



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

West Dunbartonshire Council

Summary of key findings - annual audit report to the members and the
Controller of Audit

Year ended 31 March 2010

29 October 2010

AUDIT

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About this report

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

This report is for the benefit of only West Dunbartonshire Council, and has been released to West Dunbartonshire Council on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than West Dunbartonshire Council.

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

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

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than West Dunbartonshire Council) for any purpose or in any context. Any party other than West Dunbartonshire Council that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than West Dunbartonshire Council.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

Audit framework

This year was the fourth of our five-year appointment by the Accounts Commission as external auditors of West Dunbartonshire Council. This report to the members and Controller of Audit provides our opinions and conclusions and highlights significant issues arising from our work. We outlined the framework under which we operate, under appointment by the Accounts Commission, in the audit plan overview discussed with the audit and standards committee earlier in the year.

The purpose of this report is to report our summarised findings as they relate to:

- the **financial statements** and significant accounting matters and decisions;
- **use of resources**, including financial outturn for the year ended 31 March 2010 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management, systems of internal control, partnership working and our consideration of the work of internal audit; and
- **performance management arrangements**.

Responsibilities of the Council and its auditors

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

Acknowledgement

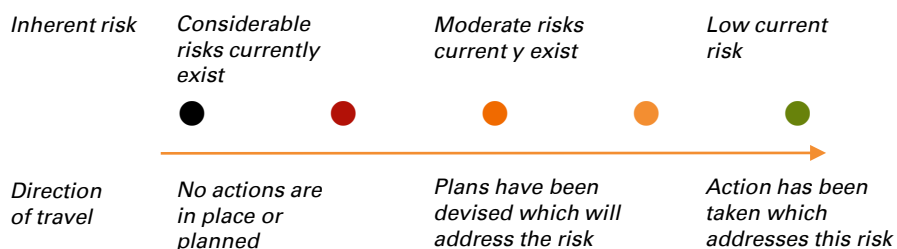
We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during our work. In particular we wish to thank the executive director of corporate services, the head of finance and ICT, and the manager of accounting for their assistance during the audit.

Financial statements - summary

We summarise the key outcomes from our audit of the Council's financial statements for 2009-10, comment on the significant accounting issue faced and provide and outlook on future financial reporting issues.

Area	Inherent risk	Direction of travel	Key findings (or consider key messages)
Audit opinion	●	●	<ul style="list-style-type: none"> On 30 September 2010 we issued an unqualified opinion on the financial statements of West Dunbartonshire Council and its group. We noted in our ISA260 report to those charged with governance that the information from finance in support of the audit was good, but we made recommendations for making the financial statements process more efficient. We draw attention to the overall total net liabilities in the group as a result of pension liabilities within the police and fire joint boards.
Changes in SORP 2009	●	●	<ul style="list-style-type: none"> In respect of compliance with the SORP 2009, the key change to be implemented in 2009-10 were the accounting requirements for private finance initiatives and similar contracts. This resulted in the Council's new PPP schools, three of which opened in 2009-10, being included in the balance sheet at a value of £86 million as at 31 March 2010. The Council had not instructed a valuation of the new assets at the commencement of our audit. We asked for a valuation to be undertaken by the estates department to support the valuation based on cost which was included within the unaudited financial statements. Following detailed discussion with management, including both finance and estates, the valuation was completed which supported the cost valuation in the audited financial statements. The accounting for national non-domestic rates income changed to reflect that the Council is effecting acting as an agent of the Scottish Government. Management had not initially reflected this change in the draft accounts but we have worked with management to agree the presentation of this income.
Application of IFRS	●	●	<ul style="list-style-type: none"> We have discussed with management their progress to date in preparing for transition to IFRS and have agreed a timetable for the preparation of restated 2009-10 financial statements in accordance with the new SORP. These will be subject to internal review and we will undertake work on the restated financial statements as part of our planning for the 2010-11 audit. We note from experience that this conversion process can be difficult and will be time consuming and so it is important that management ensure that the finance department continues to have the resources in place to ensure this change is carried out effectively.

