light of the investigative work carried out, and this should be implemented where appropriate. Members of the council are seen to be given suitable reports to allow them to conclude on the success and effectiveness of the exercise.

98. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

99. The arrangements for the prevention and detection of corruption in the council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

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

101. Through our audit approach we gave consideration to:

- the clarity and presentation of the council's committee papers, budget monitoring reports and financial statements
- the extent to which the council may exclude press or public from agenda items under the Local Government (Scotland) Act, 1973
- the council's approach to public performance reporting
- accessibility of information via the council website.

102. Overall we concluded that the council has appropriate arrangements in this area.

Freedom of Information (FOI) requests

103. During 2014/15 the council received 924 FOI requests and 826 requests (89%) were responded to within 20 days. During the period there were 8 reviews against denial of FOI requests but no decisions were overturned. None of these reviews have been appealed to the Office of the Scottish Information Commissioner.

Integration of health and social care

104. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.

105. In 2014 officers of the former Community Health & Care Partnership consulted upon and prepared an integration scheme on behalf of the Council and NHS Greater Glasgow & Clyde. The Body Corporate model was selected, and a new WDHSCP Board was established as the Integration Joint Board for the local area.

106. The integration scheme for West Dunbartonshire was approved by the Health Board in January 2015, by the Council in February 2015 and by Scottish Ministers in May 2015. This enabled the establishment of the new arrangements for West Dunbartonshire in advance of the legislative deadline of 1 April 2016.

107. The WDHSCP Board first met on 1 July 2015 and approved the appointment of its Chief Officer and Chief Financial Officer; agreed Standing Orders and its first Strategic Plan and received key financial reports on the due diligence process (including financial assurance statement from the Chief Financial Officer) and financial regulations processes. Consequently the integration start day upon which the new local integration arrangements formally commenced was 1 July 2015.

108. Financial cut off arrangements require to be developed to support the transition of services from the health board and council to the new partnership. This will assist budget setting and monitoring in the new partnership ensuring both income and expenditure are attributable to the correct organisation and period. VAT arrangements for staff recharges between constituent bodies of the integrated joint boards have not yet been agreed by HMRC. This is a national issue affecting all relevant bodies and has the potential to add further budget pressures within the joint boards.

Action Plan 4

109. In August 2015 the WDHSCP Board approved financial regulations, audit arrangements (including the establishment of an Audit Committee and Chief Internal Auditor) and a Risk Management Policy & Strategy. Delivery and monitoring of the joint board strategic plan will be crucial in successful delivery of integrated services within West Dunbartonshire.

Welfare Reform

110. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. As a result, the council has a Welfare Reform & Financial Resilience sub-group which considers the impact of welfare reform changes and includes representation from the Department of Work & Pensions.

111. Since the introduction of the under-occupancy penalty, commonly known as the “Spare Room Subsidy” in April 2013 there have been a number of households that have been affected by the change, albeit mitigations have been put in place through Discretionary Housing Payments (DHP) and the Scottish Welfare Fund (SWF). During 2014/15 the council received total DHP funding from the Department for Work and Pensions and the Scottish Government of £1.60 million which was fully applied in the year.

112. The phased implementation of Universal Credit (UC) started at the council at the beginning of March 2015, with only 24 claims to August 2015 with housing costs. The council is reporting increased housing rent arrears as illustrated by exhibit 6.

113. Council Tax Reduction (CTR) was introduced from 1st April 2013 to replace Council Tax Benefit (CTB). The responsibility for CTR sits with Scottish Government and Scottish Local Authorities. The introduction of UC in West Dunbartonshire may have impacted on the take up of CTR as customers have to apply to the council following their UC application, leading to additional pressure on council resources. Overall officers indicate that the workload of the council’s Revenue and Benefits function has increased since the introduction of Welfare Reforms.

Exhibit 6: Housing rent arrears

	31 March 2015	31 March 2014	Increase
Current tenant rent arrears	£1.57m	£1.13m	39%
Former tenant rent arrears	£1.78m	£1.52m	17%
No. of housing stock in arrears (current)	3,807	2,686	42%
No. of housing stock in arrears (former)	2,809	2,482	13%

Local scrutiny plan

114. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to Council in April 2015.

