

West Dunbartonshire Council

2017/18 Annual Audit Report



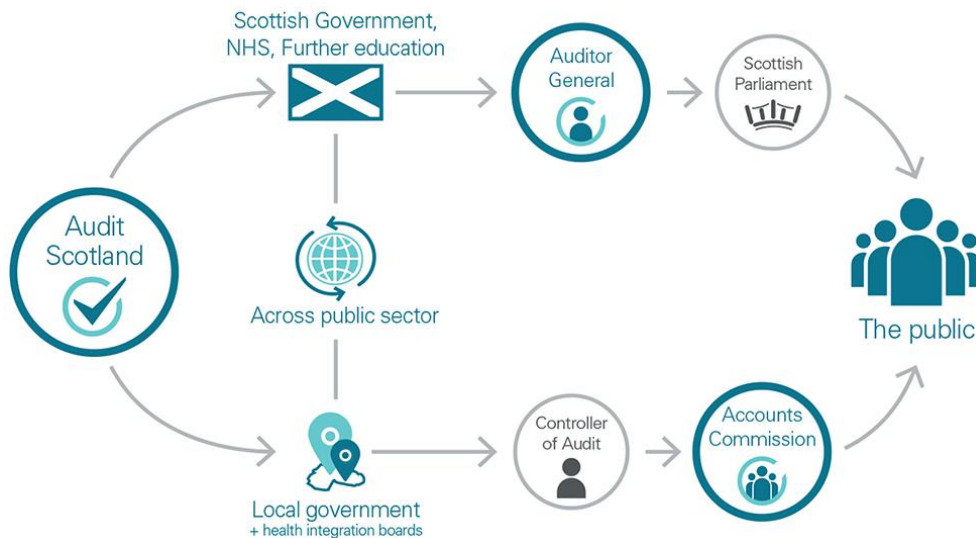
 AUDIT SCOTLAND

Prepared for the Members of West Dunbartonshire Council and the Controller of Audit
27 September 2018

Who we are

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

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



About us

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

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

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

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Key messages

2017/18 annual accounts

- 1 In our opinion, West Dunbartonshire Council and its group financial statements give a true and fair view of the financial position.
- 2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.
- 3 The statement of accounts of the five section 106 charities administered by the Council are free from material misstatement.

Financial management

- 4 The council has a good record of delivering within its service budgets. Budget monitoring reports are informative, comprehensive and easy to read.
- 5 The council's capital plan has grown since 2015 to £109 million this year. However, as reported in the Best Value Assurance Report, there is a high level of slippage every year, with 47.7% in 2017/18. The council has now agreed improvement actions which aim to address the slippage.
- 6 The council has effective arrangements in place for financial planning that include a long-term financial plan.

Financial sustainability

- 7 The council and its group financial position is sustainable but challenging in the foreseeable future. Rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the council's capacity to deliver services at the current levels.
- 8 The council has effective arrangements in place for financial planning that include a long-term financial plan. However, the council has a cumulative funding gap of £13.8 million over the next three years to March 2021 that it needs to close. Service reform needs to continue.

Governance and transparency

- 9 Officers and councillors from all parties work well together for the benefit of the residents of West Dunbartonshire.
- 10 The council has appropriate governance arrangements in place that support the scrutiny of decisions made by the council.
- 11 The council is open and transparent in the way it conducts its business and the public can attend meetings of the council and its standing committees.

Best Value

- 12** The Best Value Assurance Report published in June says that West Dunbartonshire Council has made significant improvements in how it works over the last ten years. The council demonstrates a focus on delivering Best Value and there was evidence of continuous improvement in its services. In August, the council agreed a Best Value Assurance Improvement Plan to address all the recommendations included in the BVAR. Progress will be reported in next year's Annual Audit Report.
- 13** The council's Strategic Plan 2017-22 lays out a focused and ambitious vision for the period which reflects the needs of its community.
- 14** Overall, service performance is improving and most residents who have provided feedback to the council are satisfied. The council maintains a steady pace of change that has led to improved outcomes in its priority areas including housing services and educational attainment amongst schoolchildren.
- 15** The Strategic Improvement Framework provides a structured and practical approach to help council services continue to improve. The council has demonstrated a commitment to delivering services differently in West Dunbartonshire and is working well with partners to achieve this.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of West Dunbartonshire Council (the Council) and its group.
2. The scope of the audit was set out in our Annual Audit Plan presented to the 21 March 2018 meeting of the Audit Committee. This report comprises the findings from:
 - an audit of the annual accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:
 - an audit of the Council and its group 2017/18 annual accounts and the statement of accounts of the five section 106 charities administered by the Council including the issue of independent auditor's reports setting out our opinions
 - a review of the Council's key financial systems
 - audit work covering the Council's arrangements for securing Best Value relating to vision and strategic direction, performance, use of resources and partnership working.

- consideration of the four audit dimensions
 - a review of the council's housing benefit systems
4. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.
 5. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
 6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.
 7. As public sector auditors, we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the Council's best value arrangements and, in doing this, we aim to support improvement and accountability.
 8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
 9. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
 10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.
 11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £257,760 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to West Dunbartonshire Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.
13. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
14. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

In our opinion, West Dunbartonshire Council and its group financial statements give a true and fair view of the financial position and were properly prepared in accordance with proper accounting practices.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

The statement of accounts of the five section 106 charities administered by the Council are free from material misstatement.

Audit opinions on the annual accounts

- 15.** The annual accounts for the Council and its group for the year ended 31 March 2018 were approved by the Council on 27 September 2018. We reported, within our independent auditor's report that, in our opinion:
- the financial statements give a true and fair view and were properly prepared
 - the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.
- 16.** Additionally, we have nothing to report in respect of those matters which are required by the Accounts Commission to report by exception.
- 17.** We comment on the audit of charities administered by the council.

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

Audit opinions on section 106 charities

- 18.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of West Dunbartonshire Council are sole trustees, irrespective of the size of the charity. This relates to Dr A K Glen and West Dunbartonshire Charitable Trusts, a registered charity which incorporates five trust funds.
- 19.** Our duties as auditors of the charitable trusts administered by the Council are to:
- express an opinion on whether the charities' financial statements properly present the charitable trusts' financial positions and are properly prepared in accordance with charities legislation

- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
 - report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.
- 20.** Some progress has been made in relation to reducing the number of section 106 charities. In 2016/17, two trust funds were fully disbursed and subsequently closed in financial year 2017/18.
- 21.** We received the charities' accounts in line with the agreed timetable and, after completing our audit, we reported in our independent auditor's reports that, in our opinion:
- the financial statements properly present for receipts and payments basis the section 106 charities' financial positions and are properly prepared in accordance with charities legislation
 - the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

Whole of Government Accounts

- 22.** The Council submitted a consolidation pack for the whole of government accounts audit on 29 June 2018 in line with the deadline.

Risk of material misstatement

- 23.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team and the wider audit dimension risks identified.

Materiality

- 24.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).
- 25.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.
- 26.** On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£4.453 million
Performance materiality	£1.781 million
Reporting threshold	£40,000

Source: Audit Scotland, Annual Audit Plan 2017/18
How we evaluate misstatements

- 27.** During the audit, a number of errors were identified which exceeded our reporting threshold. Following discussions with officers, all of these were amended in the audited financial statements.
- 28.** The net effect of these adjustments was to increase the net cost of services recorded in the comprehensive income and expenditure statement by £178,000 and to reduce total net assets by £56.069 million. This was mainly due to the IAS 19 adjustment (£55 million) and the impairment of the 12 new build properties (£0.99 million), as explained further in [Exhibit 3](#).
- 29.** It is our responsibility to request that all errors are corrected, although the final decision lies with those charged with governance taking into account advice from senior officers and materiality.