Key: KPMG assessment (based on audit observations)

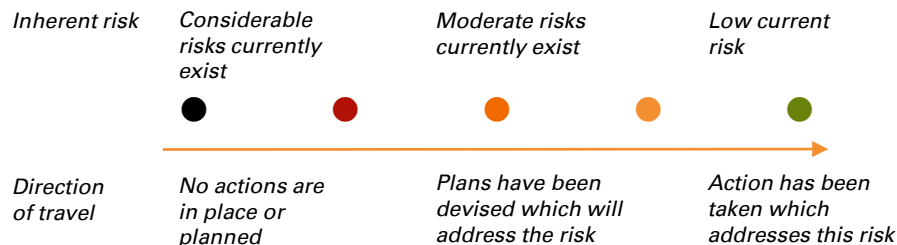


Use of resources – summary

We summarise and draw attention to some of the key findings from our work.

Area	Inherent risk	Direction of travel	Key findings
Financial result	●	●	<ul style="list-style-type: none"> The Council's general services expenditure budget was £243.9 million. This was a balanced budget which included a £0.4 million transfer to uncommitted reserves in order to make steps to restoring the Council's level of uncommitted reserves to its prudential level. For the year ended 31 March 2010 the outturn on the general fund balance was an increase of £1.4 million against the budgeted in year surplus. The Council has achieved the statutory target of generating revenues not less than expenditure over a rolling three year period for its significant trading operations. The housing revenue account recorded a surplus of £803,000.
Reserves	●	●	<ul style="list-style-type: none"> Uncommitted reserves have increased from £0.3 million (2008-09) to £3.4 million (2009-10). This represents an increase from 5% (2008-09) to 82% (2009-10) of the Council's prudential reserve target. This change is as a result of the release of earmarked reserves, the achievement of the in year surplus and a review of the prudential reserve target.
2010-11 budget	●	●	<ul style="list-style-type: none"> A revenue budget of £249.1 million has been set for 2010-11. This budget includes £2.1 million of management adjustment savings and £2.6 million of council approved savings in order to achieve a balanced budget. The approved savings are being monitored by the Strategic Finance Working Group and management have put in place actions to secure the full amount of savings in the year. At period three in the year there is a £0.3 million under spend against budget with plans secured to ensure the required savings will be achieved. <p><i>The financial performance to date is encouraging and management should ensure that strict financial control is exercised throughout the year to ensure all savings are realised.</i></p>

Key: KPMG assessment (based on audit observations)

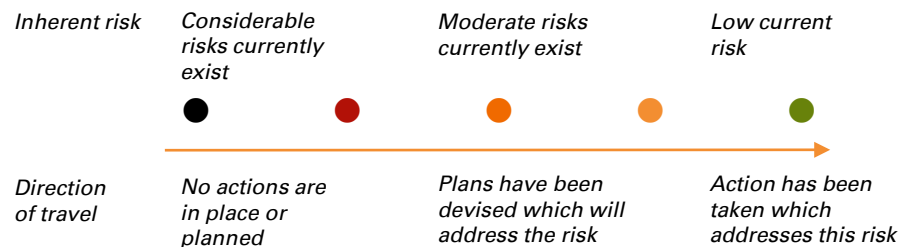


Use of resources – summary (continued)

We summarise and draw attention to some of the key findings from our work.

Area	Inherent risk	Direction of travel	Key findings
2011-12 budgeting process	●	●	<ul style="list-style-type: none"> The budget setting process has been accelerated from the previous years timetable to allow time for more analysis and scrutiny of the required savings. The budget gap has been estimated at £10 million for 2011-12. Management engaged with its staff and the general public on savings options through a series of 'budget road-shows' which will feed into the budget process. <p><i>All authorities are facing significant challenges to achieve a balanced budget for 2011-12. The Council staff and public consultation demonstrates best practice. The Council must ensure that all savings options are realistic and all options are carefully considered.</i></p>
Housing stock transfer	●	●	<ul style="list-style-type: none"> Early plans are in place to transfer 45% of Council's housing stock to a number of registered social landlords (RSL's). Preliminary work has taken place facilitated by an experienced stock transfer project team. Current plans estimate that following a successful ballot, stock transfer would occur during 2012. The plans for housing stock transfer are required as a key part of the current strategy to achieve the Scottish Housing Quality Standard by 2015. <p><i>Housing stock transfer is a complex and inherently risky process. Management must ensure that this process is closely monitored and adequate resources are assigned to facilitate the process.</i></p>
Leisure Trust	●	●	<ul style="list-style-type: none"> Plans are being devised to establish a Council owned leisure trust to operate the Council's community leisure facilities. <p><i>The Accounts Commission have issued a report in October 2010 on Scottish authorities use of arms length and extended organisation which the council should consider as part of its decision making process.</i></p>