115. The LSP highlights that although no scrutiny risks have been identified which require specific scrutiny by the LAN in 2015/16 there are a number of areas where the LAN will carry out ongoing oversight and monitoring. These include:

- Housing and Homelessness
- People Management
- Efficiency

116. We will revisit these areas as part of the shared risk assessment process for 2015/16.

Following the public pound

117. In March 2015, the chair of the Accounts Commission for Scotland sent letters to council leaders and chief executives encouraging them to apply the Code of Guidance on Funding External Bodies and Following the Public Pound (published in 1996) more consistently across Arms-Length External Organisations (ALEOs).

118. The council's main ALEO partnership is for leisure provision through the West Dunbartonshire Leisure trust. The council maintain ownership of the material property assets and a service level agreement is in place to manage the delivery of leisure services. During 2013/14 we confirmed that the council has appropriate governance arrangements in place in respect of community grants, economic development grants and funding provided to procure services from the local third sector.

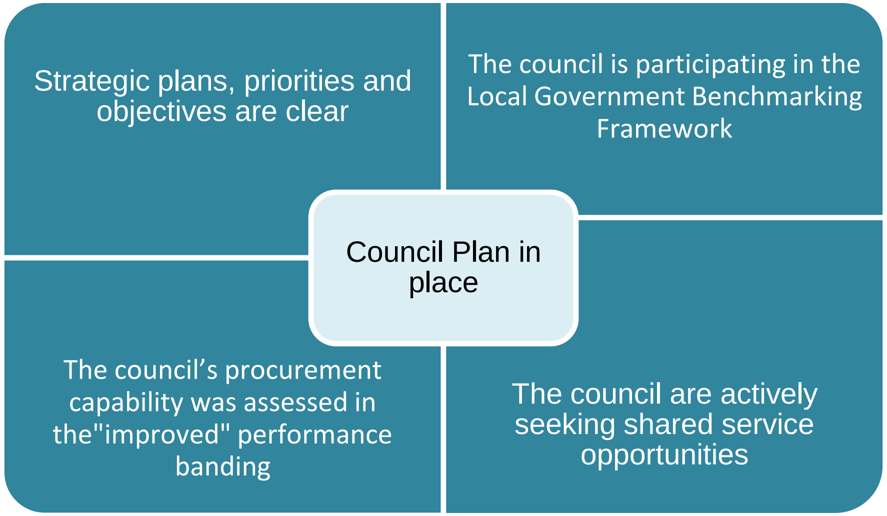
119. By Autumn 2015 Audit Scotland, on behalf of the Accounts Commission for Scotland, will undertake a review of the Following the Public Pound Code in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies. Any changes arising out of this review are not expected to take effect for councils until 2016/17 at the earliest.

Outlook

120. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

121. Partnership, joint working and arms length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



122. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Procurement

123. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice.

The council reported a 2014 PCA assessment score of 60% (58% in 2013) against the average score across Scottish councils of 62%. This placed the council in the 'improved performance 'category.

124. The annual PCA is being replaced by the Procurement & Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP will introduce a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results will not be comparable with the previous PCA scores. The timings of the first assessments for local government have not been finalised but it is anticipated they will be conducted between January and June 2016.

Shared services

125. The council have established a Change Board which is responsible for the delivery of the Delivering for the Future Strategy, the council's capital plan and any other strategic projects as determined by the board. The board consists of the Strategic Leadership Group and is chaired by the Chief Executive. The Board meets monthly with project sponsors reporting on progress using an established project template.

126. One workstream monitored by the Change Board is the Shared Services project 'Developing Services Through Partnerships' which focuses on changing how the council works through

developing partnerships and sharing resources. Discussions are underway with various councils and public sector organisations to consider sharing opportunities across a range of council services.