Significant findings from the audit in accordance with ISA 260



- 30.** International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross-reference to the Action Plan in [Appendix 1](#) has been included.
- 31.** The findings include our views about significant qualitative aspects of the Council's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual accounts
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Revised estimate of net pension liability</p> <p>International Accounting Standard 19 – Employee Benefits requires all organisations to disclose information on pension liabilities in their financial statements. Each year, actuaries provide reports to all UK public sector organisations which have pension liabilities. These reports are typically prepared prior to the financial year-end with an estimate included for the final month. Each year, the estimated figures are compared with actual movements. This year, due to significant fluctuations in stockmarkets in 2018, material differences were noted between the estimated and actual performance. As a consequence of this, we estimated that there was a significant risk of material understatement of the pension fund assets figure in the unaudited accounts.</p> <p>To comply with International Auditing Standards, the audit team advised the council to request an updated actuary’s report and to amend the financial statements for any material difference. The revised actuary’s report indicated that assets had been undervalued by £13.6 million but that liabilities had also been underestimated by £68.6 million giving a net downward restatement of the fund in the financial statements of £55 million.</p> <p>While the increase in asset value was due to the fluctuations in the stockmarket, the increase in liabilities was due to an error by the actuary in the original report to the council when one group of liabilities had been omitted from the report.</p>	<p>Management continues to liaise with the actuary to determine the reason for the omission of liabilities from its first valuation.</p> <p>The financial statements were amended to record the net adjustment of £55 million. They now reflect the actuary’s best estimate of the pension liability as at 31 March 2018.</p>
<p>2. Housing revenue account – housing stock</p> <p>Through the audit, it was found that 12 new-build properties, totalling £1.663 million, were recorded as “assets under construction” in the fixed asset register. These houses were actually completed and should have been recorded as housing stock. This was corrected, resulting in an impairment of £0.985 million.</p>	<p>Officers have amended the financial statements to correct this error.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>3. Remuneration report</p> <p>The table in the remuneration report showing employees who earned over £50,000 shows an increase from last year. This is due to the timing of the council’s payment runs in 2017/18. This table is presented on a cash basis instead of an accruals basis.</p> <p>To comply with guidance, the table should be prepared each year on an accruals basis.</p>	<p>Officers have agreed that this disclosure will be completed on an accruals basis going forward, in line with guidance.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>

Finding	Resolution
<p>4. Group boundary assessment and basis of combination</p> <p>The trust funds and common good fund have not been accounted for as subsidiaries. As the council is the sole trustee for these funds, this indicates that the incorrect accounting treatment is being applied within the group financial statements. This is a disclosure adjustment only and we have accepted this treatment for 2017/18.</p>	<p>Officers should undertake an annual group boundary assessment to identify any changes within the group financial statements. The basis of combination of components should also be reviewed and included within this assessment.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>
<p>5. Untaken annual leave accrual</p> <p>As in previous years, our review of the untaken annual leave accrual identified an error within the calculations. The net effect resulted in an increase of £0.140 million.</p>	<p>The audited accounts have been updated to reflect this.</p> <p> Recommendation 4 (refer appendix 1, action plan)</p>

Source: Audit of 2017/18 accounts

Submission of the Council and its group annual accounts for audit

32. We received the unaudited annual accounts on 20 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.
33. The working papers provided with the unaudited accounts were generally of a good standard. However, the audit team identified that supporting information for accounts payable and receivables balances should improve. We raised this as a potential risk in our Annual Audit Plan issued in March 2018, following similar findings in our 2016/17 audit.
34. To gain required levels of assurance over these balances, we performed additional audit testing and requested and reviewed reconciliations. The audit team will continue to liaise with finance staff to ensure that appropriate working papers are provided for the 2018/19 accounts.



Recommendation 5

The council should ensure that detailed working papers are provided to support all figures in the financial statements.

Education Maintenance Allowance

35. Appointed auditors are required by the Code of Audit Practice to review, as part of their audit appointment, grant claims including the Education Maintenance Allowance (EMA). This year, there was a number of issues to be resolved in our review of the claim:
 - The Scottish Government deadline of 30 April for submission of the claim to the audit team was missed by five weeks.

- During the review, the audit team identified a large number of errors leading to the council revising the claim three times. This considerably increased the audit time as the audit work had to be repeated with each claim.
- A final version of the claim was submitted for audit on 16 July and this was approved by the audit team on 25 July and sent to the Scottish Government. The results of our review of the EMA claim were that the council had over-claimed £14,390 during the financial year from the Scottish Government.



Recommendation 6

The council should improve procedures to ensure that the EMA claim is prepared in accordance with the Scottish Government timetable and that the amounts in the claim are accurate.

Follow up of prior year recommendations

36. We have followed up actions previously reported and assessed progress with implementation. These are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).
37. In total, 6 agreed actions were raised in 2016/17. Of these:
- 4 were fully implemented
 - 2 have not yet been fully actioned.
38. Overall, the Council has made good progress in implementing these actions and the audit team will continue to monitor the outstanding actions.

Integration Joint Board

39. For the third year, the Council included its share of the financial transactions of West Dunbartonshire Integration Joint Board (the IJB) within its group financial statements. We confirmed that the Council has processes in place for agreeing its transactions and year-end balances with the IJB. In addition, we liaised with the auditor of the IJB to obtain assurances on the accuracy and completeness of IJB figures included in the accounts. Further information regarding the services transferred to the IJB is included in the Part 4 section on the integration of health and social care.

Presentational, disclosure and other findings

40. We identified a number of other presentational and disclosure issues in the draft accounts. These were discussed with management and were adjusted for and have been reflected in the audited financial statements.
41. The audit findings not included in the narrative of this report are reported in the action plan in recommendations 8 to 11.

Objections

42. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations. There were no objections to the accounts.

Part 2

Financial management



Main judgements

The council has a good record of delivering within its service budgets. Budget monitoring reports are informative, comprehensive and easy to read.

The council's capital plan has grown since 2015 to £109 million this year. However, as reported in the Best Value Assurance Report (BVAR), there is a trend of high levels of slippage. In 2017/18, slippage was 47.7% of the programme. The council has now agreed improvement actions which aim to address the slippage.

The council has effective arrangements in place for financial planning that include a long-term financial plan.

Financial performance in 2017/18

43. In February 2017, the Council approved a revenue budget of £212.115 million for 2017/18, which was a decrease of £2.021 million from the 2016/17 revised budget. Savings totalling £3.036 million were included in the budget. The council made in-year revisions which had a net impact of increasing the overall budget by £0.423 million to £212.538 million. £0.154 million of this increase related to a reallocation of the private sector housing grants (PSHG) from its budget to the revenue support grant (RSG). The budget was aligned to the Council's main priorities which is consistent with good practice.
44. The Council has a good track record in consistently delivering services within budget. In 2017/18 there was a surplus of £0.351 million against the revised budget. Members are regularly informed of the year-end outturn and the reasons for any significant movements from the previous reporting period. No material variances against service budgets were noted.
45. The planned savings for 2017/18 totalled £3.036 million. The Council actually achieved £2.521 million, the £0.515 million shortfall was mainly due to unrealised savings in shared services. This was partly offset by income from internal audit shared services to Loch Lomond and the Trossachs National Park. The remaining balance of £0.487 million was funded from the transformational earmarked reserves.

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

Budgetary process

46. The [Local Government in Scotland: Financial overview 2016/17](#) (November 2017) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for Councils with decreasing (or low levels) of usable reserves to rely on. As reported in the BVAR, the Council has developed its financial planning arrangements and has a long-term financial strategy that projects budget gaps to 2027. The strategy identifies budget pressures and provides clear links to the Council's strategic objectives.

47. The Council's financial strategy includes scenario planning and risk assessments of the likely impacts of any changes in assumptions. The Council's annual revenue estimates supplement the long-term strategy and show the projected movement in budget gaps as a result of changes in strategy.
48. The Council and service committees routinely receive budget monitoring reports including savings plans which have been risk assessed by the Council. Where efficiencies are not on target to be realised in 2017/18, a comment is provided outlining the required action to be taken.

Good practice

Officers continue to improve reporting of financial performance against budget to elected members. Budget monitoring reports cover all services and give a breakdown to individual budget heads for each service. The reports describe the service, the reason for any variance, any mitigating action and the expected outcome. The reports are informative, comprehensive and easy to read.

Housing revenue account

49. 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.
50. In February 2017, the Council approved a 2.25% increase in the average weekly rent levels for tenants for 2017/18. The rent level set reflected the income required to fund the revenue budget of £43.205 million.
51. Guidance from the Scottish Government on operating Local Authority Housing Revenue Accounts (HRA) states that there must be a robust, written methodology for calculating and allocating HRA costs (including internal costs charged by the council to the HRA). The council requires to formalise its written methodology and, to improve transparency, consider publishing this on its website.



Recommendation 7

The council should formalise its written methodology for HRA costs in line with the Scottish Government guidance and, to improve transparency, consider publishing this on its website.

52. The HRA recorded a surplus of £0.459 million in 2017/18 (2016/17: £0.746 million surplus), resulting in a closing HRA balance of £7.422 million. A large element of this balance (£6.572 million) is earmarked for regeneration of the housing stock. The remaining balance of £0.850 million is available for general use by the HRA and is in line with the minimum reserves policy of 2% of expenditure.