Key: KPMG assessment (based on audit observations)

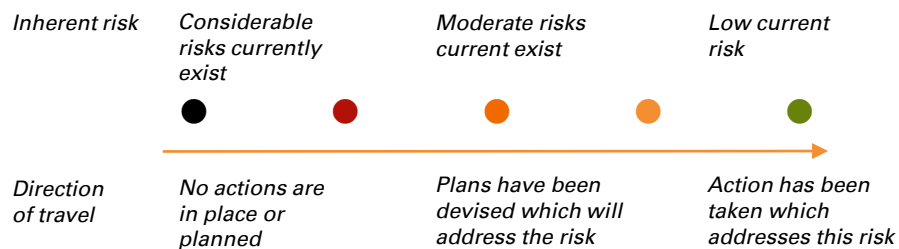


Governance and accountability – summary

Corporate governance is about the direction and control of organisations.

Area	Inherent risk	Direction of travel	Key findings
Roles and relationships	●	●	<ul style="list-style-type: none"> Audit Scotland recently published their report, as part of the improvement series for councillors and officers, "Roles and working relationships: are you getting it right?". Clarity about governance arrangements, roles and responsibilities and good working relationships are key to the success of the Council and ensuring it delivers best value and achieves the best outcomes for stakeholders. <p><i>We recommend that members and officers use the checklists within this report as a means of assessing their effectiveness.</i></p>
Social work partnership	●	●	<ul style="list-style-type: none"> The Council approved the integration of its social work services with NHS Greater Glasgow & Clyde's community health partnership into a joint partnership body.
Clyde Valley shared services	●	●	<ul style="list-style-type: none"> The review sets out a framework for joint working and shared services. Work streams have been identified which have been assessed as having the greatest potential to deliver efficiencies and outline business cases are being worked on which aim to achieve significant savings. The Council has taken on the role as lead authority for the joint economic strategy work stream.
Internal controls	●	●	<ul style="list-style-type: none"> Our reports presented to the audit and risk sub-committee during 2009-10 to date have made a number of recommendations, none of which were classed as grade one 'significant', for improvements in key financial controls, organisation wide controls, the financial statement production process, and IT arrangements. It is management's responsibility to ensure these are actioned.
Fraud and irregularity	●	●	<ul style="list-style-type: none"> Instances of suspected fraud are reported regularly to the audit and performance review committee, including those arising from the whistle-blowing hotline. We have held discussions with management, and internal audit, over any instances of suspected fraud which have been reported during the year. The Council continued to participate in the National Fraud Initiative (NFI). This identified £123,000 of fraud primarily in relation to benefits fraud.

Key: KPMG assessment (based on audit observations)



Performance – summary

An effective Council has a clear and ambitious vision for what it wants to achieve. This vision is backed by clear plans to secure improvement, with resources to support their delivery.

Area	Inherent risk	Direction of travel	Key findings
Performance management	●	●	<ul style="list-style-type: none"> Performance is monitored through the Council's covalent system which includes statutory performance indicators and a number of additional local performance targets. The Council has met its target performance for 57% of all indicators and 70% of indicators have improved from the previous year.
Risk management	●	●	<ul style="list-style-type: none"> The recent review of risk management arrangements, commissioned by the Council, noted aspects of good arrangements but that a risk management culture is not embedded in the organisation. <p><i>We also noted weaknesses in the risk management process in our interim organisation wide controls report . Management have agreed to implement and consider our recommendations as part of a review of their risk registers.</i></p>
Housing regulator review	●	●	<ul style="list-style-type: none"> The Scottish Housing Regulator inspected the Councils housing management which it evaluated as a grade C "fair" performance.
Best Value / Assurance and improvement plan	●	●	<ul style="list-style-type: none"> In February 2010 the Accounts Commission issued an update on the Council's Best Value progress report which found that the Council had not made sufficient progress against the original Best Value audit priorities. Management published a Best Value Improvement Plan for 2010-11 with action plans which are being monitored through the covalent performance management system. The Accounts Commission has approved a new approach to the audit of Best Value. Audit and inspection bodies have published a joint assurance and improvement plan which sets out the planned scrutiny activity for the period April 2010 to March 2013.

Key: KPMG assessment (based on audit observations)