127. The council is progressing its participation in the £1.13 billion Glasgow and Clyde Valley City Deal initiative which will be used to fund major infrastructure projects, drive innovation and address challenges in the labour market across eight participating local authorities. West Dunbartonshire's project is the £27.9 million development of the EXXON site in Bowling, which aims to deliver opportunities for commercial and industrial use and provision of an alternative route to the A82 to alleviate traffic congestion. The council have committed to expenditure of £0.15 million on the procurement process and a further £1.25 million to assist in the completion of the final business case by June 2017. Reporting of progress on the City Deal is a standing item at council meetings and the business case will not be progressed without the approval of the council and the City Deal cabinet.

128. As with all capital projects of this scale there are risks associated. Should the business case not be progressed, all expenditure incurred, currently to be funded from capital resources, will need to be charged to the general fund. This will impact on the council's reserves position. The council has implemented project management arrangements to oversee the project including a governance structure and project risk management procedures.

129. It is too early to assess whether the council's approach, and projects associated with, shared services will produce substantial savings and/or service efficiencies.

Performance management

130. The council is committed to having a strong framework in place for monitoring and reporting performance. A corporate self-evaluation model is in place which is based on the Public Sector Improvement Framework and operates in conjunction with more service specific self-evaluation activity. The council also participate in the Local Government Benchmarking Framework (LGBF) which brings together performance indicators for a range of services as well as service costs and customer satisfaction.

131. The council's priorities are set out in its strategic plan 2012-2017 and are supported by a series of objectives. Progress against these objectives is assessed using a range of performance indicators with this progress reported in the council's public performance report and through a series of booklets, each focusing on specific areas.

132. We have concluded that the council has robust and effective performance management arrangements which will help in the delivery of the council's strategic and operational objectives.

Overview of performance targets in 2014/15

133. As described at paragraph 131 the council have established PIs to monitor their progress toward delivering their strategic priorities. There are three overarching priorities, supported by 11 objectives and 39 PIs identified to monitor progress. Four of the 39 were not applicable in 2014/15. In 2014/15, of the 35 PIs:

- 21 (60%) of the strategic PIs were met or exceeded target
- 9 (26%) missed targets marginally
- 5 (14%) missed target significantly

134. Areas of particularly strong performance include:

- number of new build social houses for rent
- improved condition of operational buildings
- continued positive inspection reports for educational establishments
- resolution of complaints received by the council.

135. The PIs where the target was missed significantly were:

- average number of working days lost per employee though sickness absence for all local government employees and teachers
- percentage of council desktop hardware that meets agreed minimum software specification
- percentage of schools with optimal data communication network bandwidth
- current tenants arrears as a percentage of total rent due.

136. For each of these areas for improvement the council has ongoing initiatives in place targeting improved performance.

Statutory performance indicators (SPIs)

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

138. For 2014/15 three SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the LGBF.

139. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for the council was issued to the Leader and Chief Executive in July 2015.

140. The council was rated as fully meeting the requirements in 23 of the 26 PPR categories, with the remaining 3 categories being assessed as an area for improvement. This represents a significant improvement from the previous year's results where the council was assessed as meeting 53% fully, 27% marginally and as missing 11% of targets. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in Spring 2016.

141. Through discussions with appropriate officers and review of Local Government Benchmarking Framework reports submitted to the Audit & Performance Review Committee and the council's PPR arrangements we have concluded that the council's arrangements for collecting, reporting and publishing performance information are satisfactory.

National performance audit reports

142. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in appendix III. The council has processes in place to ensure that all national reports and their impact on the council are considered by members.

Equalities

143. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

144. The council's corporate services committee approved the council's Equality Mainstreaming Report in May 2015 and it has been submitted to the Equality and Human Rights Commission and is available on the council's website.

Outlook

145. In common with other councils, the council faces the key challenges of reducing budgets, an ageing population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years through reductions in the workforce and targeted savings. However, as choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I – Significant audit risks

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

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Income ISA 240 presumes an inherent risk of fraud where income streams are significant. West Dunbartonshire Council receives a significant amount of income in addition to Scottish Government funding. The size and diversity of income streams flowing to the council means that there is an inherent risk that income could be materially misstated.	• Evaluation of accounting policies for income and expenditure • Detailed testing of journal entries • Review of accounting estimates • Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income • Substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements	We undertook testing of income streams and no evidence of fraud was identified.