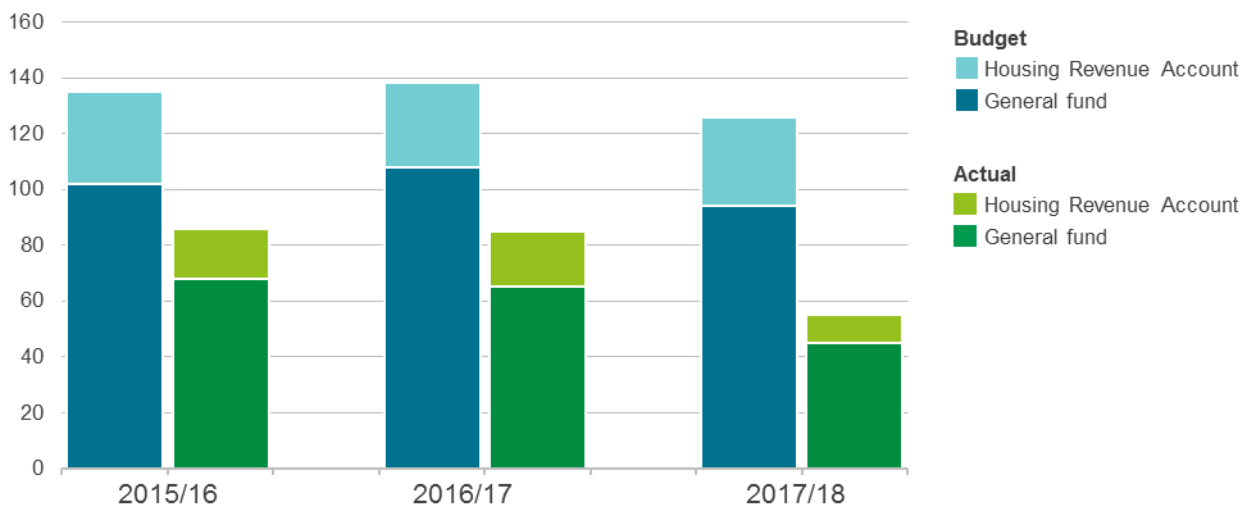
Capital programme 2017/18

53. The Council has comprehensive asset management plans in place, linked to the Council's strategic objectives. The plans set out the resources required to invest in the Council's assets including schools, offices and land.

- 54.** Total capital expenditure in 2017/18 was £66.431 million of which £45.198 million related to general services and £21.233 million to the Housing Revenue Account. The scale of the programme has increased significantly in recent years since 2014/15 which makes its management more challenging.
- 55.** In 2017/18 there was total slippage of £59.963 million (47.7% of budget). As reported in the BVAR, this continues a trend of significant levels of slippage as outlined in [Exhibit 4](#). This is not a unique problem: capital slippage has long been identified as a common issue in councils. However, the level of slippage in West Dunbartonshire has been a concern over a number of years. The Housing Revenue Account slippage comprised 19.4% of this total.

Exhibit 4

Capital expenditure compared to budget (general fund and HRA)



Source: West Dunbartonshire Council Accounts 2015/16 to 2017/18

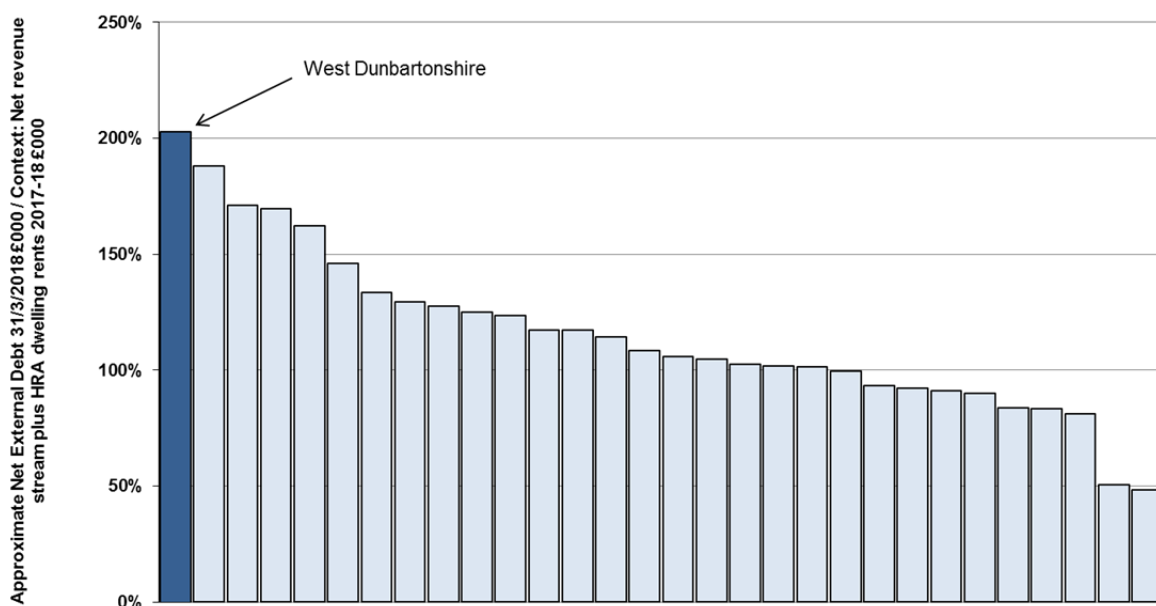
- 56.** While the Council recognises that its capital programme is an area for improvement, it believes that the high levels of slippage are due to optimism bias included within projects and that some slippage is strategic and opportunity driven. The BVAR recommends that the Council should review its project management processes and consider performing self-assessments to identify the areas for improvement. In response, the Council has now agreed improvement actions which aim to address the slippage. (Appendix 3). We will monitor progress of these actions during 2018/19.
- 57.** As part of our wider dimension work, we reviewed the internal audit findings within the “Management of Capital Projects” report. Internal audit reviewed the *Elderly Care Home Modernisation* project and reported five high-priority findings.
- 58.** The Council should consider whether the internal audit findings could be applied to other capital projects. For instance:
- Financial calculations included in the business plan should be prepared by relevant persons
 - Preparation of business plans should include clear specifications
 - Contingencies and inflation allowances should be built into plans.

Borrowing in 2017/18

- 59.** The Council's outstanding loans at 31st March 2018 were £429.621 million, an increase of £46.126 million on the previous year. £152.432 million of loan repayments were made and there were £198.200 million of new loans taken out. The increase in borrowing was required to help finance the Council's significant capital programme in 2017/18.
- 60.** Total external debt (which includes the Council's long-term liabilities) was within the authorised limit and operational boundary set by the treasury management strategy. The Council will continue to consider the affordability of future borrowing.
- 61.** The Council's net borrowing, as a proportion of net revenue stream including dwelling rents, continues to be amongst the highest in Scotland, as shown in Exhibit 5. It is recognised that the Council's borrowing figure includes debt associated with both the HRA and the Council's PPP assets which not all Scottish local authorities have.
- 62.** The debt includes long-term liabilities for Public Private Partnership (PPP) finance contracts that will run up to 2038/39. Over the remaining life of the contracts, the Council expects to pay £340.383 million in annual repayment and service costs. These costs are reflected in the Council's financial plans. The borrowing is used for capital projects such as enhancing and upgrading the school estates, Clydebank leisure centre and replacing elderly care homes and day care centres. The Council receives Scottish Government revenue support funding of £7.3 million annually for PPP which amounts to £160 million over the remaining contract term.

Exhibit 5

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



Systems of internal control

- 63.** As part of our audit, we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
- 64.** Our findings were included in our interim audit report that was presented to the Audit Committee on 13 June 2018. We concluded that the key controls were operating effectively but made recommendations for improvement.
- 65.** One of the recommendations related to the risk that employees are not removed from the payroll timeously leading to overpayment of salaries. Management gave us assurance that there would be improved communication of the importance of the employee validation exercise. We are aware of a number of overpayments to former employees in 2017/18, although the value of these is not significant in relation to materiality levels. We will continue to review this area in 2018/19.

Part 3

Financial sustainability



Main judgements

The Council and its group financial position is sustainable but challenging in the foreseeable future. The council recognises that service reform needs to continue.

The Council has effective arrangements in place for financial planning that include a long-term financial plan.

However, the Council has a cumulative funding gap of £13.8 million over the next three years to March 2021 that it needs to close.

Financial planning for 2018/19

66. In common with other public sector bodies, the Council faces complex challenges in maintaining a sustainable financial position into the future. Pressures arise from increasing costs and changing demographics.
67. In March 2018, a report to the Council updated the general services revenue estimates for 2018/19 to 2020/21. This identified a projected budget surplus for 2018/19 of £0.671 million and cumulative budget gaps of £7.091 million and £13.8 million for 2019/20 and 2020/21 respectively.
68. The council approved its revenue budget for 2018/19 in March 2018. The budget includes a 3% increase in council tax, which will yield £1.35 million of additional income in 2018/19, increasing to £1.65 million by 2027/28.
69. Since 2013, the Council has been refining its budget consultation procedures. The Council involves representative groups across the community as it sets its budget. This year, the Council received over 2,700 responses to its budget consultation. The results of the consultation were presented to the Council before the budget was approved on 5 March 2018. There are examples where, based on public opinion, the preferred savings options were not taken forward as part of the budget agreed in March 2018.
70. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. As reported in the BVAR, the Council has worked hard to develop its financial planning. The Council has a long-term financial strategy that links to its strategic objectives. The strategy includes scenario planning and a risk assessment of the likely impact of any changes in assumptions. The Council's annual revenue estimates supplement the long-term strategy and show the projected movement in budget gaps as a result of changes in strategy.
71. The budget approved for 2018/19 and the revenue estimates identified a cumulative funding gap of £13.8 million to 2020/21. The long-term financial strategy reported to members in October 2017 covers 10 years and includes scenario planning and a risk assessment of the likely impact of any changes in assumptions. The council's annual revenue estimates supplement the long-

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

term strategy and show the projected movement in budget gaps as a result of changes in strategy.

Reserves

72. CIPFA Local Authority Accounting Panel (LAAP) bulletin 99 provides guidance on the establishment and maintenance of reserves. It does not prescribe level of reserves, but places the responsibility on the chief finance officer to advise the Council on the creation and level of reserves appropriate to the Council's circumstances.

73. The bulletin states that reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- a means of building up funds, often referred to as “earmarked” reserves (or earmarked portion of the general fund), to meet known or predicted requirements; earmarked reserves are shown separately but remain legally part of the General Fund.

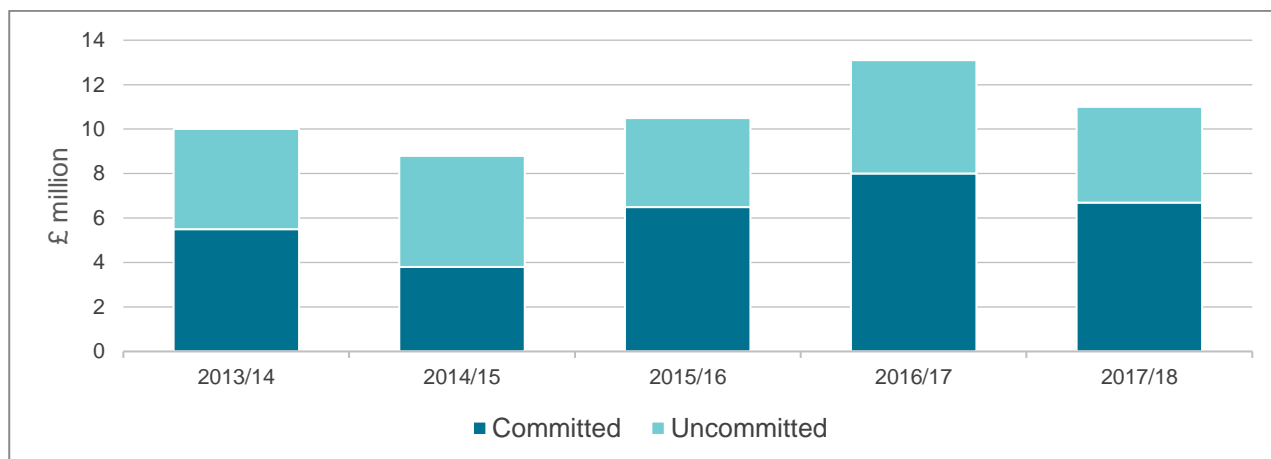
74. The level of usable reserves held by the Council decreased from £13.118 million in 2016/17 to £10.975 million in 2017/18 as illustrated in Exhibit 6.

75. The Council reviews the level of its uncommitted reserves when setting the budget each year. The Council's approved reserves strategy specifies that there should be a prudential reserve of 2% of net expenditure to safeguard assets and services against financial risk. This equates to £4.122 million for 2017/18. The level of uncommitted general fund reserves as at 31 March 2018 was £4.304 million.

76. Exhibit 6 provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. This shows the use of reserves between years to maintain financial balance.

Exhibit 6

Analysis of general fund over last five years



Source: West Dunbartonshire Council annual accounts 2013/14 to 2017/18

77. The Council has a low level of reserves as a proportion of net revenue stream including housing rents compared with other local authorities and is in the lowest quartile in Scotland. This means that there is limited scope for it to use reserves to close any funding gap. Ensuring that there are sufficient reserves is important to protect the Council against the financial impact of unforeseen events or reductions in future funding. The Council will continue to consider reserves and plans for their usage as part of the annual budget setting process.

City Deals

78. The Council is one of 8 local authorities included in the Glasgow City Region City Deal. West Dunbartonshire Council is one of the smallest councils involved in the City Deal but is an equal partner and plays an active role in the governance structure. It is represented on all sub-groups and takes the lead on the Housing and Equalities portfolio.

79. The Council is currently developing an infrastructure project as part of the City Deal: the Exxon Site at Bowling. Funding totals £27.9 million over the next 7 years (£24.1 million in grants from the UK and Scottish governments and the remaining £3.8 million to be contributed by the Council). The project includes a proposal to create an industrial and commercial development at the site. It also includes plans for a new road to provide an alternative route into and out of West Dunbartonshire.

80. The main aim of the City Deal project supports the Council's priority to generate additional employment opportunities in West Dunbartonshire and increase the Gross Value Added (GVA) of the area. This aims to improve job density, which is low within West Dunbartonshire at 0.55 per head, compared with the Scottish average of 0.8 per head. The project should help address the average length of unemployment which is the longest within the City Deal region.

81. The council approved the outline business case in February 2017, which was subsequently approved by the City Deal Cabinet in April 2017. Progress to date includes meetings with Exxon to formally agree terms for procuring the site. Discussions are also taking place with Scottish Environment Protection Agency (SEPA) about an appropriate solution to flood prevention within the site. Discussions have also begun with the owners of adjacent sites which may be required to deliver the project.

EU withdrawal

82. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

The risks from EU withdrawal are reflected in the Council's long-term financial strategy.

Part 4

Governance and transparency



Main Judgements

Appropriate governance arrangements are in place to support the scrutiny of decisions made by the Council.

The Council is open and transparent in the way it conducts its business and the public can attend meetings of the Council and its standing committees.

Governance arrangements

- 83.** Following the elections in May 2017, no political party in West Dunbartonshire had an overall majority. A joint administration was formed, made up of ten SNP councillors and one independent councillor. As the largest single group not in administration, it was agreed that Labour would form the official opposition.
- 84.** Members and officers are responsible for establishing arrangements to ensure that 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. The Best Value Assurance Report (BVAR) stated that there was evidence to demonstrate effective council leadership by members and officers.
- 85.** The Council's strategic plans clearly set out its vision and priorities. The Chief Executive and Senior Management Team provide clear direction through the council's 'Leadership and Governance' structure. There are weekly meetings attended by the Chief Executive, strategic directors and strategic leads to review current issues. Each of the monitoring and scrutiny groups meet monthly. As reported in the BVAR, senior officers are motivated and passionate in striving to achieve the council's priorities.
- 86.** Within the political environment in which local authorities operate, there is evidence that the West Dunbartonshire councillors work well together. Discussions at committees focus on the main issues and councillors are able to make decisions. Working relationships between officers and councillors are respectful and constructive. In addition to a comprehensive induction process for new members, the council offers briefing sessions and seminars to give councillors more in-depth information to support scrutiny and decision-making. In response to a recommendation in the BVAR, the council is to consider introducing more cross-party working groups to address the financial challenges facing the council and to help with the difficult decisions which will have to be made. (Appendix 3)

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

Transparency

- 87.** Transparency means that the general public have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

- 88.** There is evidence from several sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council, executive and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.
- 89.** The Council's website allows the public access to a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website provides details of the citizens' panel and how to join it. The panel provides information and feedback on services as well as views on the needs of local communities.
- 90.** The Council makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Council.
- 91.** Overall, we concluded that the Council conducts its business in an open and transparent manner.