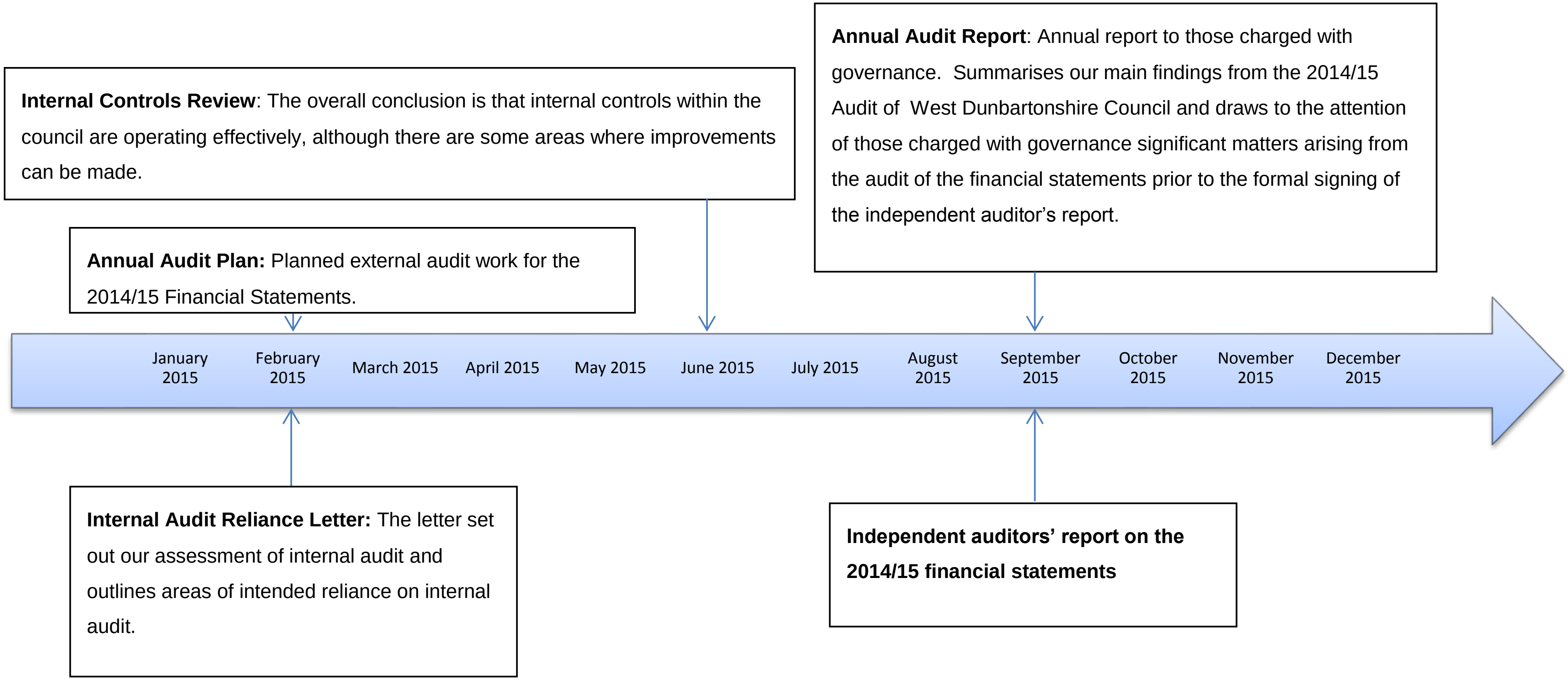
<table>
<tr><th>Audit Risk</th><th>Assurance procedure</th><th>Results and conclusions</th></tr>
<tr><td>Management override of control
ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.
Management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</td><td>• Detailed testing of journal entries.
• Review of accounting estimates.
• Evaluation of significant transactions that are outside the normal course of business.
• Focused testing of accruals and prepayments</td><td>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.
We did not identify any incidents of management override of controls.</td></tr>
<tr><td>Managing financial pressures
The council continues to face a significant challenge in bridging a funding gap of over £16 million over the period 2014/15 to 2016/17. The council may be unable to generate sufficient efficiencies and cost savings to bridge the funding gap.</td><td>• Monitoring of the council’s financial position via revenue budget reports presented to full council and meetings with officers.
• Ongoing review of council’s progress delivering savings options.
• Review of council’s revised long term Financial Strategy.</td><td>The council reported a 2014/15 surplus against service budget of £1.54 million. The council’s 2015/16 budget assumes net savings of £5.92 million to generate a budgeted surplus of £0.51 million. The council also set indicative budgets for 2016/17 and 2017/18 which identify planned savings and further funding gaps which need to be managed.
We have concluded that the council’s financial management arrangements are satisfactory.</td></tr>
</table>