Internal audit

- 92.** The Council's internal audit function is provided by West Dunbartonshire Council staff overseen by the Audit Manager. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work, we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS). The PSIAS external assessment was reported to the Audit and Performance Review committee in March 2016.
- 93.** We reviewed the Council's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. Overall, we concluded that we would place reliance on aspects of internal audit's work on Trade Payables for our financial statements responsibilities. We also considered internal audit report findings in the following areas as part of our wider dimension work: Data and Information Security, Management of Capital Projects, IT Procurement, Remote Access Controls.
- 94.** In our "Reliance on Internal Audit" letter issued in February 2018, we recommended a review of the processes for presenting audit reports to committees. We note that this work is ongoing and we will continue to review progress in 2018/19.

National Fraud Initiative

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

The latest position on NFI investigations by the council is summarised in Exhibit 7

NFI activity



6,432

Matches



1,156

Recommended for investigation



1,265

Completed/closed investigations

Source: NFI secure website: www.nfi.gov.uk

96. The Council engaged positively in the NFI exercise and has reviewed data matches timeously. We concluded that the Council has satisfactory arrangements in place for investigating and reporting data matches identified by the National Fraud Initiative.

Standards of conduct for prevention and detection of fraud and error

97. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

98. We concluded that the Council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

Cyber security

99. Like all organisations, the council faces the risk of cyber attacks targeting ICT systems, networks and infrastructure. The threat to public sector organisations is very real as evidenced by a recent “WannaCry” ransomware attack on the NHS. While there is a persistent risk from new threats and vulnerabilities which may result in unauthorised access and subsequent damage or interruption to its IT services, the Council maintains an awareness of such risks.

100. Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

101. The council’s cyber incident response plan was last revised in 2016 and is used alongside the SG Public Sector Action Plans. We have been advised that the Council is making adjustments to ensure a clear link with the SG Public Sector Action Plans Notifiable Incident response policy. We will continue to review this work in future years.

General Data Protection Regulation

- 102.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998 (DPA). As a Regulation, all EU member states must implement it in the same way. GDPR sets out further requirements than the DPA and has introduced new and significantly changed data protection concepts.
- 103.** GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data-handling arrangements could result in the Council incurring significant fines.
- 104.** From our review, we conclude that the Council has complied with the new GDPR requirements and has appointed a Data Protection Officer. Further details can be found on the Council's website.

Integration of health and social care

- 105.** The West Dunbartonshire Integration Joint Board (WDIJB) was formally established in July 2015. As reported in the BVAR, the IJB partners' view is that the IJB has built upon the mature and constructive health and care partnership already in place. The partnership agreed a Strategic Plan for 2016-19 which includes national and local commitments and priorities. The Chief Officer of the IJB is also one of West Dunbartonshire Council's strategic directors.
- 106.** As reported in the BVAR, there is evidence that the IJB is progressing well with implementing new models of care. For example, in 2017, the Care at Home Service was awarded the Scottish Association of Social Work Award for the "best example of collaboration in an integrated setting". As well as a core service, it created an integrated out-of-hours care at home and district nursing service to respond more effectively to risks and avoid unnecessary hospital admissions. As a result, more elderly people are living independently at home.
- 107.** In 2017/18, WDIJB incurred an overspend against budget of £1.231 million, funded from their unearmarked reserves. The IJB is subject to a separate audit (also by Audit Scotland) and an Annual Audit Report is prepared setting out auditor findings. The financial transactions of the IJB have been consolidated into the Council's group accounts.

Local scrutiny plan

- 108.** The Local Scrutiny Plan (LSP) sets out the planned scrutiny activity at the Council during 2018/19. The plan is based on a shared risk assessment undertaken by a Local Area Network (LAN), comprising representatives of the scrutiny bodies who engage with the Council. The shared risk assessment process draws on a range of evidence with the aim of determining the scrutiny activity required and focussing this in the most appropriate way. The 2018/19 LSP was presented to the June 2018 meeting of the council. No scrutiny risk requiring additional scrutiny or audit work in 2018/19 was identified from the shared risk assessment, other than scrutiny that was nationally directed or part of a planned programme of work.

Part 5

Best Value



Main judgements

The Best Value audit found that the Council had made significant improvements since 2007 in how it works.

The Strategic Improvement Framework provides a structured and practical approach to help Council services continue to improve. The Council has demonstrated a commitment to delivering services differently in West Dunbartonshire and is working well with partners to achieve this.

Overall, service performance is improving and most residents who have provided feedback to the Council are satisfied. The Council maintains a steady pace of change that has led to improved outcomes in its priority areas including housing services and educational attainment amongst schoolchildren.

Best value

109. Best value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each Council will be considered by the Accounts Commission at least once in this five-year period. The BVAR for West Dunbartonshire Council was published on 28 June 2018. This section of the report also includes other audit findings relating to the audit dimension of Value for Money, referred to in Exhibit 1.

110. The BVAR said that West Dunbartonshire Council has made significant improvements in how it works, since the last Best Value report in 2007. The Council now demonstrates a focus on delivering Best Value and we found evidence of continuous improvement in its services. Other key messages were that:

- Changes to the senior officer team, including the appointment of the current Chief Executive in 2011, have played a key role in the improvements the Council has made. Officers and councillors from all parties work well together for the benefit of the residents of West Dunbartonshire.
- Service performance was improving and most residents who had provided feedback to the Council were satisfied. The Council maintains a steady pace of change that has led to improved outcomes in its priority areas including housing services and educational attainment amongst schoolchildren.
- The Council's Strategic Plan 2017-22 lays out a focused and ambitious vision for the period which reflects the needs of its community.

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

- The Strategic Improvement Framework provides a structured and practical approach to help Council services to continue to improve. The Council has demonstrated a commitment to delivering services differently and is working well with partners to achieve this.
- The Council has a good record of delivering services within budget and has developed both medium and long-term plans. However, there is a projected funding gap of £13.8 million for the three years to 31 March 2021 which will be a challenge to make up and service reform will be required.
- The Council has also developed a detailed organisation-wide, five-year workforce plan and individual service-specific workforce plans.
- There is a trend of significant slippage in the capital programme which means that a number of projects are being finished late. The Council requires to strengthen its project planning and management arrangements.
- There was evidence of significant improvement in scrutiny with members working together and demonstrating stronger scrutiny.

111. The BVAR includes five recommendations which have been endorsed by the Accounts Commission. These relate to:

- management of the capital programme
- further development of workforce plans
- staff challenges relating to the pace of change and sickness absence
- development of the Community Alliance
- the potential for more cross party working amongst members to address the financial challenges for the Council.

112. At its meeting on August 2018, the Council agreed a Best Value Assurance Improvement Plan which includes actions to address all recommendations included in the BVAR, see Appendix 3. Progress will be reported to the Audit Committee on a six-monthly basis over the period of the plan with a final report presented to Council following delivery of the actions contained in the improvement plan. We will continue to monitor and report on the Council's progress against the improvement actions.

How well is the Council performing?

113. The BVAR includes the following comments about the Council's service performance:

- The Council has effective systems in place to monitor performance and drive continuous improvement. The Council's overall performance is improving and there is evidence that residents are satisfied with services.
- The Council reports improved performance in two-thirds of its priority indicators for the period 2012-17
- The Council can demonstrate positive progress in some key services such as housing, employment and education
- The Care Inspectorate's recent joint inspection into services for children and young people reported strong performance in several areas

- Overall, the Council's performance against national indicators has improved in recent years. But improvement is slower than other Councils in some areas
- Resident satisfaction has increased significantly over the last five years. The Council runs a monthly telephone survey of residents asking how satisfied they are with services. 100 residents each month, representative of the demographic profile of West Dunbartonshire, are contacted by phone and asked to give their views on key Council areas. The survey began in 2013 and asks the same five key questions about residents' views of West Dunbartonshire Council every month. This gives the Council consistent trend data over time.

Shared services

- 114.** The Accounts Commission and Auditor General have highlighted the benefits of working well together to the people who use Council services, communities and public sector organisations. Our recent report, [Local government in Scotland – challenges and performance 2018](#) (April 2018) identified limited evidence of councils collaborating or sharing services.
- 115.** As reported in the BVAR, the Council has actively pursued the following opportunities for sharing services or information with other public sector bodies, specifically neighbouring councils:
- In 2015, a shared data centre was set up with East Dunbartonshire Council. This has enabled both councils to achieve some cost efficiencies and to share information on disaster recovery and performance monitoring. The two councils currently share the IT helpdesk.
 - The Council provides internal audit services to Loch Lomond and the Trossachs National Park Authority.
 - The Council is a member of the Civil Contingencies Service. This is a joint committee operated by Renfrewshire Council, which includes East Renfrewshire and Inverclyde councils. This service has operated since 2009 and helped improve councils' responses during times of bad weather.
 - The council led on a project to help Stirling Council improve its corporate communications service.

Community engagement

- 116.** As reported in the BVAR, the 2017-22 strategic plan priorities were informed by a consultation by the current administration during the 2017 election campaign. The consultation asked residents what was important to them and what their priorities were. It was undertaken via online and paper surveys and received over 3,000 responses.
- 117.** The Council has an Engaging Communities Framework in place. There is a focus on online consultation, for example on budgets, rent levels and the local development plan. Local people could also give their views through consultations in libraries and at the Council's one-stop shops. The Council also has a citizens' panel.
- 118.** There is evidence of the community being involved in Council decisions. Examples include the following:
- After a review of library opening times, the Council amended its proposals to reflect over 1,000 responses to a consultation

- Housing tenant forums have participated in decisions about, for example, rent setting and housing allocation policies
- Participatory budgeting, where local residents were involved in the allocation of small grants to upgrade community facilities and reduce social isolation.

119. The Community Alliance (CA) brings together representatives from neighbourhood, interest and user groups. The Council sees it as an important engagement link with the community but there are a number of challenges that it needs to address. Following a recommendation in the BVAR, the Council is to help to develop the role of the CA and help it reach its full potential, see Appendix 3.

Performance management

120. The Council's performance management arrangements were considered in our BVAR issued in June 2018. We identified that the Council's Strategic Improvement Framework, which delivers the transformation agenda of the council, drives continuous improvement and prepares its services for the future. The framework says that the Council will deliver continuous improvement by:

- Setting clear outcomes and priorities
- Self-evaluation
- Benchmarking and improving services and planning
- Managing, monitoring and reporting on its performance
- Being externally assessed and accredited.

121. The Council has a self-evaluation framework and a three-year rolling programme for services to carry this out. All Council services not subject to an external assessment, such as that carried out by the Scottish Housing Regulator or Education Scotland, are part of this programme. The Performance Monitoring and Review Group agree the timing of self-evaluations based on risk assessments of each service.

122. After self-evaluation, the service reviews its annual service plan and delivery plans to include:

- Improvement actions identified
- External scrutiny recommendations
- Customer and employee feedback
- Relevant benchmarking data.

123. As reported in the BVAR, service action plans are developed following self-evaluation. Where there are significant areas for improvement, the service's policy, planning and performance business partner works with the management team to scope this as a project and link into the Organisational Development and Change team for a more comprehensive plan of support. This is then scheduled into a work programme for continuous improvement.

124. At a corporate level, the service policy, planning and performance business partners are responsible for collating the findings from the self-evaluation exercises to compare performance between different service areas and ensure that improvement actions are appropriate.

- 125.** Improvement priorities and actions are set out in the 8 annual service delivery plans which include a review of the previous year's performance. The plans provide balanced analyses of performance and, as reported in the BVAR, there is evidence of actions leading to improved outcomes.
- 126.** The Strategic Plan 2017-22 has five-year targets with monitoring and reporting on progress planned annually. Targets have milestones for each year and these will be reported to full Council each year. Targets are set from a baseline and will be reviewed over time. Annual performance reports against the strategic plan are planned for members.

Statutory performance indicators (SPIs)

- 127.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.
- 128.** For 2017/18 two SPIs were prescribed:
- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
 - SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
- 129.** The BVAR concludes that Public Performance Reporting focuses on the Council's strategic priorities and is available on the Council's website. This offers a clear analysis of performance against targets together with historical trend information.
- 130.** The Council's Annual Performance Report and suite of performance information will be reported to the September 2018 Council meeting. Due to the timing of this, we have been unable to review performance information against the two SPIs for this Annual Audit Report.
- 131.** In 2016/17 we reported that the council's arrangements for publication were satisfactory and that the performance report clearly demonstrated if targets were being met.

Local performance studies

- 132.** In January 2018, a review by Education Scotland and Audit Scotland showed considerable improvement in the achievement levels of pupils from deprived areas of West Dunbartonshire. In 2016/17, 23% of secondary school pupils from deprived areas were successful at five or more exams compared to 11% in 2012/13. This is above the Scottish average of 16% in 2016/17 and above other councils in West Dunbartonshire's family group.
- 133.** The review also highlighted that there is a robust and well-articulated governance framework within the Council for education overall and, specifically, for raising attainment. Lines of accountability were clear and there was evidence that governance arrangements were widely understood by Council staff and headteachers. There was clear evidence that a 'golden thread' exists in relation to raising attainment and closing the poverty-related gap.

Housing benefits performance work

- 134.** A review by Audit Scotland of the housing benefit section was reported to the Corporate Services Committee in August 2018. Our work considered the

effectiveness of the benefit service in meeting national and local priorities, business planning and reporting and delivering outcomes. The audit team gathered information from a range of sources including:

- The self-assessment, supporting evidence and action plan provided by the council
- Department of Work and Pensions (DWP) indicators and other performance measures
- Scrutiny of internal and external audit reports
- Discussions with senior officers in the council.

135. Our review identified that the Council had addressed four out of five of the risks identified in the previous review in 2013. The remaining risk relates to improvements required to monitor the effectiveness of the benefit overpayment team in reducing the levels of invoiced debt.

136. The review highlighted four new risks to be addressed by the Council:

- The need for targets within the Resources Delivery Plan to allow members of the Corporate Services Committee to challenge and support the service
- Implementing a fast-track process for claims processing
- Reducing the volume of management checks to improve processing time
- Improving in-year debt recovery performance, which is low when compared to other Scottish councils.

National performance audit reports

137. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published reports which are of direct interest to the Council. These are outlined in [Appendix 4](#).