Audit Risk	Assurance procedure	Results and conclusions
Holiday pay accrual The Council reviewed their approach to calculating the holiday pay accrual to benchmark with other local authorities to establish current practice in terms of sample sizes. There is a risk the accrual may be understated in the council's balance sheet.	• Review and testing of the 2014/15 holiday pay accrual.	Errors were identified in the draft holiday pay accrual. Adjustments have been processed to correct these.
Cash flow statement The Council have agreed to prepare the 2014/15 cash flow statement using the indirect approach instead of the direct method they have historically used. This will also require the 2013/14 cash flow to be restated. There is a risk the revised statement may include material errors.	• Review of the 2014/15 cash flow statement and restated 2013/14 cash flow statement during the audit of the council's 2014/15 financial statements.	No material errors were identified in the restated 2013/14 and 2014/15 cash flow statements.
Capital revaluation Errors processing capital transactions to reflect revaluations resulted in a £37.7 million adjustment to the value of the Council's housing stock in 2013/14. There is a risk that similar errors may have been made processing capital transactions for other asset types.	• Substantive testing of a sample of capital transactions during the audit of the council's 2014/15 financial statements. • Review and testing of the prior year adjustment processed by the council in the 2014/15 financial statements.	We concluded the prior year adjustment was materially correct and did not identify any additional material errors in the council's balance sheet.

Audit Risk	Assurance procedure	Results and conclusions
Capital slippage The Council's management of the capital programme is improving although capital slippage in 2014/15 was still 26.9%. Future capital programmes and associated service improvements may not be delivered in a timely manner.	• Monitored capital expenditure through capital monitoring reports provided to CMT and Members. • Reviewed delivery of the annual capital programme during the audit of the Council's 2014/15 financial statements.	We concluded that capital slippage has reduced since its peak in 2012/13. This reduction has been accomplished whilst pursuing an ambitious capital programme however there is still room for improvement.
Housing rent reconciliation In 2012/13 and 2013/14 our audit highlighted unreconciled differences between the financial ledger and the housing rents system. There is a risk the financial ledger does not accurately record all relevant transactions.	• Review of the 2014/15 reconciliation during the audit of the Council's 2014/15 financial statements.	Our review of the 2014/15 reconciliation highlighted an unreconciled difference of £4,034 compared with £54,078 and £16,695 in 2012/13 and 2013/14 respectively. We have concluded that this is no longer a material concern.
Valuations The financial statements of the Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.	• Completion of 'review of the work of an expert' in relation to the professional valuer. • Focused substantive testing of key areas involving estimation and valuation.	We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts. We concluded that reliance can be placed on the work of the valuer. No material misstatements were identified.

Appendix II

Summary of West Dunbartonshire Council local audit reports 2014/15



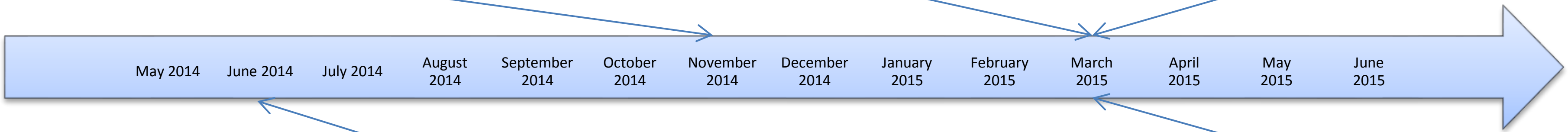
Appendix III

Summary of Audit Scotland national reports 2014/15

Community planning: Turning ambition into action – Many Community Planning Partnerships are still not clear about what they are expected to achieved. Local data should be used to help set relevant, targeted priorities for improvement that will address inequalities within specific communities.

Borrowing and treasury management in councils - Councils are meeting professional requirements but need to do more to set out the longer term implications of borrowing and other debt on their finances.

Update on developing financial reporting - Following the Smith Commission the framework for Scotland's public finances is undergoing fundamental change. The Scottish Parliament will have enhanced financial powers from April 2015. The report emphasises the importance of comprehensive, transparent and reliable financial reporting for accountability and decision-making. The report also notes that while the audited accounts of public bodies across Scotland provide a sound base for financial reporting and scrutiny, there is no single complete picture of the devolved public sector's finances.



Scotland's public finances - a follow up: Progress in meeting the challenges – Leaders and managers must produce balanced budgets and hold people in their organisations to account for how the money is used and what is achieved. Councillors have an important role in ensuring that approved budgets are used to best effect. To do this they need good-quality and timely financial information. They need to take a longer-term view on: options available for services; services standards and affordability; and the sustainability of financial plans.

An overview of local government in Scotland – A high level, independent view on the progress councils are making in managing their finances and achieving Best Value.

Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 **16-17 / 52-56**	**Usable Reserves** The council has the third lowest usable reserves position in relation to net revenue stream out of the 32 Scottish local authorities. **Risk** The council may not have sufficient reserves to protect itself against unforeseen events or reductions in future funding. **Recommendation** The council should consider whether its current policy on holding unallocated reserves provides a balance between meeting current obligations and preparing for future commitments.	The revised long term Finance Strategy was reported to Members in August 2015. In setting the budget for 2016/17 and future years Members will have the opportunity to budget to increase reserves.	Head of Finance and Resources	10 March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 **17–18 / 57-60**	**Financial Planning** The council currently has an estimated cumulative funding gap of £6.80 million over the period 2015/16 - 2017/18 and continues to face an increase in demand for services due to the current economic climate and changes in demographics. **Risk** The council may not be able to generate sufficient efficiencies and savings to bridge the funding gap. **Recommendation** The council should continue to keep its long term financial strategy under review and progress its intention to roll out priority based budgeting.	The council recently agreed an update to the long term finance strategy and updates will be provided to Members at least annually. The intended roll out of priority based budgeting is planned to be implemented to inform the budget process for 2017/18 onwards	Head of Finance and Resources Head of Finance and Resources	30 September 2016 10 March 2018

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 **20-21 /** **75-78**	**Treasury Management** The council continue to have high levels of debt in comparison with other Scottish local authorities with this debt, and the servicing of it. Increasing to support the council's capital programme. **Risk** Servicing of debt may pre-empt the best use of the council's finances. **Recommendation** The council should ensure they maintain a balance between delivery of capital projects and the affordability of the debt required to finance the capital programme.	It should be noted that the council's debt levels include PPP and HRA debt which not all councils have. A review of the general fund capital plan is underway to be agreed early 2016. This update will consider ongoing affordability of the capital plan. An update of the HRA capital plan will be considered by Council in early 2016 and will consider ongoing affordability of the capital plan.	 Head of Finance and Resources Executive Director of Infrastructure and Regeneration; and Head of Finance and Resources	 10 March 2016 10 March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 **26 / 108**	**Integrated Joint Board** Financial cut off arrangements are not currently in place to support the transition of services to the new joint board. **Risk** There is a risk that income and expenditure will be classified in the wrong financial period or organisation. **Recommendation** Procedures should be established to support accuracy in the recording of financial transactions during the close down of the former partnership arrangements and establishment of the new integrated joint board.	Officers await guidance on this subject from the IRAG (Integrated Resource Advisory Group). Options for managing this will be considered and officers will consult with external auditors as to appropriateness of approach.	Head of Finance (HSCP); and Head of Finance and Resources	31 December 2015