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

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Housing revenue account – housing stock</p> <p>Through the audit, it was found that 12 new build properties, totalling £1.663 million, were omitted from the fixed asset register. This move, from assets under construction to council dwellings, resulted in an impairment of £0.985 million.</p> <p>Risk</p> <p>There is a risk that without proper procedures, the fixed asset register is incomplete.</p>	<p>The Council should review its procedures for identifying housing stock which should be included in the fixed asset register.</p> <p>Page 11</p>	<p>Process will be reviewed</p> <p>Gillian McNeilly</p> <p>31 May 2019</p>
2	<p>Remuneration Report disclosure</p> <p>The table in the Remuneration Report showing employees who earned over £50,000 indicates that the increase in the number shown from last year to this year is due to 14 payment runs in 2017/18. This table has been calculated on a cash basis and should have been calculated on an accruals basis.</p> <p>Risk</p> <p>The table does not accurately reflect those employees who earn over the threshold for disclosure in the remuneration report.</p>	<p>The Council should ensure that satisfactory arrangements are put in place to produce this table on an accruals basis, in line with the rest of the Remuneration Report.</p> <p>Page 11</p>	<p>Process will be changed to undertake on an accruals basis</p> <p>Gillian McNeilly</p> <p>31 May 2019</p>
3	<p>Group boundary assessment and basis of combination</p> <p>The trust funds and common good fund have not been accounted for as subsidiaries. As the Council is the sole trustee for these funds, this indicates that the incorrect accounting treatment is being</p>	<p>Management should undertake an annual group boundary assessment to identify any changes within the group for the year. Officers should also review the basis of combination of</p>	<p>Process and presentation will be updated</p> <p>Gillian McNeilly</p> <p>31 May 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>applied within the group financial statements. This is a disclosure adjustment only and we have accepted this treatment for 2017/18.</p> <p>Risk</p> <p>The incorrect accounting treatment is being applied for components within the group financial statements.</p>	<p>entities included within the assessment.</p> <p>Page 12</p>	
<p>4 (b/f)</p>	<p>Untaken annual leave accrual</p> <p>As in previous years, our review of the untaken annual leave accrual identified an error within the calculations. The net effect resulted in an increase of £0.140 million.</p> <p>Risk</p> <p>The annual leave accrual is not properly calculated.</p>	<p>The Council should review its procedures for calculating the annual leave accrual.</p> <p>Page 12</p>	<p>A further review of procedures for calculation and reviewing will take place to ensure the annual leave accrual is calculated accurately</p> <p>Gillian McNeilly</p> <p>31 March 2019</p>
<p>5</p>	<p>Accounts payables/receivables working papers</p> <p>The initial set of working papers received for accounts payable and receivable did not provide a clear audit trail or breakdown of all outstanding balances at year-end.</p> <p>Risk</p> <p>There is an increased risk of material error in the financial statements.</p>	<p>The Council should review its procedures for producing working papers at the year end. Specifically, working papers for balances should not include transactions during the year.</p> <p>Paragraph 34</p>	<p>Further discussions with external audit will take place to identify more appropriate working papers and templates agreed with external audit prior to the start of the process</p> <p>Gillian McNeilly</p> <p>30 June 2019</p>
<p>6</p>	<p>Education Maintenance Allowance (EMA)</p> <p>During the audit of the EMA grant claim, we identified numerous errors leading to three revisions of the claim. A final, fourth version was submitted for audit which identified an overclaim by the Council during the year.</p> <p>The Scottish Government deadline of 30 April for submission of the claim to the</p>	<p>The Council should review its arrangements to ensure that the EMA claim is prepared in accordance with the SG timetable and that amounts claimed are accurate. The quality of the working papers and evidence provided to audit should also be improved.</p> <p>Paragraph 35</p>	<p>EMA process and working papers will be improved</p> <p>Arun Menon</p> <p>31 March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>audit team was also missed significantly by five weeks.</p> <p>Risk</p> <p>Inadequate arrangements leading to misstatements in the monthly claims and the year-end claim.</p>		
7	<p>Housing Revenue Account - methodology for calculating and allocating HRA costs</p> <p>Guidance from the Scottish Government on operating Local Authority Housing Revenue Accounts (HRA) states that there must be a robust, written methodology for calculating and allocating HRA costs (including internal costs charged by the council to the HRA). The Council requires to formalise its written methodology.</p> <p>Risk</p> <p>Without a formal written methodology there is a lack of transparency for tenants and other interested parties to understand why costs are being charged and who is benefitting from the services these costs relate to.</p>	<p>The council should formalise its written methodology in line with the Scottish Government guidance and, to improve transparency, consider publishing this on its website.</p> <p>Paragraph 51</p>	<p>Methodology will be defined within future reports to Council on Finance Strategy</p> <p>Stephen West</p> <p>30 November 2019</p>
8	<p>Inventories</p> <p>A number of issues were found while auditing inventories. Stock which had been written-off during the year had not been eliminated from the year-end balance. We also found an instance where stock included in the financial statements was not supported by a stock certificate.</p> <p>Risk</p> <p>From our audit work we have concluded there is a high risk of obsolete stock being included in the year end value.</p>	<p>Management should undertake a review of stock and write-off any obsolete stock.</p> <p>Management should also consider a secondary review of stock calculations and certificates.</p> <p>Paragraph 41</p>	<p>Current stock will be reviewed and checked for obsolescence and any identified will be written-off</p> <p>Stock certification process will now include a secondary review</p> <p>Stephen West</p> <p>31 March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
9	<p>Period end reconciliation and review</p> <p>The year-end bank reconciliation for creditors (period 13) was not completed or reviewed till mid July, after the draft accounts were approved.</p> <p>In addition, the year end ledger reconciliation for creditors was not reviewed.</p> <p>Risk</p> <p>Errors are not identified in a timely manner.</p>	<p>Management should ensure the year end procedures for preparing and reviewing reconciliations are being followed.</p> <p>Paragraph 41</p>	<p>Relevant officers will ensure reconciliations will be completed on time</p> <p>Gillian McNeilly</p> <p>30 September 2019</p>
10	<p>Debit balances in debtors and creditors</p> <p>From our audit testing, we identified debit balances totalling £0.296 million within both debtors and creditors. These are historic balances, with some dating back to 1996.</p> <p>Risk</p> <p>The balance sheet is overstated with historic debit balances.</p>	<p>Officers should review these balances and the likelihood of their recovery and write-off amounts as necessary.</p> <p>Paragraph 41</p>	<p>Relevant balances will be reviewed and written-off where appropriate</p> <p>Gillian McNeilly</p> <p>31 October 2018</p>
11	<p>Fixed asset register</p> <p>From our audit testing of non-current assets we found assets in the fixed asset register with a negative net book value totalling £0.080 million. This is due to excess depreciation being charged in error.</p> <p>Risk</p> <p>Assets are incorrectly accounted for in future financial statements.</p>	<p>Officers should review the controls over the fixed asset register. Officers could implement a formula to highlight any assets which move from a positive to negative value.</p> <p>Paragraph 41</p>	<p>The asset register processes will be reviewed</p> <p>Gillian McNeilly</p> <p>31 March 2019</p>
Follow up of prior year recommendations			
b/f 1	<p>Valuation of non-current assets</p> <p>Council dwellings recorded in the unaudited financial statements were overstated by £13.7 million due to the inclusion of elements of council dwellings recorded in the asset register not being eliminated following the 5</p>	<p>Procedures should be in place to ensure that, following revaluation, all previous expenditure and depreciation is incorporated into the revalued amount.</p> <p>The fixed asset register should also be reviewed to ensure</p>	<p>The council agreed to review the asset register to ensure any such issues were removed ahead of the 2017/18 accounts. Year end procedures were reviewed to ensure valuation were agreed with the valuer.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>yearly valuation in 2016/17. The financial statements have been adjusted to eliminate this duplication.</p> <p>Risk</p> <p>Other categories of non-current assets recorded in the asset register could have an element of duplication.</p>	<p>these errors are not repeated in other categories.</p>	<p>Action complete</p>
b/f 2	<p>Common Good Fund</p> <p>The audit identified two areas of land, with a book value of £0.278 million, which are owned by the Common Good Fund but have been omitted from the asset register in previous years.</p> <p>Risk</p> <p>There is a risk that common good land has been identified and attributed a fair value.</p>	<p>The council should review its procedures to ensure the Common Good Fund asset register is up to date and complete.</p>	<p>The council reviewed the asset register to ensure any such issues were removed ahead of the 2017/18 accounts. Year-end procedures were reviewed to ensure valuations were agreed with the valuer.</p> <p>No similar errors identified during the 2017/18 audit</p> <p>Action complete</p>
b/f 3	<p>Termination pay accrual</p> <p>The unaudited financial statements included a provision for termination costs of £1.972 million. Following discussion with officers, it was agreed that it was not appropriate for these costs to be shown as a provision in 2016/17. The accounts are to be changed and an earmarked balance of the general fund will be identified for these costs to reflect a prudent approach to planning for the future impacts of required future savings.</p> <p>Risk</p> <p>Liabilities for future termination provisions may not be appropriately determined.</p>	<p>The council should review how they correctly account for the termination pay accrual.</p>	<p>The termination pay accrual accounting treatment is considered at each financial year end to determine correct treatment.</p> <p>Action complete</p>
b/f 4	<p>Financial planning</p> <p>The current financial strategy (approved in October 2016) covers the period to March 2020. While this does not cover the longer term period, it</p>	<p>The council should develop a financial strategy that covers the long term period (typically covering five to ten years) that links spending to the council's strategies.</p>	<p>The long term finance strategy was extended to cover a 10 year period.</p> <p>Action complete</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>provides a clear link to the rolling three-year budget which reports the need to identify £11 million in savings over this period and the impact of the various scenarios on projected budget gaps. However, it does not provide a link to long term council strategies.</p> <p>Risk</p> <p>By not covering the long term, the financial strategy may not identify the long term financial impact of the council's strategies.</p>		
b/f 5	<p>Capital slippage</p> <p>There was significant slippage in the capital programme of around £51 million (36.9%). This follows a trend over several years.</p> <p>Risk</p> <p>There is a risk that slippage could impact on the council's ability to deliver services in line with its strategic priorities.</p>	<p>The council should review its capital plans and improve the control of capital projects and, if necessary, re-profile the budget to reflect current plans.</p>	<p>In response to the BVAR, the council has included this action in its Improvement Action Plan. We will monitor this on an ongoing basis.</p> <p>Ongoing</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

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

Audit risk	Assurance procedure	Results and conclusions
<p>expenditure bodies and, therefore, the risk of fraud is higher in the area of expenditure.</p>	<p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>were in the normal course of business.</p> <p>We obtained satisfactory explanations for any increases or decreases in expenditure.</p> <p>Our sample cut-off testing confirmed that transactions were processed in the correct accounting year.</p> <p>The council has adequate counter-fraud arrangements.</p> <p>Our conclusion is that the council has arrangements in place to minimise the risk of fraud over expenditure.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas such as non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer'</p> <p>Focused substantive testing of key areas.</p>	<p>A number of estimations and judgements in the accounts were based on the opinion of experts. We assessed the reliability of these experts and reviewed their work.</p> <p>We tested samples of accruals and provisions and confirmed them to appropriate back-up evidence.</p> <p>The council's accounting policies are appropriate.</p> <p>We concluded that estimations and judgements included in the accounts are supported by appropriate audit evidence.</p>
<p>5 Untaken annual leave</p> <p>There have been material audit adjustments to the council's untaken annual leave accrual in the previous three financial years. There is a risk the accrual may be understated in the council's balance sheet.</p>	<p>Review of the 2017/18 untaken annual leave accrual during the audit of the financial statements.</p>	<p>We reviewed this during the audit of the financial statements and have reported the results of our work within Significant Findings to Management at Exhibit 3 of this report.</p>
<p>6 Accounts payable/receivable working papers</p> <p>During the 2016/17 financial statements audit, the working papers for Accounts Payable and Accounts Receivable did not provide a clear breakdown of the balances held at year-end.</p> <p>There is a risk of misstatement within the financial statements.</p>	<p>Worked with officers prior to the compilation of the working papers.</p> <p>Substantive testing of Accounts Payable and Accounts Receivable balances within the 2017/18 financial statements.</p>	<p>We reviewed this during the audit of the financial statements and have reported the results of our work at Recommendation 5 in the 2017/18 Action Plan in this report.</p>

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>7 Financial sustainability</p> <p>At the time of writing the Annual Audit Plan, the Council had identified a funding gap of £1.099 million in 2018/19. Savings options to close the gap were out for public consultation.</p> <p>If savings options are not agreed, the council may choose to use reserves to close this funding gap.</p> <p>Additionally, the council's net borrowing, as a proportion of net revenue stream including dwelling rents, continued to be amongst the highest in Scotland.</p> <p>There is a risk that the council's financial position may not be sustainable in the longer-term.</p>	<p>The BV audit work included an assessment of the council's financial position and how effectively it had planned to face the challenges of the future.</p> <p>Update report in the 2017/18 Annual Audit Report.</p>	<p>We concluded that the council's financial position is sustainable but challenging in the foreseeable future.</p>
<p>8 Capital management</p> <p>At the time of writing the Annual Audit Plan, gross capital expenditure (including HRA) was projected to be underspent by £42.571 million (34% underspend). There is a risk that the council's ability to deliver against its strategic plan and improvements to the asset base are affected due to delays in investment.</p> <p>In addition, capital receipts for 17/18 were forecast to be £10.736 million which was 31% below the budgeted amount of £15.542 million.</p>	<p>The BV audit work included an assessment of the council's capital project management.</p> <p>On-going monitoring of capital budget, plans and monitoring reports.</p> <p>Update report in the 2017/18 Annual Audit Report.</p>	<p>Significant slippage in the capital programme is reported in the Annual Audit Report.</p>

Appendix 3

The council's Improvement Plan in response to the Best Value Assurance Report

West Dunbartonshire Council Best Value Assurance Improvement Plan	July 2018
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Ref.	Audit Scotland Recommendation	Strategic Priority: Supporting Outcome	Current Position	Where do we want to be and how will we get there?	Lead Officer	Target completion date
BV1	To reduce the level of slippage on the capital plan, the council should review its project management processes. The council could use the Major capital investment in councils: good practice guide as the basis of a self-assessment	Efficient and effective frontline services that improve the everyday lives of residents: Sustainable & attractive local communities	Capital planning project management option appraisal guidance in place. Long term financial strategy in place. Detailed reporting of capital projects and budgets in place. Post project review in place	Capital Planning project management approach reviewed and updated with a focus on reducing slippage Actions: <ul style="list-style-type: none"> Carry out review of current practice against good practice guide and identification of improvement actions Analysis of drivers of slippage in capital projects (previous 5 years) to identify common issues and improvement actions Update project management framework and supporting policies / guidance Put in place review programme for project management framework 	Richard Cairns	Aug 2018 Aug 2018 Dec 2018 Jan 2019

Ref.	Audit Scotland Recommendation	Strategic Priority: Supporting Outcome	Current Position	Where do we want to be and how will we get there?	Lead Officer	Target completion date
BV2	Workforce plans are in place and should be further developed to include forecasts of workforce numbers, the expected shape of the workforce and costs, over the planning period. Progress should be monitored	Efficient and effective frontline services that improve the everyday lives of residents: A committed and skilled workforce	Workforce planning framework in place and used for planning and forecasting at organisational and service level. Training needs analysis carried out annually Succession Planning framework in place Career development programme in place	Workforce planning framework embedded and further developed Long term risk-based scenario planning will be developed, including the forecasting of workforce numbers, composition and costs Actions: <ul style="list-style-type: none"> Undertake trend analysis of workforce composition to inform future planning Develop long term workforce plans at a service level which forecast workforce size, composition and cost Ensure training, learning and development process responds to workforce requirements identified through workforce plans Undertake a review of the workforce planning process based on learning and findings from annual process 	Victoria Rogers	Sept 2018 Nov 2018 Nov 2018 Aug 2019

Ref.	Audit Scotland Recommendation	Strategic Priority: Supporting Outcome	Current Position	Where do we want to be and how will we get there?	Lead Officer	Target completion date
BV3	Some staff are finding the pace of change challenging and staff absence remains an issue. The council is taking positive steps to try and address this and should continue to explore opportunities for improvement	Efficient and effective frontline services that improve the everyday lives of residents: A continuously improving Council delivering best value	Employee wellbeing strategy in place; range of training and supports on offer which focus on building resilience and improving wellbeing. Learning & development programme implemented WDC Change Approach and toolkit in place. Number of trained coaches in place across services.	Employee wellbeing strategy implemented and measures embedded. Sickness absence continues to reduce. Actions: <ul style="list-style-type: none"> Implement action plans supporting employee wellbeing strategy with focus specifically on physical and mental health Additional functionality to be added to workforce management system to enable more effective reporting/ management of sickness absence Target team specific change support/ training on a project by project basis Introduce routine scrutiny of attendance management process compliance through WMS reports Lean process improvement approach embedded in wider strategic improvement framework 	Victoria Rogers	Sept 2018 Aug 2018 Oct 2018 Mar 2019 Oct 2019











Ref.	Audit Scotland Recommendation	Strategic Priority: Supporting Outcome	Current Position	Where do we want to be and how will we get there?	Lead Officer	Target completion date
BV4	The Community Alliance (CA) brings together representatives from neighbourhood, interest and user groups. The council sees it as an important engagement link with the community but there are a number of challenges that it needs to address. The council should continue to offer help to further develop the role of the CA and help it reach its full potential	Meaningful engagement with active, empowered and informed citizens who feel safe and engaged: Fully consulted and involved citizens who are able to make full use of the Community Empowerment Act	Community Alliance has been in place for three years, operating as a sub committee of Community Planning West Dunbartonshire. Effectiveness of Community Alliance has been questioned by own members. No single, overarching strategy for Community Empowerment in place	Community Empowerment Strategy in place with supporting mechanism in place for strategic engagement of community organisations using principles of engaging communities framework Actions: <ul style="list-style-type: none"> Community Empowerment (CE) short life steering group created, involving all relevant stakeholders Undertake engagement and involvement of community and wider stakeholders to understand challenges of Community Alliance and barriers experienced in fully utilising the provisions of the Community Empowerment Act Community Empowerment Strategy developed through a programme of consultation and engagement 	Peter Barry	Sept 2018 December 2018 June 2019

Ref.	Audit Scotland Recommendation	Strategic Priority: Supporting Outcome	Current Position	Where do we want to be and how will we get there?	Lead Officer	Target completion date
BV5	Councillors should consider working in cross-party groups to address the financial challenges which exist and the important decisions required in the future	Open, accountable & accessible local government	Member/Officer budget working group in place, attended by Administration Elected Members	<p>Robust arrangements in place to ensure Elected Members are sufficiently informed and have all relevant information available to inform decision making.</p> <p>Actions:</p> <ul style="list-style-type: none"> Gather views of group leaders in relation to cross party working on budget Gather evidence on any existing cross party working in single party administrations in Scotland Consider options appraisal and recommendations on proposed models Seek Councillor agreement on future arrangements 	Peter Hesselst	<p>Aug 2018</p> <p>Oct 2018</p> <p>Dec 2018</p> <p>Feb 2019</p>

Appendix 4

Summary of national performance reports 2017/18



		Apr		
		May		
Common Agricultural Policy Futures programme: further update		Jun		Scotland's colleges 2017
		Jul		NHS workforce planning
Self-directed support: 2017 progress report		Aug		
Equal pay in Scottish councils		Sept		
Transport Scotland's ferry services		Oct		NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov		
		Dec		
		Jan		
Early learning and childcare		Feb		
Managing the implementation of the Scotland Acts		Mar		

Local government relevant reports

[Principles for a digital future](#) – May 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

West Dunbartonshire Council

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